# National Statistician's Committee for Advice on Standards for Economic Statistics

**January 20th 2025**
**SNA Chapters**

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Chapter 31: Non-profit institutions and Chapter 39: Informal Economy have not been given a designated time on the agenda due to timings. The ONS welcomes written comments from the Committee to inform Sir Ian's position at UN Statistical Commission.

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# Chapter 27: Contracts, leases, licenses and permits (Part 5 of chapter 17 in the 2008 SNA, moved downwards)

## (OLD Chapter 17 Part 5: Contracts, leases and licences)

## ~~I.~~A. Introduction

~~17.1~~27.1 Many transactions that take place in the economy and are recorded in the SNA are specified in terms of a contract between two institutional units. The majority of contracts are such that one unit provides a good, service or asset to the other unit for an agreed payment at an agreed time (possibly immediately after agreeing on the price). Such contracts may be written and legally binding or may be informal or even only implicit. If a unit accepts the estimate provided by a builder for the cost of specified work, the contract is written and may well be legally binding. If a book is ordered from a bookshop but there is a delay in delivery, there is an informal contract between the book shop and the customer but it is unlikely to be enforceable by either side. Whenever a customer asks how much a given service will cost, whether it is a haircut, the delivery of a heavy product or entry to a cinema, accepting the service at the quoted price is in effect an implicit contract. However, all these contracts are simply agreements about the terms under which goods, services and assets are provided to the customer along with the legal ownership of the item. The only extent to which these contracts feature in the SNA is that they determine the ~~point~~time at which the transaction is to be recorded in the accounts. This is the time at which the ownership of the good, service or asset changes. For services, this is always when the service is delivered and for goods it may coincide with the time of delivery. However, the time of recording is never determined by the time when payment is made. Any difference between the time of payment and time of change of ownership gives rise to ~~an entry~~entries in the financial account under other accounts receivable ~~or~~and payable.

~~17.2~~27.2 ~~However, there are other~~In addition to these informal and implicit contracts that underpin most transactions, there are also formal contracts and legal agreements variously described as leases and licences (or permits) where the terms of the agreement may affect the time of recording of transactions made under the agreement as well as the classification of payments and the ownership of the item subject to the agreement. The purpose of this~~ part of the~~ chapter is to provide guidance on how transactions made under these more complex arrangements are to be recorded in the SNA.

~~27.1 The first item for discussion concerns the different sorts of leases recognized in the SNA. The next topic for discussion is the treatment of permits to use natural resources. This is of particular importance when it is government that claims ownership of the resource on behalf of the community at large but can apply to privately owned resources also. This leads naturally into a discussion of the treatment of assets where more than one unit has a claim to ownership, or the benefits of ownership accrue to more than one unit.~~

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~~27.3 Some contracts are not connected with the use of assets. The first contracts for discussion are licences (or permits) given to undertake particular activities independently of any assets that may be used in the activity. Here there are different treatments when the permits are issued by government and when they are given by other institutional units. The next point for consideration is when a contract can constitute an asset in itself, independently of the subject of the contract. Finally, a number of clarifications are made concerning the timing and nature of payments made under a contract.~~

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27.3 Section B considers the treatment and recording of operating and financial leases. Section C discusses the recording of rights to use natural resources and the different arrangements and considerations that are relevant. General considerations are presented first followed by a discussion of the treatments for different natural resources. Section D describes situations where assets can be considered to be shared including an explanation and example of the split-asset approach to recording natural resources. Section E discusses the relevant recording treatments for a range of other situations in which permission is granted to undertake specific activities, including the treatment of permits to use the environment as a sink. Sections F, G and H

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cover off on a number of smaller topics namely contracts for future production, the situations in which leases can be considered assets and the treatment of time-share arrangements and lost deposits.

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## ~~J.~~B. Leases

~~17.5~~27.4 Three types of leases are recognized in the SNA; operating leases, ~~financial~~finance leases and resource leases. Each of these leases relates to the use of a non-financial asset. Fundamental to the distinction between the different sorts of leases is the difference between legal and economic ownership. This distinction is elaborated in chapter ~~3~~4. The legal owner of an asset is the institutional unit entitled in law and sustainable under the 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 the course of 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. In this section, the treatment of operating and finance leases are described. Section C includes discussion of resource leases.

### 1. Operating leases

~~17.6~~27.5 ***An operating lease is ~~one where~~contract between a lessor and a lessee, under which the lessor charges a rental to the lessee for the use of a produced non-financial asset, and the lessor remains the legal ~~owner is also the~~ and economic owner ~~and accepts the operating risks and receives the economic benefits from the asset by using it in a productive activity~~of the asset.*** One indicator of an operating lease is that it is the responsibility of the legal owner to provide any necessary repair and maintenance of the asset. Under an operating lease the asset remains on the balance sheet of the lessor.

~~17.7~~27.6 The payments made under an operating lease are referred to as rentals and are recorded as payments for a service. The character of operating leases may most easily be described in relation to equipment since operating leases often concern vehicles, cranes, drills etc. In general, though, any sort of non-financial asset, ~~an~~including intellectual property ~~product or a non-financial asset~~products, may be subject to an operating lease. The service provided by the lessor goes beyond the mere provision of the asset. It includes other elements such as convenience and security, which can be important from the user's point of view. In the case of equipment, the lessor, or owner of the equipment, normally maintains a stock of equipment in good working order that can be hired on demand or at short notice. The lessor must normally be a specialist in the operation of the equipment, a factor that may be important in the case of highly ~~complicated~~technical equipment, such as computers, where the lessee and ~~his~~its employees may not have the necessary expertise or facilities to service the equipment properly themselves. The lessor may also undertake to replace the equipment in the event of a serious or prolonged breakdown. In the case of a building, the lessor is responsible for the structural integrity of the building, so would be responsible in the case of damage due to a natural disaster, for example, and is usually responsible for ensuring that elevators, heating and ventilation systems function adequately.

~~17.8~~27.7 Operating leasing developed originally to meet the needs of users who require certain types of equipment only intermittently. Many operating leases are still for short periods though the lessee may renew the rental when the period expires and the same user may hire the same piece of equipment on several occasions. However, with the evolution of increasingly complicated types of machinery, especially in the electronics field, the servicing and backup facilities provided by a lessor are important factors that may influence a user to rent. Other factors that may persuade users to rent over long periods rather than purchase are the consequences for the enterprise's balance sheet, cash flow or tax liability.

### 2. ~~Financial~~Finance leases

~~17.9~~27.8 ***A financial lease is ~~one where~~a contract between a lessor and a lessee, under which the lessor, as legal owner of an asset ~~passes the economic~~ , substantially conveys the risks and rewards of ownership of the asset to the lessee ~~who then accepts the operating risks and receives~~. The lessee, therefore, becomes the***

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***~~benefits from using~~owner of the asset*** ~~in a productive activity~~. In return, the lessor accepts another package of risks and rewards from the lessee. It is frequently the case that the lessor, though the legal owner of the asset, never takes physical delivery of the asset but consents to its delivery directly to the lessee. One indicator of a financial lease is that it is the responsibility of the economic owner 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 with which the lessee acquires the asset. Thereafter the asset is shown on the balance sheet of the lessee and not the lessor; 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. If the lessor is a financial institution, part of the payment is also treated as a service charge (~~FISIM~~implicit financial services on loans and deposits).

~~17.10~~27.9 Very often the nature of the asset subject to a financial lease may be quite distinct from the assets used by the lessor in ~~his~~their productive activity, for example a commercial airliner legally owned by a bank but leased to an airline. It would make no economic sense to show either the aircraft or its ~~consumption of fixed capital~~depreciation in the accounts of the bank or to omit them from the accounts of the airline. The device of a financial lease avoids this undesirable form of recording the ownership of the aircraft and the decline in its value while keeping the net worth of both parties correct throughout the length of the lease.

~~17.11~~27.10 It is common for a financial lease to be for the whole of the life of the asset, but this need not necessarily be so. When the lease is for the whole of the life of the asset, the value of the imputed loan will correspond to the present value of the payments to be made under the lease agreement. This value will cover the cost of the asset and include a service fee charged by the lessor. Payments made regularly to the lessor should be shown as a payment of interest~~, possibly~~ a repayment of principal and a service fee. If the lessor is a financial institution, the interest payment should be partitioned to record a payment for ~~a service and a repayment of capital.~~implicit financial services on loans and deposits. If the terms of the agreement do not specify how these ~~three~~ items are to be identified, the repayment of principal should correspond to the decline in the value of the asset (the ~~consumption of fixed capital~~depreciation), the interest payment to the return to capital on the asset (including any implicit financial services on loans and deposits) and the service ~~charge~~fee to the difference between the total amount payable and these two elements.

~~17.12~~27.11 When the lease is for less than the whole life of the asset, the value of the loan should still be estimated as the value of the asset plus the value of the service charges to be made under the terms of the lease. At the end of the lease, the asset ~~will appear on the balance sheet of the lessee and its~~ value will be equal to the value of the loan owed to the lessor at that time. At that point the asset could be returned to the lessor to cancel the loan or a new arrangement, including the outright purchase of the asset, may be reached between the lessor and lessee. Because a financial lease requires the lessee to acquire substantively all the risks and rewards associated with the asset, if the lease is for less than the expected life of the asset, the lease usually specifies the value to the lessor at the end of the lease or the terms under which the lease can be renewed. Any variation in the price of the asset from the value in the lease agreement is borne by the lessee.

27.12 From a conceptual point of view, the transfer of leased assets at the end of the lease period should be recorded as extinguishing the financial claim of the lessor (and the corresponding liability of the lessee) that has been progressively built up over the leasing period. In practice however, it is considered appropriate to ignore the progressive recording of these financial claims, and to instead record the transfer of the relevant assets as capital transfers at the end of the lease period. In certain circumstances, however, particularly where there is a high degree of certainty that the asset will be transferred and where the value of that asset at the time of the transfer will be significant, a recording of building up a financial claim (and associated liability) should be preferably applied.

~~17.13~~27.13 Although a financial lease will typically be for several years, the duration of the lease does not determine whether the lease is to be regarded as an operating or financial lease. In some cases, a large complex such as an airport or even a building may be leased for short periods, perhaps only one year at a time, but on condition that the lessee takes all responsibility for the asset, including all maintenance and cover for exceptional damage, for example. Even though the lease period is short, and even though the lessor may not be a financial institution, if the lessee must accept all the risks associated with the use of the asset in production as well as the rewards, the lease is treated as a financial and not an operating lease and the asset appears on the balance sheet of the lessee with a corresponding loan extended from the lessor to the lessee.

~~17.14~~27.14 As a consequence, any corporation that specializes in this sort of leasing, even though it may be

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called a property company or aircraft leasing company, should be treated as a financial corporation offering loans to the units leasing assets from them. If the lessor is not a financial corporation, the payments are split into repayments of principal and interest only; if the lessor is a financial corporation, the interest is split into SNA interest and a service charge (~~FISIM~~implicit financial services on loans and deposits).

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### ~~2. Resource leases~~

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~~27.8 A resource lease is an agreement whereby the legal owner of a natural resource that the SNA treats as having an infinite life makes it available to a lessee in return for a regular payment recorded as property income and described as rent. The resource continues to be recorded on the balance sheet of the lessor even though it is used by the lessee. By convention, no decline in value of a natural resource is recorded in the SNA as a transaction similar to consumption of fixed capital.~~

~~27.9 The classic case of an asset subject to a resource lease is land but natural resources are also generally treated in this way. An exception, when a long-term lease of land may be taken as the sale of the land is described in paragraph 17.328.~~

~~27.10 Payments due under a resource lease, and only such payments, are recorded as rent in the SNA. There is further discussion of leases on natural resources in the following section.~~

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## ~~K.~~C. ~~Licences and permits~~Rights to use a natural resource

~~17.18~~27.15 ~~As noted above, in~~In many countries~~ permits~~, rights to use natural resources are~~ generally~~ issued by government since government claims ownership of the resources on behalf of the community at large. ~~However~~The following treatments are described using this general starting point, however, the same treatments apply if the resources are privately owned.

~~17.19~~27.16 There are basically three different sets of conditions that may apply to the use of a natural resource. ~~The~~First, the legal owner may permit the resource to be used to extinction~~. The~~ and thus transfers economic ownership of the resource. Second, the legal owner can extend or withhold permission to continued use of the resource from one year to the next and thus retains economic ownership of the resource. Third, the legal owner may allow the resource to be used for an extended period of time in such a way that in effect the user controls the use of the resource during this time with little if any intervention from the legal owner. ~~The~~Under the third option the economic ownership of the resource is shared to the extent that both the user and the legal owner ~~can extend or withhold permission to continued~~are entitled to future economic benefits from the use of the ~~asset from one year to the next~~resource.

27.17 The first option results in the sale (or possibly an expropriation) of the asset. This is recorded as a transaction in the capital account with corresponding changes in the balance sheets of the two institutional sectors involved.

27.18 The second option ~~leads~~involves treatment of the use as a resource lease. 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. The value of the natural resource continues to be recorded on the balance sheet of the lessor even though it is used by the lessee to the extent that the balance of risks and rewards is held by the lessor. The classic case of a natural resource subject to a resource lease is land but other natural resources may also be treated in this way depending on the circumstances surrounding the rights to use the resource.

27.19 The third option involves recording the creation of ~~an~~ asset for the user~~, distinct~~ of the natural resources and an asset for the legal owner following the split-asset approach. The total value of these two assets is equal to the total value of the natural resource with the allocation of the total value between the user and the legal owner reflecting their respective shares of the future economic benefits to be earned from the ~~resource itself but where the value~~exploitation of the resource~~ and~~. Under the third option, depending on the ~~asset allowing use~~nature of ~~it~~the agreement, regular payments of rent are ~~linked. The third option comes back to the~~

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~~treatment of the use as a resource lease.~~ typically paid by the user to the legal owner.

~~17.20~~27.20 The difference in treatment between the ~~second and third~~ options ~~was articulated in the context of the case of a mobile phone licence and that recommendation (see SNA News and Notes Volume 14, (United Nations, 2002)) is recapitulated~~depends on a range of criteria concerning the agreement established between the legal owner and the unit using the natural resource in production. The general criteria are presented first before ~~seeing~~describing how each of the three options relates to different types of natural resources.

~~27.15 The "mobile phone" treatment of licences or permits to use a natural resource~~

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~~27.17 The case arose in 2000 when the sale of licences to use radio spectra for third generation mobile phones brought a flurry of interest from companies wanting to have exclusive access to the spectra and who in consequence were prepared to bid (often by auction) extremely large sums for the access rights to the spectra.~~

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~~27.19 Eight conclusions were agreed in respect of the mobile phone licences. Allowing for updated terminology, these were:~~

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~~27.21 The spectrum constitutes a natural resource.~~

~~27.22 The licence to use the spectrum constitutes an asset described as a permission to use a natural resource which is a subset of the general asset class of contracts, leases and licences.~~

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~~27.24 Typically licence payments are neither taxes nor purchases of the spectrum itself.~~

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~~27.26 Land, mineral deposits and the spectrum are similar types of assets and so are leases and licences based on the use of those assets.~~

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~~27.28 There is no single, universal and clear cut criterion to distinguish between rent and asset sale; a range of criteria needs considering.~~

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~~27.30 Most cases examined point to treating licence payments as the purchase of an asset, not rent.~~

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~~27.32 The value of the licence and the value of the spectrum move symmetrically.~~

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~~27.34 Further elaboration will be useful in future.~~

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~~27.36 The considerations referred to under conclusion (e) were six in number and are reproduced below.~~

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27.21 There are six general criteria in distinguishing between the options.

~~a.~~ *Costs and benefits assumed by ~~licensee~~user:* the more of the risks and benefits associated with the right to use an asset are incurred by the ~~licensee~~user, the more likely the classification of a transaction as the sale of an asset ~~as opposed to rent.~~. Thus, ~~preagreement~~pre-agreement on the value of payments (whether by lump sum or by instalments) effectively transfers all economic risks and benefits to the ~~licensee~~user and so point to the sale of an asset. If, on the other hand, the value of payment is made contingent on the results from ~~using~~use of the ~~licence~~rights, risks and benefits are

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only partially transferred to the licensee and the situation is more readily characterized as ~~payment of rent. In the case of mobile phone licences, the total amount payable has often been pre-agreed.~~a resource lease or split ownership. An additional indication of the degree to which commercial risks have been passed to the ~~licensee~~user is to examine the hypothetical case where a ~~licensee~~user goes

~~b.~~

~~27.38~~a. bankrupt. If, in such a case, the ~~licensor~~legal owner reimburses none of the upfront payment made by the ~~licensee~~user, this would constitute a strong case ~~against~~for a characterization of the transaction as ~~rent~~sale of an asset, as apparently the ~~licensee~~user has incurred all the commercial risks involved.

~~a.~~b. *Upfront payment or instalment:* as with other indicators, the mode of payment is in itself not conclusive for a characterization ~~as asset or rent payment.~~under one of the options. Generally, the means of paying for ~~a licence~~rights to use is a financial issue and as such not a relevant factor in determining ~~whether or not it is an asset.~~the treatment. However, business practice shows that upfront payments of rent for long periods ~~(15-25 years in the case of mobile phone licences)~~ are highly unusual and this ~~favours an interpretation~~would then favour treating the rights to use as sale of an asset.

~~a.~~c. *Length of the ~~licence: licences~~contract:* rights granted for long periods suggest a treatment as the sale of an asset, while those granted for shorter periods suggest a treatment as ~~payments for rent. The time frame involved in mobile phone licensing (15-25 years) is considered rather unusual as~~ a ~~period for which to conclude a fixed payment of rent and therefore a further indication favouring an interpretation as sale of an asset.~~resource lease.

~~b.~~d. *Actual or de facto transferability:* the possibility to sell the ~~licence~~rights is a strong indication of economic ownership and if transferability exists, this is considered a strong condition to characterize the ~~licensing act~~establishment of rights as the sale of third-party property rights. In practice, ~~mobile phone licences~~rights are often transferable either directly (by the enterprise selling the ~~licence~~rights to another enterprise) or indirectly (through the enterprise being acquired through a takeover).

~~c.~~e. *Cancellation possibility:* the stronger the restrictions on the issuer's capacity to cancel the ~~licence~~rights at its discretion, the stronger the case for treatment as a sale of an asset. Conversely, when ~~licences~~rights can easily be cancelled at the discretion of the issuer, economic ownership over benefits and risks has not been fully transferred to the ~~licensee~~user and the ~~transaction~~treatment qualifies more readily as ~~rent~~a resource lease or split ownership.

~~d.~~f. *Conception in the business world and international accounting standards:* businesses, in accordance with international accounting standards, often treat a ~~licence~~right to use ~~the spectrum~~natural resources as an asset. Again, in itself this does not ~~lead to~~require treatment as an asset in the national accounts, and there are other areas where companies choose to present figures in their accounts in ways that are not consistent with the national accounts. But the treatment of the acquisition of ~~mobile phone licences~~rights as capital investment in company accounts provides an added incentive to treat them in a similar way in the national accounts, either as the sale of an asset or as split ownership.

27.22 Not all these ~~considerations~~criteria have to be satisfied to characterize ~~the licence~~a right to use as a sale of an asset nor does a simple majority of them being satisfied do so. However, in order to qualify as a ~~rental agreement~~resource lease, at least some of the following sorts of ~~conditions~~criteria should hold.

a. The contract is of *short-term duration,* or renegotiable at short-term intervals. Such contracts do not provide the ~~lessee~~user with a benefit when market prices for the ~~leased asset~~resource go up in the way that a fixed, long-term contract would. Such benefits are holding gains that typically accrue to economic owners of assets.

b. The contract is *non-transferable.* Non-transferability is a strong but not a sufficient criterion for the treatment ~~of licence payments~~ as ~~rent~~resource leases, because, although ~~it~~such a contract precludes the ~~lessee~~user from ~~cashing in on~~ benefitting from holding gains, it does not preclude the ~~lessee~~user from reaping ~~comparable~~ economic benefits (for example, using the ~~licence~~resource in their business).

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c. The contract contains *detailed stipulations* on how the ~~lessee~~user should make use of the ~~asset~~resource. Such stipulations are often seen in cases of ~~rent~~use of land, in which the legal owner wishes to retain a control over the usage of the land. In ~~the case of licences~~other cases, examples of such stipulations would be that the contract states what regions or types of customers should be served, or that ~~it sets~~there are limits on the prices that the ~~lessee~~user may charge.

d. The contract includes conditions that give the ~~lessor~~legal owner the *unilateral right to terminate* the ~~lease~~right to use without compensation, for instance for underuse of the underlying asset by the ~~lessee~~user.

e. The contract requires *payments over the duration of the contract, rather than a large upfront payment.* Although this ~~condition~~criterion is essentially financial in character and thus cannot be decisive on the ~~type of the lease~~treatment, it may indicate a degree of control for the ~~lessor~~legal owner to direct the use of the ~~spectrum~~resource. The case for a treatment as ~~rent~~a resource lease is further supported if the payments are related to the revenue the ~~lessee~~user derives from the ~~licence~~rights to use.

~~17.25~~27.23 These two sets of ~~considerations can be seen as~~criteria reflect a more specific ~~parallel to~~ application of the distinction ~~of~~between economic ~~ownership from~~ and legal ownership as used in distinguishing between an operating and financial lease ~~as~~ described above. ~~The conditions~~Further, the criteria for treatment of the ~~payment as the acquisition of an asset and for treatment as payment of rent~~transactions are indicative rather than prescriptive. ~~A~~Once a decision on the appropriate treatment ~~when some of the conditions are not met will necessitate~~is made, further consideration of how to record ~~those conditions not met.~~the actual transactions will be needed, accepting that not all criteria pointing to a specific treatment may be met. For example, if on balance the decision is to treat the ~~payment~~arrangement as ~~rent~~a resource lease but a large upfront payment was made, this payment should, in principle, be treated as a prepayment to be recorded on an accrual basis. However, if the recipient is not willing to consider a refund if the contract is suspended, accrual recording is difficult. This is one reason why upfront payments are often indicative of the sale of an asset rather than ~~the payment of rent~~a resource lease.

~~17.26~~27.24 The application of these ~~principles~~criteria to the main forms of natural resources is described below~~, beginning with radio spectra.~~.

~~six criteria quoted above are to be considered.~~

## 1. Land

~~17.31~~27.25 Land may be sold outright when the legal ownership is transferred from one institutional unit to another. (Land may not be recorded as being sold to a non-resident unit. In such cases a notional resident unit is created that holds title to the land; the non-resident unit then owns the equity of the notional resident unit.)

~~17.32~~27.26 ~~The type of asset~~ Land is the natural resource most frequently subject to a resource lease ~~is land~~. Tenant farmers usually pay regular rent to their landlord. A ~~resource lease on~~right to use land may be considered as a sale of the land if the ~~lease~~contract satisfies most or all of the ~~same criteria as those~~considerations listed above for ~~payments for a mobile phone licence to be considered a~~treatment as the sale of an asset. When the land is ~~leased~~used in other circumstances, the payments are recorded as rent under a resource lease agreement.

~~17.33~~27.27 In some jurisdictions, the land under buildings remains in the legal ownership of a landlord other than the owner of the buildings. If regular payments are made to the landlord, these are recorded as rent. However, it is sometimes the case that, even though the land legally belongs to another unit, the right to occupy it for an extended period is paid for in a single upfront payment often when the building is acquired. As explained in the previous section, this suggests recording the payment as the ~~acquisition~~sale of the asset. In such a case, when the building changes ownership, the purchase price includes an element representing the present value of future ~~rent~~ payments. In such a case, the land is recorded in the SNA as if the ownership is transferred along with the building above the land. If, at the end of the land lease, a further payment is liable for extension of the lease for another long-term period, this should be recorded as capital formation and an acquisition of an asset in a manner similar to costs of ownership transfer on purchase and sale of an

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asset.

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## 2. Mineral and energy resources

27.28 When a unit owning a mineral or energy resource cedes all rights over it to another unit, this constitutes the sale of the resource. Like land, mineral and energy resources can only be owned by resident units; if necessary a notional resident unit must be established to preserve this convention.

27.29 Most commonly, mineral and energy resources remain in the legal ownership of general government, with users extracting mineral or energy resources under an agreement where the payments made each year are dependent on the amount extracted. The payments (sometimes described as royalties) are recorded as rent. The full natural resource rent can be estimated using the residual value method, by deducting from output all costs related to the extractions of the resources, including services related to the capital used in production (for more details, see the annex to chapter 4). Natural resource rent paid on rights to use mineral and energy resources should be split between amount paid in relation to non-renewable mineral and energy resources and renewable energy resources. Where possible, the rent paid on specific high revenue generating resources (e.g. copper, oil) should be recorded separately.

27.30 The legal owner (in many but not all circumstances a government) often does not appropriate the full resource rent which can be derived from the exploitation of mineral and energy resources, and the asset in question may generate a future stream of natural resource rents (i.e. after accounting for returns to capital) beyond the payments of rent to the legal owner. In these cases, the unit having the rights to exploit the resources thus appropriates part of the resource rents, reflecting the future capital services derived from these assets by the unit having the exploitation rights. In these cases, the value of the resources in question is split between the legal owner and the unit exploiting the resources. (See also paragraphs 14.xxx (SNA). An example of this is provided in Section D below.

27.31 The generation of income from renewable energy resources does not require the extraction of minerals or energy resource but rather the construction and operation of produced assets which capture the energy from the renewable source. In this context, the relevant rights and permissions are directly associated with the location of the produced assets and the economic owner must secure the permissions before construction and operation. The treatment of any payments associated with the permissions will be the same as for payments for the use of land.

## ~~2.~~3. Timber resources

27.32 Timber resources are a type of biological resource that are valued in terms of the expected harvesting of timber. Most commonly, timber resources are present in areas of forest land but the harvesting of timber, and hence the stock of timber resources, can occur in other areas of land, in particular agricultural land, for example through agro-forestry production systems. A clear distinction must be made between the value of timber resources and the value of the land, especially forest land, on which the stock of timber grows. By convention, the value of timber resources is measured in relation to the current, work-in-progress value of the stock of timber (both mature and immature trees that are expected to be harvested) while the value of forest and other land incorporates the value of future benefits from the harvesting of timber.

~~17.34~~27.33 If a unit is given permission to clear fell an area of ~~natural~~ forest land, or to fell at its discretion without any restriction in perpetuity, the payments made to the legal owner constitute the sale of an asset. ~~(The sale of forested land may be recorded as the~~The sale of ~~the timber and the land separately, depending on the intended use of each.)~~forest land should be recorded as the sale of the timber resources and the land separately, where the value of the timber resources reflects the work-in-progress value of the current stock of timber, and the value of forest land reflects the value of future benefits from the land after deduction of the work-in-progress. In some countries, sales of standing timber are common where the owner of a forest manages the growth of trees but sells the stock of timber resources ahead of harvest with the purchaser taking on the task of felling the trees and selling the harvested timber. These transactions may provide a measure of the value of work-in-progress of the timber resources.

~~17.35~~27.34 The option to have a lease permitting felling at the lessee's discretion but subject to the restoration

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~~27.2~~ ~~Cross-cutting and other special~~

of the land, in an acceptable forested state, at some time in the future is improbable. It is more common for timber felling to be allowed under strict limits with a fee payable per unit volume of timber felled (stumpage~~). The limits are usually such that the harvest of timber is sustainable and so the payments are recorded as rent in the case of a natural forest~~ fee). These payments to the legal owner are recorded as rent. Rent may also be recorded in relation to the forest or other land on which the timber resources grow. The treatment of these payments should align with the treatment of land as described above. Where the natural resource rent from harvesting timber is greater than the payments of rent, the total value of the timber resources and the forest land should be partitioned following the split-asset approach.

~~Forests may also be produced assets, in which case the extraction of timber is treated as the sale of a product.~~

~~17.37~~27.35 Illegal logging~~ across national borders~~ is prevalent in some countries. In such cases the quantity of timber extracted should be recorded as uncompensated seizure of a natural resource~~ or cultivated asset, as the case may be~~.

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## ~~3.~~4. Fish

27.36 Natural stocks of fish with an economic value are an asset and the same considerations apply to them as to other natural resources. Generally, the water bodies in which fish are caught are under the administration or management of economic units (usually government) that are not the same units as those catching the fish. Consequently, the government may be considered the legal owner of the fish. This would include for example fish stocks within the exclusive economic zone (EEZ) of a country. Alternatively, access to specific stocks of fish (e.g. tuna) may be “managed” (again by government) using quotas and other techniques to control the extent of the catch, in which case again the government may be considered the legal owner. Where there is evidence of management, a total value of the fish stock is equal to the net present value of the future natural resource rent estimated using the residual approach.

27.37 In cases where there is no effective management of the fish stock or an associated water body, then there is no legal owner and consequently no asset is recorded on the balance sheet notwithstanding the resource rent that may be earned by fisherman. This treatment is consistent with economic theory where the resource rent in open access fishery contexts will tend to zero and hence there will be no balance sheet value of the stock to record in an SNA context.

27.38 Depending on the organizational arrangements different accounting entries will be required. In some cases, the unit undertaking the fishing activity may be required to pay an annual fee to the legal owner. These payments should be recorded as rent. Where the natural resource rent is greater than this payment then a partitioning of the value of the fish stock can be made following the split asset approach.

27.39 In other cases, the legal owner may issue fishing quotas in perpetuity or for extended periods to particular institutional units, for example, where fishing is an established way of life and there may be little alternative economic employment. If the quotas are issued in perpetuity, either free of charge or for a fee, this is treated as the sale of an asset and the entire value of the fish stock is attributed to the holder of the quota (assuming that the holder is also undertaking the fishing activity). The difference between the sale price (potentially zero) and the full value of the fish stock should be recorded as the appearance of an asset in the other changes in the volume of asset account.

27.40 If quotas are issued for a certain period of time and have an associated price (perhaps established using an auction), then the value of the fish stock should be partitioned using the split-asset approach where the amount paid for the quota reflects the share of the value of the fish stock attributable to the legal owner (i.e. the unit issuing/selling the quota) and the remaining part of the net present value of the future natural resource rent is attributed to the quota holder. Depending on the quota pricing arrangements, the price (e.g. the auction price) may represent a good approximation of the net present value at the time of the transaction noting the need for re-assessment of the value in future periods.

27.41 Payments made in relation to the quota are treated as payments of rent. If these payments are annual, then no additional consideration is required. However, if a payment relates to more than one year, then entries in the financial account will be required to reflect the prepayment of rent as part of accounts payable and receivable.

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~~27.2~~ ~~Cross-cutting and other special~~

27.42 If the quotas, after issuance or sale, can be transferred by the original holder, then a market in quotas may be established. Although they have a market value, these quotas do not have additional or separate value beyond the total value of the fish stock as measured using the net present value of the natural resource rent. In concept, there should be a good alignment between the value of the marketed quotas and the value of the fish stock.

27.43 In the event that the quota is held by an economic unit other than the unit undertaking the fishing activity, then the total value of the fish stock should be partitioned using the split asset approach with the share attributable to the quota holder equal to the market value of the quota and the remaining value attributable to the unit undertaking the fishing activity.

~~17.38~~27.44 It is not realistic to consider that permission would be given to exhaust fish stocks but illegal fishing may either reduce the stock below the point of sustainability or exhaust them altogether. In these cases, uncompensated seizure of the stock should be recorded.

~~27.41 Fishing quotas may be allocated in perpetuity or for extended periods to particular institutional units, for example, where fishing is an established way of life and there may be little alternative economic employment. In such circumstances the quotas may be transferable and if so, there may be a well developed market in them. Fishing quotas may therefore be considered as permits to use a natural resource that are transferable. They are thus assets in the SNA.~~

~~27.42~~

~~27.43 An alternative regime is to issue a permit for a strictly limited period of time, less than a year, to a nominated institutional unit, often a non-resident. This is a common practice in some islands in the South Pacific, for example. In these cases the revenue from the licences should be recorded as rent as under a resource lease.~~

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~~17.41~~27.45 A licence for recreational fishing has long been considered, by convention, as payment of a tax~~.~~ (see para 9.xx). This treatment is not changed by the wider considerations for commercial fishing.

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## ~~4.~~5. Water

~~17.42~~27.46 A body of water with an economic value can be sold in its entirety either as part of the land that surrounds it or as a separate entity.

~~17.43~~27.47 ~~As is the case for fish, it~~It is unlikely that economic ownership would be ceded under a long lease with no preconditions on the quantity and state in which a similar amount of water should be ~~returned~~available to the legal owner in which case payments would generally be treated as rent. However, it is possible that surface water could be leased under a long lease for recreational purposes, say. The treatment of such leases should be as for land.

~~17.44~~27.48 ~~Of increasing concern is~~Concerning the extraction of water from water bodies~~. Regular~~, regular payments to the legal owner for the ~~extraction of~~right to abstract water (as opposed to payments for the delivery or supply of ~~it~~water) should be treated as rent.

~~27.46~~

## ~~4.~~6. Radio spectra

27.49 Payment for a mobile phone licence constitutes the sale of an asset, not payment for rent, when the licensee acquires effective economic ownership rights over the use of the spectrum. To decide whether ownership is effectively transferred or not, the criteria quoted above are to be considered.

~~17.28~~27.50 When sale of an asset applies and when the life span of the licence and of the spectrum coincide, the payment for a licence is treated as the sale of the spectrum itself. The latter situation applies always when licences are granted indefinitely.

~~17.29~~27.51 When sale of an asset applies, and when the life span of the licence is different from the life span of the spectrum, the payment for a licence is treated as the sale of a permit to use a natural resource by the legal owner (licensor) to the economic owner (licensee).

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~~27.2~~ ~~Cross-cutting and other special~~

~~17.30~~27.52 When the licence agreement is treated as the sale of an asset in its own right, its value is established at the time of its sale. It declines with the expiration of the period of validity to fall to a value of zero at the point of the expiry of the licence. Symmetrically, the value of the spectrum to the lessor falls when the licence acquires a value and is progressively re-established as the licence expires. This is consistent with a potential further sale of the right to use the spectrum for another period. This procedure also ensures a neutral effect on the net worth of the overall economy during the life of the licence.

~~27.47~~

~~27.48 Mineral resources~~

~~27.49~~

~~17.45~~~~27.1~~~~Mineral resources differ from land, timber and fish in that although they also constitute a natural resource, there is no way of using them sustainably. All extraction necessarily reduces the amount of the resource available for the future. This consideration necessitates a slightly different set of recommendations for how transactions relating to their use should be recorded.~~

~~27.50 When a unit owning a mineral resource cedes all rights over it to another unit, this constitutes the sale of the resource. Like land, mineral resources can only be owned by resident units; if necessary a notional resident unit must be established to preserve this convention.~~

~~27.51~~

~~27.52 When a unit extracts a mineral resource under an agreement where the payments made each year are dependent on the amount extracted, the payments (sometimes described as royalties) are recorded as rent.~~

~~27.53~~

~~27.54 The owner (in many but not all circumstances government) does not have a productive activity associated with the extraction and yet the wealth represented by the resource declines as extraction takes place. In effect, the wealth is being liquidated with the rent payments covering both a return to the asset and compensation for the decline in wealth. Although the decline in wealth is caused by the extractor, even if the resource were shown on the balance sheet of the extractor, the rundown in wealth would not be reflected in the extractor's production account because it is a non-produced asset and thus not subject to consumption of fixed capital. (The SEEA 2003 describes a form of satellite account where such a deduction from national income can be made for minerals as well as for other natural resources used unsustainably.) For these reasons, simple recording of payments each year from the extractor to the owner as rent and changes in the size and value of the resource as other changes in the asset accounts of the legal owner is recommended.~~

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## ~~I.~~D. Sharing assets

~~17.49~~27.53 There are two ways in which assets may be shared. The asset may be wholly owned by two or more units, each at different points in time~~.~~ through successive purchases or transfers. Alternatively, the risks of and benefits from the asset may be shared by two or more units at a single point in time. The two cases require different treatments.

~~17.50~~27.54 Within the SNA, even though the asset may be owned by different units at different times, when a balance sheet is drawn up, in most cases the whole of the value of the asset is attributed to one unit. (The exceptions relate to unincorporated joint ventures and split assets for certain natural resources, which are discussed below.) For an asset subject to an operating lease, there is no ambiguity. The legal owner is also the economic owner and is the unit that shows the asset on its balance sheet. For an asset subject to a financial lease, the unit showing the asset on its balance sheet is the economic owner. The value of the asset is the present value of the future payments due to the legal owner plus the value of the asset at the end of the lease as specified in the lease agreement. This is consistent with the ~~views~~view that the value of the asset represents the stream of future benefits coming from the asset and the economic owner is the unit entitled to receive these benefits in return for accepting the risks associated with using the asset in production. ~~For an asset subject to a resource lease, the value is shown on the balance sheet of the legal owner.~~

~~17.51~~27.55 When ~~licences~~rights to use natural resources such as radio spectra~~, land, timber~~ and ~~fish~~land satisfy

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~~27.2~~ ~~Cross-cutting and other special~~

the ~~"mobile phone"~~ criteria~~,~~ described in Section C above such that a sale of an asset is recorded then a separate asset, described as a permit to use a natural resource, is established. These assets are part of the subclass of contracts, leases and licences. They are then shown on the balance sheet of the licensee.

~~17.52~~27.56 ~~Sharing the risks and rewards of an asset between different units at a point in time is unusual.~~ ~~The~~Regarding the use of assets, the most common occurrence is that a single unit undertakes the activity in which the asset is used and that unit shares the returns among the owners in the form of distributed property income. However, occasionally it is possible such a single unit does not exist and it is not meaningful to try to create it statistically. This is most common when the participating units are resident in different economies, as may be the case with an airline, or in the case of some unincorporated joint ventures (UJVs). The terms under which UJVs are established are diverse but one form allows that all members share the assets equally. In such cases, the SNA records the assets shared between the owners in proportion to their ownership shares.

~~17.53~~27.57 In some joint ventures, one party may contribute an asset as its share of the costs. If this happens, an injection of capital equal to the value of the asset should be recorded followed by the purchase of the asset in question with the ownership of the asset then shared by all parties to the arrangement.

27.58 ~~Permits~~In relation to the use of natural resources, as described in Section C above, there will be instances where the future stream of benefits in the form of natural resource rent are shared between the legal owner and the extractor of the resources. The recording in these situations should follow the split asset approach as discussed above and in chapters 4 and 11.

27.59 To illustrate the split-asset approach the following example is provided. It shows the range of entries that are associated with a full implementation of the approach, including accounting for depletion as a cost of production and allocation of depletion in line with the allocation of income generated by the extraction of natural resources. The production account of the extractor records output of 100 and costs of remuneration of employees (35) and deprecation (20) resulting in net operating surplus of 0 with natural resource rent equal to 45. Rent on natural resources of 30 is paid to the government as recorded in the distribution of income account and this is all considered depletion such that net saving of both the government and the extractor is zero. In the capital accounts of the extractor depreciation (20) and the remaining share of depletion (15) are deducted to derive net lending of 35. For government, the depletion of resources derives a net lending of 30.

~~27.56~~27.60 In terms of changes in the balance sheet, it is assumed that the natural resource rent (45) from exploiting the natural resources (valued at 750 at the beginning of the period) are split between government (30) and the extractor (15). Effectively, this means that government is giving up 1/3 of the natural resources. The latter is recorded, in the accounts of the legal owner, as a negative other change in volume of natural resources with a value of (minus) 250. This recording follows economic reality, with government foregoing part of the future natural resource rents. Even though governments may receive a steady flow of future income, if it only represents part of the potential benefits from the natural resources, then the recording of a reduction in balance sheet value makes evident that government is redistributing wealth.

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~~27.2~~ ~~Cross-cutting and other special~~

# Table 27.1: Entries for the split-asset approach

**Accounts for the extractor of natural resources**

**Production and generation of earned income account**

| | | | |
|---|---|---|---|
| Remuneration of employees | 35 | Output | 100 |
| Depreciation | 20 | | |
| Depletion/degradation of natural resources | 45 | | |
| Net operating surplus | 0 | | |

**Allocation of earned income account**

| | | | |
|---|---|---|---|
| Natural resource rent | 30 | Net operating surplus | 0 |
| Depletion/degradation borne by government | -30 | | |
| Net saving | 0 | | |

**Capital account**

| | | | |
|---|---|---|---|
| Acquistion of assets | 0 | Net saving | 0 |
| Depreciation | -20 | Net capital transfers received | 0 |
| Depletion/degradation of natural resources | -15 | | |
| Net lending/borrowing | 35 | Changes in NW due to saving and CT | 0 |

**Financial account**

| | | | |
|---|---|---|---|
| Cash | 35 | Net lending/net borrowing | 35 |

**Other changes in the volume of assets and liabilities account**

| | | | |
|---|---|---|---|
| Depletion/Degradation of natural resources | 0 | (Dis) appearance or other change n.e.c. | 250 |
| | | Changes in NW due to other changes in assets | 250 |

**Balance sheet**

| | | | | | |
|---|---|---|---|---|---|
| Cash | 0 | 35 | Net worth | 200 | 450 |
| Fixed assets | 200 | 180 | | | |
| Natural resources | 0 | 235 | | | |
| Total | 200 | 450 | Total | 200 | 450 |

**Accounts for the government**

**Production and generation of earned income account**

| | | | |
|---|---|---|---|
| Remuneration of employees | 0 | Output | 0 |
| Depreciation | 0 | | |
| Net operating surplus | 0 | | |

**Allocation of earned income account**

| | | | |
|---|---|---|---|
| | | Net operating surplus | 0 |
| | | Natural resource rent | 30 |
| | | Depletion/degradation borne by government | -30 |
| Net saving | 0 | | |

**Capital account**

| | | | |
|---|---|---|---|
| Acquistion of assets | 0 | Net saving | 0 |
| Depreciation | 0 | Net capital transfers received | 0 |
| Depletion/degradation of natural resources | -30 | | |
| Net lending/borrowing | 30 | Changes in NW due to saving and CT | 0 |

**Financial account**

| | | | |
|---|---|---|---|
| Cash | 30 | Net lending/net borrowing | 30 |

**Other changes in the volume of assets and liabbilities account**

| | | | |
|---|---|---|---|
| Depletion/Degradation of natural resources | 0 | (Dis) appearance or other change n.e.c. | -250 |
| | | Changes in NW due to other changes in assets | -250 |

**Balance sheet**

| | | | | | |
|---|---|---|---|---|---|
| Cash | 0 | 30 | Net worth | 750 | 500 |
| Fixed assets | 0 | 0 | | | |
| Natural resources | 750 | 470 | | | |
| Total | 750 | 500 | Total | 750 | 500 |

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~~27.2~~ ~~Cross-cutting and other special~~

## ~~B.~~E. Permission to undertake a specific activity

~~27.57~~27.61 In addition to ~~licences and~~ leases and rights to use an asset as described in the previous sections, permission may be granted to engage in a particular activity, quite independently of any assets involved in the activity. Thus ~~permission~~rights to extract minerals in return for the payment of rent, for example, is not covered by this type of ~~permit. The permits~~permission. Permissions are not dependent on a qualifying criterion (such as passing an examination to qualify for permission to drive a car) but are designed to limit the number of individual units entitled to engage in the activity. Such permissions, often in the form of permits or licences, may be issued by government or by private institutional units and different treatments apply to the two cases. In general however, it is noted that the accounting entries should follow the treatment explained in 13.34 concerning valuation, revaluation and other changes in volume.

### 1. ~~Permits~~Permissions issued by government

~~17.55~~27.62 When governments restrict the number of cars entitled to operate as taxis or limit the number of casinos permitted by issuing licences, for example, they are in effect creating monopoly profits for the approved operators and recovering some of the profits as the fee. In the SNA these fees are recorded as taxes, specifically as other taxes on production. This principle applies to all cases where government issues ~~licences~~permissions to limit the number of units operating in a particular field where the limit is fixed arbitrarily and is not dependent only on qualifying criteria.

~~17.56~~27.63 In principle, if the ~~licence~~permission is valid for several years, the payment should be recorded on an accrual basis with an other account receivable or payable entry for the amount of the ~~licence fee~~payment covering future years. However, if government does not recognize a liability to repay the ~~licensee~~user in the case of a cancellation, the whole of the fee payable is recorded at the time it is paid.

27.64 The incentive to acquire such a ~~licence~~permission is that the ~~licensee~~user believes that ~~he~~they will thereby acquire the right to make monopoly profits at least equal to the amount ~~he~~ paid for the ~~licence~~permission. This stream of future income is treated as an asset if the ~~licensee~~user can realize this by on-selling the ~~asset~~rights. The type of asset is described as a permit to undertake a specific activity. The value of the asset is determined by the value at which it can be sold or, if no such figure is available, is estimated as the present value of the future stream of monopoly profits. If the payment for the ~~licence~~permission is being recorded by government on an accrual basis, the ~~licensee~~user has an asset in ~~his~~the balance sheet under accounts receivable or payable equal to the value of the future payments and so the value of the ~~licence~~permission itself should cover simply the excess of the monopoly profits over the cost. If the ~~licence~~permission is on-sold, the new owner assumes the right to receive a refund from the government if the ~~licence~~permission is cancelled as well as the right to earn the monopoly profits. If the ~~licence~~permission was recorded as a single tax payment, the value of the asset is determined by the value at which it can be sold or, if no such figure is available, is estimated as the value of all the future monopoly profits without deduction. The ~~asset~~ first ~~appears in~~ appearance of the asset, as well as the changes in value over time, are recorded in the other changes in the volume of assets and liabilities account ~~and changes in value, both up and down, are recorded in the revaluation account.~~

~~17.57~~

#### An example

~~17.58~~27.65 Suppose a unit, A, contracts with government to buy a permit to operate a casino for 3 years at a total cost of 12. ~~He~~The unit expects to make monopoly profits of 7 per year because the permit excludes many other casinos from operating. The government may or may not be prepared to make a refund if A ~~relinquished~~relinquishes the permit. A may utilize the permit for the whole of the 3 years for which it is valid or ~~he~~ may sell it to unit B at the end of year 1. The recordings under these four possibilities are examined below.

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~~27.2~~ ~~Cross-cutting and other special~~

*Case 1: Government does not offer a refund and A keeps the permit for 3 years*

~~17.59~~27.66 At the start of year 1, A pays tax of 12 and has an asset worth 21 initially. By the end of the year, the value of the asset has reduced by 7 as an other volume change, because one of the three years for which the permit was initially valid has expired. At this point the asset is contributing 14 to ~~his~~A's net worth. By the end of the second year ~~he~~A writes off another 7 as an other volume change, leaving a contribution to net worth of 7. By the end of the third year the asset is worth zero.

~~27.59~~

*Case 2: Government does not offer a refund and A sells the permit to B after one year*

~~17.60~~27.67 At the start of year 1, A pays tax of 12 and has an asset worth 21 initially. By the end of the year the value of the asset has reduced by 7 as an other volume change, because one of the three years for which the permit was initially valid has expired. At this point ~~he~~A values the asset at 14. However, B is only prepared to pay 13 for the asset and A accepts this. A therefore reduces the value of the asset by 1 as a revaluation change. B then acquires the asset and reduces its value by 6.5 in the other change in volume of assets account in each of the two following years.

~~27.60~~

*Case 3: Government does offer a refund and A keeps the permit for 3 years*

~~17.61~~27.68 At the start of year 1, A makes a payment of 12 to government but this is recorded as a payment of tax of 4 during the year and at the end of the year government has an account payable to A of 8. The value of the permit to A is only the excess of the monopoly profit over the total amount that A will have to pay to government. This starts at 9 (the difference between 7 and 4 for three years) but by the end of year 1 is worth only 6. At the end of the year A's net worth includes an account receivable from government of 8 and 6 as the remaining value of the permit. The total is 14 as in case 1. During the second year, A's account receivable from government is reduced by 4 which is used to pay the tax due in year 2. In that year the value of the permit also reduced by 3 from 6 to 3. At the end of the year, A's net worth includes an account payable from government of 4 and a permit worth 3, total 7 as in case 1. At the end of year 3, both the account payable and the value of the permit are reduced to zero.

~~27.61~~

*Case 4: Government does offer a refund and A sells the permit to B after one year*

~~17.62~~27.69 At the start of year 1, A makes a payment of 12 to government but this is recorded as a payment of tax of 4 during the year and at the end of the year government has an account payable to A of 8. The value of the permit to A is only the excess of the monopoly profit over the account payable. This starts at 9 (the difference between 7 and 4 for three years) but by the end of the year is worth only 6. At the end of the year A's net worth includes an account receivable from government of 8 and 6 as the remaining value of the permit. The total is 14 as in case 1. As in case 2, A has to reduce the value of ~~his~~the permit (in this case from 6 to 5) when ~~he~~A appears to sell the asset to B for 13. In fact, the account payable from government of 8 is transferred to B and the asset is sold for 5. B's net worth is unchanged. ~~He~~B has paid A 13 but received the account payable of 8 and an asset valued at 5 in return. In year 2, the account payable is reduced by 4 and a tax payment of 4 is recorded and the permit declines in value from 5 to 2.5.

~~27.62~~

## Government ~~permits~~permissions as assets

~~17.63~~27.70 A ~~permit~~permission issued by government to undertake a specific activity may be treated as an asset by the holder of the permission only when all the following conditions are satisfied:

a. The activity concerned does not utilize an asset belonging to government; ~~if it does the permission to use the asset is treated as an operating lease, a financial lease, a resource lease or possibly the acquisition of an asset representing permission to use the asset at the discretion of the licensee over an extended period;~~

b. The ~~permit~~permission is not issued subject to a qualifying criterion; payments for such

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~~27.2~~ ~~Cross-cutting and other special~~

~~permits~~permissions are treated as ~~either~~ taxes ~~or payments for services~~;

c. The number of ~~permits~~permissions is limited and so allows the holder to make monopoly profits when undertaking the activity concerned;

~~a.~~d. The ~~permit~~ holder must be legally and practically able to sell the ~~permit~~permission to a third party.

~~17.64~~27.71 ~~Even if all these conditions are satisfied, if in~~In practice, if the ~~permits~~permissions are not on-sold~~,~~ it is not relevant to record the ~~permits~~permissions as assets~~.~~, even if all of these conditions are satisfied. If any of the conditions is not satisfied, the payments are treated as taxes without the creation of an asset in the category of contracts, leases and licences. (There may be an account payable as shown in cases 3 and 4 of the example.)

~~27.63~~

## 2. ~~Permits~~Permissions issued by other units

~~17.65~~27.72 It is less common for units other than government to be able to limit the participation in a given activity. One instance may be when it is either compulsory or desirable to belong to a professional association but in this case there is seldom a limit on numbers participating. Another example could be where the owner of property limits the numbers of units allowed to operate on ~~his~~the property for example a hotel with a policy of only allowing one taxi firm to pick up guests. In these sorts of cases, ~~the permits~~ any related payments are treated as payments for services. In principle the payment should be recorded on an accrual basis throughout the period for which the ~~permit~~permission is valid. There is no reason in principle why such ~~permits~~permissions could not be treated as assets if they were marketable though this may not be a common situation.

~~27.64~~

### Non-government ~~permits~~permissions as assets

~~17.66~~27.73 A ~~permit~~permission issued by a unit other than government to undertake a specific activity may be treated as an asset by the holder of the permission only when all the following conditions are satisfied:

a. The activity concerned does not utilize an asset belonging to the ~~permit~~permission-issuer; if it does the permission to use the asset is treated as an operating lease, a financial lease or a resource lease;

b. The number of ~~permits~~permissions is limited and so allows the holder to make monopoly profits when undertaking the activity concerned;

c. The ~~permit~~ holder must be legally and practically able to sell the ~~permit~~permission to a third party.

~~17.67~~27.74 ~~Even if all these conditions are satisfied, if in~~In practice, if the ~~permits~~permissions are not on-sold~~,~~ it is not relevant to record the ~~permits~~permissions as assets, even if all of these conditions are satisfied. If any of the conditions is not satisfied, the payments are recorded as payments for a service.

~~27.65~~

## ~~2.~~3. ~~Permits~~Permissions to use ~~natural resources~~the environment as ~~sinks~~a sink

27.75 Governments are increasingly ~~turning to the~~ issuing of emission permits as a means of controlling total emissions. ~~These~~An emissions permit (cap-and-trade) system is a flexible market mechanism that establishes a maximum level of pollution - a cap. Companies must have a permit to cover each unit of pollution they produce. Each permit stipulates the amount of emissions, for example greenhouse gases) that can be emitted (the quota). As such, each company must have a permit with a sufficient quota of units of emissions to cover their needs.

27.76 In the initial stages of some cap-and-trade schemes, permits are given to non-financial corporations freely. As a result, firms do not ~~involve the use of a natural~~incur any additional production costs, unless they exceed their quota and are required to purchase additional permits from others. Increasingly, governments are auctioning permits rather than giving them freely. In these auctions, the purchase of a permit is not restricted to the emitting entity - permits can be purchased by any market participant - individuals, investors, governments, non-profit institutions, financial and non-financial companies.

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~~27.2~~ ~~Cross-cutting and other special~~

27.77 Nonetheless, the schemes are structured primarily for non-financial corporations, who are most likely to emit. If companies exceed their quota of emissions, they can purchase unused permits from others, adjust their production or in the longer-term, install technology that reduces emissions. Depending on the adaptability of firms' production functions, some firms will be able to adjust to the limits more easily than others.

27.78 The recommended approach for recording emission permit systems in the SNA is to record the issuing of the emissions permit as a financial asset ~~(~~/ liability valued at the auction price. Thus, the issuance of permits is regarded as the purchase of a financial asset – accounts receivable / payable - where the payment grants the acquirer the right to emit a pre-specified quantity of emissions sometime in the future. This approach aligns with the recording of permits in company financial statements where the emitting corporation incurs an expense at the time of surrender of the permit, which impacts their net lending/ borrowing. In the SNA treatment, when the company surrenders the permit, it is recorded as taxes on production. Any change in price from the issuance date is "written off" in the revaluation account each time there is ~~no~~a transaction. This ensures that the flow of taxes will always reflect the original issuing price and not the current market value ~~placed on the atmosphere~~of the permit which could include holding gains or losses.

~~17.68~~27.79 Emission permits provided freely to corporations do not have an associated tax cashflow. If taxes are maintained at issuance price (i.e. at zero), this implies that freely provided emission permits have zero value. In so ~~it cannot~~doing, emission permits auctioned or provided freely will follow the actual cash revenue received by governments However, the market value of emission permits (including freely provided ones) is clearly not zero. When emission permits are transacted amongst corporations, domestically or with non-residents they should be recorded in the accounts. If a corporation exceeds its quota and requires additional permits, it will purchase them from the market some of which could have been initially provided freely. Although, these are good arguments that could be considered ~~to be an economic asset) and are therefore classified as taxes even though the permitted "activity" is one of creating an externality. It is inherent in the concept that the permits will be tradeable and that there will be an active market in them. The permits therefore constitute assets and should be valued at the market price for which they can be sold~~for emission permits issued freely to be assigned a value, it may be difficult to consistently assign values and countries may need to resort to imputations. Given the complexity, conceptual and practical difficulties, and notwithstanding the need for imputations, compilers should preferably not record any asset/liability for freely issued emission permits, and instead revalue them back to zero every time there is a transaction with an emission permit that was freely issued.

27.80 ~~The~~It is important for users to be able to easily identify all transactions of emission permits in the accounts. In order for emission permits to be visible, it is recommended that a separate classification for emission permits be assigned that aligns with the new environmental classifications.

27.81 Methodologies and assumptions are needed to allow for time of recording, valuation, and other adjustments. It is assumed that the time the emission permit is surrendered corresponds to the time that emissions occurred. This assumption implies that the payments for emission permits issued by the government in year t will be recorded as tax revenue in year t+n. Adjustments are also needed to align corporate expenses reported in business accounts with government revenue and to record cross border transactions and stocks in relation to international or multi-country permit schemes / arrangements, such as the European Union Emission Trading Scheme (EU ETS).

27.82 To illustrate these concepts the following numerical example is provided. The starting point for the numerical example is that corporation A and corporation B have liquid assets (currency) of $1000 and $1500, respectively. The government then issues 100 emission permits at a price of $10 each. The recording of the purchase of these permits by corporation A is rather straightforward. Government receives cash of $1000 with the equivalent increase of liabilities (other accounts receivable/payable) representing the prepaid taxes on production, while corporation A pays $1000 in cash with a concomitant increase in claims towards the government.

27.83 Next corporation A sells the permits to corporation B at a price of $15 for each permit. To arrive at an appropriate recording, the claims are first revalued from $1000 (= 100 * $10) to $1500 (= 100 * $15), after which the claims are sold at the agreed market price, in exchange for cash, to corporation B. At this point the value of the financial claims of the government differs from the value of the corresponding claims in the books of corporation B. Since the treatment is that the value in the government accounts does not change (consistent with the surrender of the permits being recorded at issuance prices at a later moment in time), the

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claims in the books of corporation B need to be revalued downwards. In the last stage of the example, half of the permits are surrendered. Here taxes on production are recorded with a counterpart decrease in the value of the financial claims.

27.84 It is noted that where emissions concern emissions to the atmosphere, an alternative recording may be envisaged if the atmosphere itself was treated as an asset. The SNA research agenda includes further consideration of the treatment of the atmosphere as an asset and, depending on the outcomes of that research, the treatment of emission permits may be revisited.

~~17.69~~27.85 Governments may also issue permissions to use the environment as sink without the use of trading schemes as described above. Payments may be made for these permissions. To describe the different ways of treating the payments, the case of payments for discharging water may be considered as an example ~~of the different~~. Four alternatives are possible ~~ways of treating the payments.~~:

- ~~27.51~~ If a payment to discharge water is a fine intended to inhibit discharge, it should be treated as a fine.
- ~~27.52~~ If a limited number of permits is issued with the intent to restrict discharges, the payment should be treated as a tax if the medium into which the water is discharged is not regarded as an asset in the SNA.
- If the discharge medium is an asset and the necessary conditions are met concerning the terms on which the discharge is permitted, then the payment for the permit should be treated in the same way as the payment for a licence to use the radio spectrum for mobile phones.
- If the ~~charge~~payment is linked to remedial action, ~~the payment is a payment for a service unless the amount levied is out of all proportion to the costs involved in subsequent water treatment in which case the payment should be~~ then it is treated as a tax.

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## ~~N.~~F. Contracts for future production

~~17.73~~27.86 Although human capital is not recognized as an asset in the SNA, there are cases where a contract that entitles the holder to limit the ability of a named individual to work for others may be regarded as an asset. The most prolific and lucrative contracts may be for sports players where, for example, a football club can "sell" a player to another. In fact they are not selling the person, they are selling the exclusive right to have that person work for them. Similar contracts exist for the rights to publish literary works or musical performances. All such contracts are treated as assets of the type entitlement to goods and services on an exclusive basis within the asset class of contracts, leases and licences.

~~17.74~~27.87 It is possible to imagine that similar contracts may exist for the production of goods in future. ~~An examination of~~For example, airlines may purchase the ~~practice of purchasing the options of~~option to buy future aircraft production ~~revealed, however, that in this case~~. However, if there is no transferable asset and a change of mind on the part of the potential purchaser or failure to deliver on the part of the supplier is settled by a change in the arrangements between the two parties ~~and~~, it does not lead to the sale of ~~the~~an option to a third party~~. If~~ and hence no asset is created. Nonetheless, if an instance arises where the option to purchase goods is treated in the same way as a contract for a named individual's performance, the same ~~classification~~treatment would apply.

## ~~O.~~G. Leases as assets

~~17.75~~27.88 As stated at the beginning of this ~~part~~chapter, contracts underlie many transactions recorded in the SNA and it is important to understand ~~what~~ the implications ~~are~~ for the time of recording and classification of transactions arising from a contract. It has been noted that permits or licences to use natural resources may constitute an asset as may permits to undertake specific activities and contracts for future production. There is one other condition that may lead to a contract being considered as an asset, which is another circumstance when the contract is transferable to a third party (that is, a unit other than the two specified in the original contract).

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~~17.76~~27.89 Suppose a lease on an apartment agreed some time ago specifies the rental at 100 per month but if the same apartment were to be leased currently it would fetch 120 per month. From the lessor's point of view, the apartment is "encumbered" by the existing lease, that is, it carries a penalty (in this case of 20 per month) because of the existence of the lease. The encumbered value of the apartment is based on the present value of future rental payments taking the existence of the lease into account, that is, the future income stream is 100 for as long as the lease lasts and 120 thereafter (ignoring any allowance for inflation). The unencumbered value of the apartment is a present value based on an income stream of 120 per month from the current period forward. The value to be entered in the landlord's balance sheet is the encumbered value. If he wishes to sell the apartment and the existing tenant had the right to remain at the agreed rental, the encumbered value is all the landlord (lessor) could hope to realize. If he wished to realize the unencumbered value he would have to pay the tenant the difference between the unencumbered value and the encumbered value to be free of the lease. This amount, the encumbrance, can in some circumstances be treated as an asset of the tenant. The circumstances are that it is both legally possible and is practicable for the tenant to sublet the apartment to a third party. Because of the difficulty of identifying when such assets may exist, it is recommended that in practice these assets be recorded only when there is evidence that they have been realized.

~~17.77~~27.90 It is possible that the encumbered value of the apartment may be higher than the unencumbered value if rentals have fallen since the lease was agreed. In this case it is the landlord that benefits from the discrepancy between the contract price and the market price because the value of the apartment in ~~his~~the balance sheet is still the encumbered value. If the tenant wishes to cancel the lease, ~~he~~they may have to pay the landlord the difference between the encumbered value and the unencumbered value. Only in the exceptional case where the tenant pays a third party to assume the lease at the price specified in the lease, does this payment represent realizing an asset of negative value to the tenant. Once the lease expires or is cancelled, the value of the apartment returns to its unencumbered value.

~~17.78~~27.91 Assets reflecting such third-party property rights are always transitory. They exist only for the length of the lease and where there is a difference between the encumbered and unencumbered values. As each year passes, they reduce in value because the period during which the difference exists is reduced but may increase if the new rental price increases.

~~17.79~~27.92 The market price of the rental of an apartment is the price actually paid by the existing tenant. If, in this example, the original tenant remains in situ and pays 100 per month, this is the market price despite the fact that a new lease would fetch a rental of 120. Only if the original tenant sublets the apartment for 120 would the market price be recorded as 120. Of this, 100 will be paid to the landlord and 20 to the original tenant.

~~17.80~~27.93 The example above shows when a marketable operating lease may acquire a value as an asset. Permits to use natural resources and contracts for future production may also give rise to these sorts of third-party property rights assets. So may permits to undertake specific activities even though the original payment was treated as a tax if payable to government. Financial leases do not give rise to these sorts of assets. If the value of the asset being leased increases by more than the payments due under the financial lease, the lessee always has the option of selling the asset, repaying the loan and keeping the difference.

~~27.67 Marketable operating leases as assets~~

~~17.81~~27.94 A marketable operating lease may be treated as an asset only when the two following conditions are satisfied:

a. The lease specifies a predetermined price for the use of an asset that differs from the price the asset could be leased for at the current time, and

b. The lessee is able legally and practically to realize this price difference by subcontracting the lease to a third party.

~~17.82~~27.95 In practice, it is recommended that such assets should be recorded only when the lessee does actually exercise ~~his~~their right to realize the price difference.

## ~~P.~~H. Other considerations

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## 1. Time-share arrangements

~~17.83~~27.96 One way of sharing an asset offering accommodation is by means of a "time-share" arrangement. The same expression, though, may be used for a number of different arrangements.

~~17.84~~27.97 One arrangement is similar to purchasing a house except that "ownership" is restricted to a particular period each year but in perpetuity. Exactly the same physical space is available to the owner each year. Another arrangement guarantees accommodation at a given time each year but not necessarily in the same physical space. Other arrangements consist of buying "points" in a scheme that the owner can use to purchase accommodation at different locations and times subject to availability.

~~17.85~~27.98 All time-share arrangements have a unit that is responsible for upkeep, maintenance, insurance and so on but there are variations in whether this unit is the ultimate owner of the complex and the subscribers are lessees or whether the unit acts as agent for the group of owners or subscribers. Similarly there are variations in whether the owner or subscriber may sell or bequeath ~~his~~their ownership to another unit permanently and whether they can sublet occasionally.

~~17.86~~27.99 The issue of whether participation in the time-share scheme gives rise to an asset will depend on the answers to these sorts of questions. If the owner has a nominated space, available in perpetuity, is eligible to act as part of the management committee for the scheme, can sell or bequeath the allocation at will, then the holding is most likely to be an asset of the same type as a house. If the owner has a fixed agreement to have some form of accommodation available at a given period for a fixed length of time, it is likely that this represents a prepaid lease but one that could be sublet occasionally or sold for the rest of the period of the lease as a transferable operating lease. A participant in a points-based scheme may have only an account receivable by way of an asset.

~~17.87~~27.100 Where time-share arrangements are significant, the conditions pertaining to them should be examined in the light of the general principles described in this ~~section~~chapter to determine how to record the transactions involved and classify the assets.

## ~~3.~~2. Lost deposits

~~27.68~~27.101 Under any form of contract, it is possible that one party makes a payment and the other does not deliver the goods, services or assets promised in the contract. In many cases this gives rise to an account payable or receivable that the first party may reclaim from the second. In some circumstances this may not be possible. For example, cheap airline tickets are often offered on a non-refundable basis. The fact that prepayments are non-refundable is part of the business plan of the company concerned. Their output should be measured as the value of sales without reduction for the payments by clients who did not avail themselves of the services to which they were entitled. Volume measures of output will depend on the services actually delivered and the impact of the non-refundable deposits will show up as a price effect. It will also be reflected in the consumption expenditure figures of those paying for services they did not in the end take delivery of.

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# Chapter 30: ~~Chapter 30.~~ General government and the public sector (revised title)

## (OLD Chapter 22: The general government and public sectors)

~~public sectors)~~

## ~~1.~~A. Introduction

30.1 A major strength of the SNA is the ability to compile accounts for whole sectors, individual units, or some intermediate levels and to aggregate the accounts in different ways. Disaggregating the economy into various sectors and subsectors makes it possible to observe and analyse the interactions between the different parts of the economy for purposes of policymaking. Particular interest is given to the general government sector, as defined in chapter ~~4~~5 and the public sector, as defined in this chapter. Many of the concepts in this chapter have been described in a number of previous chapters. This chapter aims to bring these together, give some more elaboration on how they might be put into practice and gives a link to other systems of economic statistics particularly aimed at government such as the ~~GFSM2001, the ESA95 Manual on Government Debt and Deficit (Eurostat, 2002a) and the External Debt Guide~~*Government Finance Statistics Manual*, Eurostat's *Manual on Government Deficit and Debt*, ~~-~~ and the *External Debt Statistics Guide for Compilers and Users*.

30.2 The powers, motivation and functions of government are different from those of other sectors. Governments use their powers to pass laws affecting the behaviour of other economic units. They are able to redistribute income and wealth largely by means of taxes and social benefits. The accounts for the general government sector show how goods and services provided to the community as a whole or to individual households are financed mainly by revenue raised. The range of goods and services the government provides, and the prices charged are based on political and social considerations rather than on profit-maximization.

30.3 Fiscal operations are carried out by the government and financed through the budget under the usual budgetary procedures. However, some operations ~~originated~~directed by government units may ~~require the intervention of~~ be carried out by entities ~~which are not ruled by~~outside the legal government framework, including public corporations. ~~These actions may be described as quasi~~Quasi-fiscal ~~activities.~~operations are government operations carried out by institutional units other than general government units.

30.4 Operations related to privatization and restructuring public corporations, securitization of assets using the intervention of special purpose ~~entities~~units, including those abroad, may be described in this way. Though such operations are not reported in the budget and might escape the usual control procedures, they may have a significant impact on government revenue ~~and~~, expenditure and debt.

30.5 As well as providing services directly, governments often fulfil their public policy objectives through public corporations (for example, railways, airlines, public utilities and public financial corporations). A public corporation may be required to provide services to areas of the economy that would not be covered otherwise by means of subsidized prices. As a result, the public corporation may operate with a reduced profit or at a loss.

30.6 ~~In order to~~To analyse the full impact of government on the economy, ~~-~~ it is, therefore, ~~it is~~ useful to form a sector consisting of all the units of general government and all public corporations. This composite sector is referred to as the public sector.

30.7 For the general government sector and the public ~~sectors~~sector, in addition to the usual sequence of economic accounts of the SNA, the accounts can be presented in a manner that is more suitable for government finance analysts and policymakers. The latter increasingly use aggregates and balancing items defined in terms of the

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concepts, definitions, classifications and accounting rules of the SNA so that these aggregates can be related to other macroeconomic variables and compared with the same items in other countries. Some of these items, such as saving and net lending or borrowing, are already available in the sequence of economic accounts. Other items, such as total revenue, total expense and total outlays, the tax burden, the net operating balance and total debt, do not appear as such in the SNA. Aggregates and balancing items of this nature can be used to assess the use of resources to produce individual and collective services, the need to collect taxes and other revenues, the ability of government to borrow and repay debt and the sustainability of the desired level of government operations.

30.8 The present chapter gives an overview of this so-called public finance or government finance presentation of the accounts. In ~~order to derive~~ this presentation, the transactions in the SNA current and capital accounts are rearranged to derive aggregates and balancing items of specific interest to the general government and public sectors. For example, a combination of taxes, ~~user fees and~~ social contributions, ~~–~~ grants from other governments and other revenue items can be aggregated to form total revenue, as the amount available from operations to fund government services.

~~30.9 Section B summarizes the identification of government units and other units controlled by government units and explains how those units are grouped into sectors in the SNA.~~

~~30.10 Section C describes the presentation of government finance statistics.~~

~~30.11 Section D addresses a number of accounting issues that are unique to, or exceptionally important for, government.~~

~~30.12~~30.9 ~~Finally, section~~ Section B summarizes the identification of government units and other units controlled by government units and explains how those units are grouped into sectors in the SNA. Section C describes the presentation of government finance statistics. Section D addresses accounting issues that are unique to, or exceptionally important for, government. Section E shows how information about the public sector may be prepared in a manner roughly parallel to the government finance statistics presentation described in section D. Finally, section F discusses the links to International Public Sector Accounting Standards (IPSAS).

## 1. Data sources

~~30.13~~30.10 In practice, macroeconomic accounts can seldom be built up by simply aggregating the relevant microdata. Government is an exception in that the statistics for government units and public corporations are often derived directly from the microdata in government financial accounting databases. As a result, compilers of statistics for the government units and public corporations usually draw more heavily on accounting information than on the results of statistical enquiries. In particular, the development ~~in recent years~~ of International Public Sector Accounting Standards by the International Public Sector Accounting Standards Board of the International Federation of Accountants has increased the need for clear guidance on the compilation of government finance statistics so that the detailed accounting data can be transposed correctly into the framework of the SNA. Such guidance is especially important when the ~~government financial~~government's accounts are compiled on a cash basis and must be converted to an accrual basis to comply with the accounting basis of the SNA.

## 2. Consolidation

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~~30.14~~30.11 As a rule, the entries in the SNA are not consolidated. Consolidation involves the elimination of those transactions or debtor/creditor relationships that occur between two transactors belonging to the same institutional sector or subsector. As stated in chapter ~~3~~4, however, consolidation may be relevant for the general government sector. For example, information on debt owed by government units to units outside the general government sector may be more relevant than gross figures that include debt owed to other government units. ~~Guidance on consolidation is provided~~Consolidation in GFSM and the SNA is discussed in Section C.

## ~~2.~~B. Defining the general government and public sectors

~~30.15~~30.12 General government units include ~~some NPIs and public enterprises not treated as corporations.~~non-market producers controlled by government, while the public sector comprises all institutional units controlled, directly or indirectly, by government. The public sector ~~includes~~can be separated into general government units and public corporations. Public corporations are market producers, which are institutional units that provide all or most of their output to others at prices that are economically significant. To identify which ~~NPIs~~units are included in general government, the conditions for control by government and for prices to be considered economically significant must be identified. To determine ~~which enterprises are treated as~~whether a unit controlled by government is a public ~~corporations and which as~~corporation or part of general government, it is necessary to ~~specify conditions for control by government and the concept of~~determine whether or not it charges economically significant prices.

~~30.16~~30.13 ~~In order to~~To identify the units falling in ~~both~~ the general government sector ~~and the public sector~~, it is helpful to begin by restating the definition of government units given in paragraphs ~~4.117 to 4.118).~~5.178-5.179. The ~~discussion on~~discussions of what is meant by control by government and by economically significant prices ~~follows~~follow.

### ~~a.~~1. Government units

~~30.17~~30.14 ***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***. Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other ~~incomes~~resources, to redistribute income and wealth by means of transfers, and to engage in non-market production. In general terms:

a. A government unit usually has the authority to raise funds by collecting taxes or compulsory transfers from other institutional units. A government unit must have funds of its own either raised by taxing other units or received as transfers from other government units, and it must have the authority to disburse some, or all, of such funds in the pursuit of its policy objectives. It must also be able to borrow funds on its own account.

b. Government units typically make three different kinds of final outlays:

The first group consists of actual or imputed expenditures on the free provision to the community of collective services such as ~~public administration,~~ security and defence, the maintenance of law

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~~enforcement,~~and order, provision of public ~~health~~infrastructure for transport, the protection of environment, etc. that are organized collectively by government and financed out of general taxation ~~or~~and other government income or borrowing.

The second group consists of expenditures on the provision of goods or services free, or at prices that are not economically significant, to individual households~~.~~ such as publicly provided health care and education. These expenditures are deliberately incurred and financed out of taxation ~~or~~and other government income or borrowing by government in the pursuit of its social or political objectives, even though individuals could be charged according to their usage.

The third group consists of transfers paid to other institutional units, mostly households, ~~in order~~ to redistribute income or wealth, such as social security and social assistance benefits.

~~30.18~~30.15 Within a single ~~economy~~territory there may be many separate government units when there are different levels of government ~~at~~, specifically central, state ~~or~~, and local ~~levels, there may be many separate government units. Social~~governments. In addition, social security funds ~~also~~ constitute government units.

~~30.19~~30.16 In all countries, there is an institutional unit of the general government sector ~~important~~distinguished by its importance in terms of size and power, ~~in particular~~particularly the power to exercise control over many other units. This unit is often referred to as the national government and is the unit covered by the main budget account. It is a single unit of the central government that encompasses the fundamental activities of the national executive, legislative and judiciary powers. Its revenues, as well as its expenses and expenditures are normally regulated and controlled by a Ministry of Finance or its functional equivalent and by ~~means of~~ a general budget approved by the legislature. Most of the ministries, departments, agencies, boards, commissions, judicial authorities, legislative bodies and other entities that make up this central government unit are ~~not separate institutional units but are~~ part of ~~this~~the primary central government unit, not separate institutional units. This is because they generally do not have the authority to own assets, incur liabilities, or engage in transactions in their own right. If there are state or local governments ~~then~~, it is likely that each of these governments will also have a primary government unit that includes the principal executive, and, possibly, legislative and judicial powers.

~~30.20~~30.17 In addition, there may be government entities with a separate legal identity and substantial autonomy, including discretion over the volume and composition of their expenses and outlays and a direct source of revenue, such as earmarked taxes. (The terms expense, outlay and revenue are commonly used in the presentation of government accounts. Their definitions and relationship to SNA concepts are covered in section C.) Such entities are often established to carry out specific functions, such as road construction or the non-market production of health or education services. These entities should be treated as separate government units if they maintain full sets of accounts, own goods or assets in their own right, engage in non-market activities for which they are held accountable at law, and are able to incur liabilities and enter into contracts in their own right. Such units are often referred to as extrabudgetary units because they have separate budgets and any transfers from the main budget account are supplemented by their own sources of revenue. ~~Budgets~~Budget practices vary widely among countries and various terms are often used to describe these units. These units are classified in the general government sector to the extent that they are non-market producers and are controlled by another government unit.

~~30.21~~30.18 A social security fund is a particular kind of government unit that is devoted to the operation of one or more social security schemes. A social security fund must satisfy the general requirements of an institutional unit~~. That~~ – that is, it must be separately organized from the other activities of government units, hold its assets and liabilities separately and engage in financial transactions on its own account.

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~~30.22~~30.19 As noted earlier, ~~NPIs that are~~ non-market producers ~~and~~that are controlled directly or indirectly by ~~a~~one or more government units are also units of the general government sector. ~~Although~~Even if they ~~may~~are legally ~~be~~ established to be independent from government, they are considered to be carrying out government policies and are effectively part of government. Governments may choose to use non-profit institutions or other legal entities rather than government agencies to carry out certain government policies ~~because NPIs may be seen as not subject to political pressures.~~. For example, research and development, and the setting and maintenance of standards in fields such as health, safety, the environment and education are areas in which ~~NPIs~~such units may be more effective than government agencies.

~~30.23~~30.20 ~~The case of units~~Entities engaged in financial activities ~~needs~~need special consideration. As described in paragraph ~~4.67, a unit~~5.100, an entity set up by government with functions similar to a captive financial institution is treated as an integral part of general government and not as a separate unit if it has no powers to act independently, is restricted in the ~~number~~types of transactions that it can engage in, does not carry the risks and rewards associated with the assets and liabilities it holds, and is resident in the same economy. If the ~~unit~~entity is non-resident, it is treated as a separate unit but the transactions it undertakes as quasi-fiscal operations and the related positions it holds are ~~reflected~~mirrored in imputed transactions ~~between that unit~~ and positions of the controlling government. In particular, if the non-resident unit borrows abroad, it is regarded as lending the same amount to government and on the same terms.

~~30.24~~30.21 At the same time, the general budget of any government level might control market producers satisfying the criteria to be a quasi-corporation as defined below. These units should not be classified in the general government sector, but in the non-financial or financial corporations sector, as appropriate. As public units, they are, however, part of the public sector.

## 2. NPIs controlled by government

~~30.25~~30.22 Control by government is one of the requirements for an NPI to be treated as a government unit. The other, operating as a non-market producer, is discussed below. The criteria for deciding whether an NPI is controlled by government or not ~~is~~are described in paragraph ~~4.92.~~ 5.136.They are summarized here for convenience.

~~30.26~~30.23 Control of an NPI is defined as the ability to determine the general policy or programme of the NPI. All NPIs allocated to the general government sector should retain their identity as NPIs in statistical records, to facilitate analysis of the complete set of NPIs. To determine if an NPI is controlled by the government, the following five indicators of control should be considered:

a. The appointment of officers;

b. Other provisions of the enabling instrument;

c. Contractual agreements;

d. Degree of financing by government; and

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e. Risk exposure.

A single indicator could be sufficient to establish control in some cases but sometimes a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators will necessarily be judgmental in nature, but the judgements should be consistent for similar cases.

## 3. Corporations controlled by government

~~30.27~~30.24 To be classified as a public corporation, a corporation must both ~~not only~~ be ~~both~~ controlled by another public unit, ~~but it also must~~and satisfy the criteria to be a market producer. Control is defined as the ability to determine the general policy or program of an institutional unit. Government is in a position to exercise control over many kinds of units: miscellaneous extrabudgetary agencies, non-profit institutions and corporations (non-financial or financial). The criteria for control of a corporation are described in paragraphs ~~4.77 to 4.80.~~~~4.77~~ 5.121 to ~~4.80~~5.125. The key factors to be considered are

a. Ownership of the majority of the voting interest;

b. Control of the board or other governing body;

c. Control of the appointment and removal of key personnel;

d. Control of key committees of the entity;

e. Golden shares and options;

f. Regulation and control;

g. Control by a dominant customer or group of customers; and

h. Control attached to borrowing from the government.

Although a single indicator could be sufficient to establish control in some cases, in ~~others~~other cases a number of separate indicators may collectively indicate control. A decision based on the totality of all indicators must necessarily be judgmental in nature, but the judgements should be consistent for similar cases.

## 4. Economically significant prices

30.25 In addition to the test of control by a government, a test of whether the unit operates as a non-market producer is necessary to determine whether it is a general government unit or a public corporation. Units controlled by another public sector unit that operate as market producers are classified as public corporations.

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~~30.28~~30.26 To be considered ~~as~~ a market producer, a unit must provide all or most of its output to others at prices that are economically significant. ***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. These prices normally result when:***

***a. The producer has an incentive to adjust supply either with the goal of making a profit in the long run or, at a minimum, covering capital and other costs; and***

***b. Consumers have the freedom to purchase or not purchase and make the choice on the basis of the prices charged.***

~~30.29~~30.27 These conditions usually mean that prices are economically significant if sales cover the majority of the producer's costs and consumers are free to choose whether to buy and how much to buy on the basis of the prices charged. Although there is no prescriptive numerical relationship between the value of output (excluding both taxes and subsidies on products) and the production costs, one would normally expect the value of goods and services sold (the sales) to average at least half of the production costs over a sustained multiyear period. However, for financial public corporations, this test is generally not applicable because property income and holding gains tend to be very important for financial institutions.

~~30.30~~30.28 Because economic circumstances vary considerably, it may be desirable to accept different thresholds to achieve consistent economic measurement over time, between units and across countries. In principle, the distinction between market and non-market should be made on a case-by-case basis.

~~30.31~~30.29 It can be presumed that prices are economically significant when the producers are private corporations. When there is public control, however, the unit's prices may be modified for public policy purposes. This may cause difficulties in determining whether the prices are economically significant. Public corporations are often established to provide goods that the market would not produce in the desired quantities or at the desired prices. Even when the sales of such corporations ~~may~~ cover a large portion of their costs, one can expect that they respond to market forces quite differently than would private corporations.

~~30.32~~30.30 It is likely that corporations receiving substantial government financial support, or that enjoy other risk reducing factors such as government guarantees, will act differently from corporations without such advantages because their budget constraints are softer. A non-market producer is a producer that faces a very soft budget constraint so that the producer is not likely to respond to changes in the economic conditions in the same way as market producers.

### Suppliers of goods and services to government

~~30.33~~30.31 The question arises whether ~~units~~government-controlled entities supplying goods and services to government should be treated as market or non- market producers. The ~~essential question~~supplier of the goods and services to government is ~~whether~~not a market producer if it is a dedicated provider of ancillary services. Dedicated providers of ancillary services generally do not satisfy the criteria to be institutional units. It can also be presumed that the producer is not a market producer if the unit provides the goods and services in the absence of competition with private producers and the choice of supplier is not based on price. This is true regardless of whether the supplier is the only supplier and whether the government is the only customer of the supplier.

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### Definition of sales and costs

~~30.34~~30.32 ~~In order to~~To assess whether a producer is a market producer, it is necessary to carry out a comparison between the receipts from sales and the production costs of the products. Sales are measured before any taxes applicable to the products are added. Sales exclude all payments received from government unless they would be granted to any producer undertaking the same activity. Own account production is not considered as part of sales in this context.

~~30.35~~30.33 Production costs are the sum of intermediate consumption, ~~compensation~~remuneration of employees, ~~consumption of fixed capital and [~~ other~~]~~ taxes on production~~. Further,~~, rent payable for the use of non-produced assets, depreciation (and depletion if ~~the unit is to be treated as a market producer,~~relevant), and a return to capital ~~is included~~used in production~~ costs.~~. Subsidies on production are not deducted.

## 5. A decision tree for public units

~~30.36~~30.34 Figure ~~22~~30.1 shows the relationship between the general government sector, the public sector and the other main sectors of the domestic economy.

~~30.37~~30.35 As explained in paragraph ~~4.117,~~ ~~5.178~~5.183 government units are established by political processes and have legislative, judicial or executive authority over other institutional units within a given territory. These units belong to the general government sector and so to the public sector also. In order to determine which other institutional units belong to the general government sector and which to the public sector, the decision tree described in figure ~~4~~5.1 should be followed, using the following sequential questions:

a. Is the entity of interest an institutional unit? If it is not, but is resident, then it is treated as part of the unit that controls it. If it is not an institutional unit but is non-~~-~~resident, it is treated as a quasi-corporation in the economy in which it is resident.

b. Is the unit controlled by government or another public corporation?

~~b.~~c. Is the unit a market or non-market producer according to the criteria given immediately above?

~~c. Is the unit controlled by government or another public corporation?~~

~~30.38~~30.36 The answers to the last two questions lead to allocations to sectors as follows:

a. If the unit is a market producer and not controlled by government, it is a part of neither the general government sector nor the public sector.

b. If the unit is a market producer and controlled by government or another public corporation, it is not part of general government but is part of the public sector.

c. If the unit is a non-market producer and controlled by government, it is part of the general government

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sector and the public sector.

d. If the unit is a non-market producer but not controlled by government, it is treated as an NPISH. It is a part of neither the general government sector nor the public sector.

**Figure 30.1: The public sector and its relation to institutional sectors**
**[Figure 22.1 of SNA2008 to be inserted here]**

## 6. Subsectors of the general government sector

~~30.39~~30.37 As described in chapter ~~4~~5, the general government sector may be ~~subsectored~~sub sectored in either of two ways. One method is to have up to three subsectors; one for central government, one for state government and one for local government, with social security included at any level where relevant. In some cases, there may be only one or two levels of general government~~;~~, and in some cases more levels of government must be accommodated within the three~~-~~-level structure. The other method of subsectoring is to exclude social security funds from each level of government and have a separate subsector for social security funds covering all levels of government. The choice of classification ~~used~~ will depend on whether social security funds are independent of the level of government where they operate or not.

~~30.40~~30.38 Greater detail on subsectoring general government is given in section F of chapter ~~4~~5.

## 7. Subsectors of the public sector

~~30.41~~30.39 It is possible to construct subsectors of the public sector to meet analytical demands. Two methods of subsectoring the public sector may be considered. In the first, the public sector could be divided into the general government sector as one subsector and the aggregate of all public corporations as a second subsector. ~~The~~Further detail could also be provided by dividing general government into detailed subsectors of central government, state government, local government and social security funds, and public corporations might be further divided into non-financial public corporations, financial public corporations other than the central bank, and the central bank.

~~30.42~~30.40 Secondly, the public sector could be divided by the geographical level of ~~government~~the authority in the same way as the general government sector is. In this case, the subsectors would be the central government public sector, the state government public sector, and the local government public sector. Each of these subsectors would consist of the corresponding subsector of the general government sector plus all public corporations controlled by a unit of that level of government. If a unit is controlled in part by a unit at one level of government and in part by a unit ~~in~~at another ~~part~~level of government, an allocation must be made to one or the other level of government depending on factors such as the degree of control exercised by each of the controlling units. Social security funds could form a separate subsector or could be combined with each level of government. It should be noted that if there is a separate fund to meet government employee pensions, this fund should be excluded from social security funds.

## 8. Borderline cases

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~~30.43~~30.41 Specific guidance on when certain entities created by government units are to be included in the public sector or not is needed. The entities concerned include quasi-corporations, restructuring agencies, special purpose ~~entities~~units, joint ventures~~ and~~, supranational authorities, and trusts.

~~**Figure 22.1:The public sector and its relation to institutional sectors**~~

## Quasi-corporations

~~30.44~~30.42 Quasi-corporations are unincorporated enterprises that function as if they were corporations. Quasi-corporations are treated in the SNA as if they were corporations: that is, as institutional units separate from the units to which they legally belong. Thus, quasi-corporations owned by government units are grouped with corporations in the non-financial or financial corporate sectors.

~~30.45~~30.43 The intent behind the concept of a quasi-corporation is to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent of their owners that they behave in the same way as corporations. If they function like corporations, they must keep complete sets of accounts. Indeed, the existence or possibility to construct a complete set of accounts, including balance sheets, for the enterprise is a necessary condition for it to be treated as a separate institutional unit, otherwise it would not be feasible from an accounting point of view to distinguish the quasi-corporation from its owner.

~~30.46~~30.44 In order to be treated as a quasi-corporation the government must allow the management of the enterprise considerable discretion not only with respect to the management of the production process but also the use of funds. Government quasi-corporations must be able to maintain their own working balances and business credit and be able to finance some or all of their capital formation out of their own saving, financial assets or borrowing. The ability to distinguish flows of income and capital between quasi-corporations and government implies that, in practice, their operating and financing activities must be separable from government revenue or finance statistics, despite the fact that they are not separate legal entities. The net operating surplus of a government-owned quasi-corporation is not a component of government revenue and the accounts for government record only the flows of income and capital between the quasi-corporation and government.

## The case of restructuring agencies

~~30.47~~30.45 Some public units are involved in the restructuring of corporations, either non-financial or financial. These corporations may or may not be controlled by government. Restructuring agencies may be long-standing public units or agencies created for this special purpose. Government may fund the restructuring in various ways, either directly, through capital injections (capital transfer, loan or acquisition of equity) or indirectly, through granting guarantees. Units such as restructuring agencies have little output so the usual criterion of whether the output is market or non-market in determining when the unit is part of general government is not sufficient. Instead, the following propositions should be considered:

a. A unit that serves only government is more likely to be included in general government than one that deals with other units ~~also~~as well.

b. A unit that sells financial assets at other than market values is more likely to be in the general

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government sector than not.

c. A unit that takes on low risk because it acts with strong public financial support and legally or effectively on behalf of the government is ~~likely to be~~ included within general government.

~~30.48~~30.46 Restructuring agencies may operate in a number of ways. The following are two frequently-observed examples.

~~30.49~~30.47 A restructuring agency may undertake the reorganization of the public sector and the indirect management of privatization. Two cases may be considered:

a. The restructuring unit is a genuine holding company controlling and managing a group of subsidiaries and only a minor part of its activity is dedicated to channelling funds from one subsidiary to another on behalf of the government and for public policy purposes. The unit is classified as a corporation and the transactions made on behalf of the government should be rerouted through the general government.

b. The restructuring unit, whatever its legal status, acts as a direct agent of the government and is not a market producer. Its main function is to redistribute ~~national~~ income and wealth, channelling funds from one unit to the other. The restructuring unit should be classified in the general government sector.

~~30.50~~30.48 Another example of a restructuring agency is one mainly concerned with impaired assets, mainly in a context of a banking or other financial crisis. Such a restructuring agency must be analysed according to the degree of risk it assumes, considering the degree of financing of the government. Again, two cases may be considered:

a. The restructuring agency borrows on the market at its own risk to acquire financial or non-financial assets that it actively manages. In this case the unit should be classified as ~~an institution~~a unit in the financial corporations sector.

b. The restructuring agency deliberately purchases assets at above market prices with direct or indirect financial support from the government. It is primarily engaged in the redistribution of ~~national~~ income (and wealth), does not act independently of government or place itself at risk and therefore should be classified in the general government sector.

## Special purpose ~~entities~~units

~~30.51~~30.49 Government units are always considered resident because, by definition, the economic territory of a country consists of the geographic territory administered by a government, as well as some territorial enclaves in the rest of the world, used by the government for diplomatic, military, scientific, or other purposes, normally with the formal agreement of the government of the country in which they are physically located. These enclaves are part of the general government sector.

~~30.52~~30.50 ~~Some governments~~Governments may set up special purpose ~~entities (SPEs)~~units, such as special purpose vehicles, or similar resident units, for financial convenience, the ~~SPE~~special purpose unit being involved in fiscal or quasi-fiscal activities (including securitization of assets, borrowing, etc.). Resident

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~~SPEs~~special purpose units that function in only a passive manner relative to general government and that carry out fiscal activities are not regarded as separate institutional units in the SNA and are treated as part of general government regardless of their legal status. If they act independently, acquire assets and incur liabilities on their own behalf, accepting the associated risk, they are treated as separate institutional units and are classified to sector and industry according to their principal activity.

~~30.53~~30.51 ~~Non-resident~~Non-resident special purpose units are referred to as special purpose entities (SPEs), as explained in paragraph 5.86. SPEs are always classified as separate institutional units in the economy where they are established. When such entities ~~are~~have been created, care must be taken to reflect faithfully the fiscal activities of the government. All flows and ~~stock~~ positions between the general government and the non-resident ~~SPE~~special purpose units (SPEs) should be recorded ~~when they occur~~ in the accounts for general government and the rest of the world.

~~30.54~~30.52 A government may create ~~a non-resident~~an SPE to undertake government borrowing or incur government outlays abroad. Even if there are no actual economic flows recorded between the government and the SPE related to these fiscal activities, transactions should be imputed in the accounts of both the government and the rest of the world to reflect the fiscal activities of the government undertaken ~~by the SPE, including borrowing. The special case of securitization units is discussed in section D.~~through the SPE. Borrowing by the SPE is mirrored by an imputation of borrowing by the government from the SPE on the same terms and via the same type of financial instrument, and an associated increase in the government's equity in the SPE. Interest payments made by the SPE are treated as funded by interest received from the government. The expenditures of the SPE are re-routed through the government, and the imputed government expenditures have the same nature and counterparty (e.g., capital transfers to public corporations) as the actual expenditures of the SPE. Finally, any revenues of the SPE (e.g., fees from securitizations) are also rerouted through the government. (The special case of securitization units is discussed in section D.)

## Joint ventures

~~30.55~~30.53 Many public units enter into arrangements with private entities or other public units to undertake a variety of activities jointly. The activities could result in market or non-market output. Joint operations can be structured broadly as one of three types: jointly controlled units, referred to here as joint ventures; jointly controlled operations; and jointly controlled assets.

~~30.56~~30.54 A joint venture involves the establishment of a corporation, partnership or other institutional unit in which each party legally has joint control over the activities of the unit. The units operate in the same way as other units except that a legal arrangement between the parties establishes joint control over the unit. As an institutional unit, the joint venture may enter into contracts in its own name and raise finance for its own purposes. A joint venture maintains its own accounting records.

~~30.57~~30.55 The principal question to be considered here is how to determine whether the effective economic control of the joint venture establishes a public or a private unit. If a joint venture operates as a non-market producer, it must be the case that government is in effective control and ~~it~~the joint venture is classified as part of general government.

~~30.58~~30.56 If the joint venture is a market producer, it is treated as a public or private corporation according to whether it is or is not controlled by a government unit, using the same indicators as described above. Normally, the percentage of ownership will be sufficient to determine control. If, however, the public and private units own an equal percentage of the joint venture, the other indicators of control must be considered.

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~~30.59~~30.57 Public units can also enter into joint operating arrangements that do not involve establishing separate institutional units. In this case, there are no units requiring classification, but care must be taken to ensure that the proper ownership of assets is recorded and any sharing arrangements of revenues and expenses are made in accordance with the provisions of the governing contract. For example, two units may agree to be responsible for different stages of a joint production process or one unit may own an asset or a complex of related assets but both units agree to share revenues and expenses.

### Supranational authorities

~~30.60~~30.58 ~~Some countries~~Countries may be part of an institutional agreement that involves monetary transfers from the member countries to the associated supranational authority and vice versa. The supranational authority also engages in non-market production. In the national accounts of the member countries, the supranational authorities are non-resident institutional units that are part of the rest of the world and may be classified in a specific subsector of the rest of the world.

~~30.61~~30.59 Because the supranational authority is fulfilling the functions of a level of government, it is possible to construct a set of accounts for the authority as if it were a resident unit of the member country even though it remains non-resident. Such an additional account may provide a useful supplement for the analysis of the economic activities of the member countries.

### Trusts

30.60 Government and public sector units may create trusts. The trustees they name may, or may not, be part of the public sector. Furthermore, depending on the country's legal framework, the trust might be constituted as a private entity even when the risks and rewards remain with a government or public sector unit. Determining the sector classification of the trusts created by government or public sector units may require a case-by-case application of the tests for whether a trust or similar fund is an institutional unit shown in the decision tree of Figure 5.2 in Chapter 5 and a test of whether the unit is a market or non-market producer.

## ~~3.~~C. The government finance presentation of statistics

### ~~4.~~1. Introduction

~~30.62~~30.61 The sequence of economic accounts for all institutional units and sectors is described in chapters ~~6~~7 to ~~13~~14. For the general government sector and, in some cases, the public sector, experience has shown that an alternative presentation, usually known as a government finance presentation or public finance presentation, of the stocks and flows is better suited to ~~certain analytical requirements.~~fiscal analysis. This section gives a very brief overview of the way in which government accounts are presented in~~, for example,~~ the ~~GFSM2001, which~~GFSM and of that presentation's conceptual differences from the SNA. The GFSM should be consulted for further explanation and discussion.

~~30.63~~30.62 Basically, the government finance presentation consists of transactions that increase net worth leading to an aggregate called revenue and transactions that decrease net worth, leading to the aggregate called expense. In addition, there are two main balancing items, net operating balance, and net lending or net borrowing. Additional accounts can be shown for other economic flows and balance sheets.

~~30.64~~30.63 The following section provides general information about the concepts involved in government

~~13~~

finance.

## ~~5.~~2. Revenue

~~30.65~~30.64 A revenue transaction is one that increases net worth. In the government finance presentation of the accounts, the concept of revenue is defined to include all ~~resources~~revenues acquired by government as recorded in the SNA current accounts and capital transfers receivable recorded in the capital account. Specifically, revenue can be determined as follows:

Revenue

*equals* Taxes,

*plus* Social contributions,

*plus* Other current revenue,

*plus* Capital transfers receivable.

~~30.66~~30.65 Government revenue is usually dominated by compulsory levies in the form of taxes and social contributions. For some levels of government, grants (transfers from other government units and international organizations) are a major source of revenue. Other general categories of revenue include fines, penalties, and forfeits, property income, sales of goods and services and miscellaneous transfers other than grants.

~~30.67~~30.66 ~~Estimating taxes and social contributions can be quite difficult. The problems involved and the recommended solutions are described in section D. Taxes are recorded in several of the accounts in the sequence of accounts.~~ An advantage of the government finance presentation is that all taxes can be presented as one category of revenue, with subclassifications according to the basis on which the tax was levied. In particular, both current and capital taxes can be shown under a single heading. In the SNA, taxes are recorded in several of the accounts in the sequence of economic accounts. The problems involved in estimating taxes and social contributions and their solutions are described in section D.

~~30.68~~30.67 Other current revenue covers property income, sales of goods and services, fines, penalties and forfeits, voluntary transfers other than grants and ~~miscellaneous~~premiums, fees, and ~~unidentified revenue.~~claims related to nonlife insurance and standardized guarantee schemes. The distribution of goods and services that are not sold at all, or sold for prices that are not economically significant, does not accord with the general notion of revenue as a transaction that increases net worth. As a result, only actual sales of goods and services, or goods and services produced by government but provided as ~~compensation~~remuneration in kind of employees ~~in kind~~ are included in revenue. (The goods and services provided as compensation in kind are treated as revenue because they offset expenditure.)

~~30.69~~30.68 Transfers from one government unit to another, often from the central or a state government to a lower level of government, can be quite important sources of government revenue. The government finance presentation allows all of these receipts to be collected into a separate category of revenue, usually labelled

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grants. Other transfers, including subsidies, normally amount to much less and are reported separately. Property income may or may not be an important source of revenue, but in either case, it relates directly to the same category as in the allocation of ~~primary~~earned income account except for the interest payable to financial intermediaries that is treated as implicit financial services on loans and deposits in the national accounts presentation but not in the GFS presentation.

## ~~6.~~3. Expense

~~30.70~~30.69 An expense transaction is one that decreases net worth. In the government finance presentation of the accounts, the concept of expense is defined to include all ~~uses~~expenditures incurred by government as recorded in the SNA current accounts and capital transfers payable as recorded in the capital account. Specifically, expense can be determined as follows:

Expense

*equals* Production expenses (~~compensation~~remuneration of employees, intermediate consumption and ~~consumption of fixed capital~~depreciation),

*plus* Interest payable,

*plus* Subsidies,

*plus* Grants,

*plus* Social benefits,

*plus* Other current expenses,

*plus* Capital transfers payable.

~~30.71~~30.70 ~~The~~Many of the differences between the government finance presentation ~~as in GFSM2001, for example, differs from the~~ and the SNA sequence of economic accounts ~~in~~ involve expenses. (See GFSM 2014, Appendix 7, for a ~~number of ways.~~general discussion of these differences.) The absence of a production account in the government finance presentation makes it impossible to show both the cost structure of own-account production and its final use. ~~Thus, for~~For instance, the salaries of employees engaged in own-account capital formation are directly classified as ~~acquisitions of~~gross capital formation and not as ~~compensation~~remuneration of employees. Conversely, the salaries of employees ~~that~~who produce social benefits in kind are recorded as ~~compensation~~remuneration of employees and not again as (part of) expense on social benefits in kind. The government finance presentation also uses some labels and definitions that differ from those in the sequence of accounts and ~~also~~ introduces various simplifications. For example, outlays on ~~FISIM~~implicit financial services on loans and deposits and insurance services are not distinguished from interest and net insurance premiums respectively.

~~30.72~~30.71 Governments typically produce many services and some goods and then distribute them free or at

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prices that are not economically significant. In the SNA, the cost of these goods and services is recorded as a use when they are produced and again as a social benefit or final consumption expenditure when they are distributed. ~~To reduce unnecessary duplication, these~~These costs are recorded only as production expenses in the government finance presentation to avoid unnecessary duplication.

~~30.73~~30.72 In ~~principle, retirement~~ the GFS presentation, pension benefits paid to retired government employees and their survivors are considered ~~the liquidation~~liquidations of ~~a liability~~ pension liabilities rather than a ~~payment of a~~ current expense. ~~However,~~They are therefore not included in ~~practice~~ social benefits ~~as reported in government accounts may include retirement benefits paid to government employees. If these transactions in pension liabilities are to be excluded, the~~ . The definition of social contributions ~~must~~is also ~~be excluded from~~more restrictive than in the SNA because contributions to employment-related pension schemes are recorded as incurrence of pension liabilities rather than as revenue ~~and~~ . The net incurrence of pension liabilities of the ~~item adjustment for changes~~GFS presentation is known as the change in pension entitlements ~~excluded from expense.~~in the SNA.

## ~~7. Outlays~~

## 4. Expenditure

~~30.74~~30.73 The purchase of a non-financial asset is not an expense because it has no net effect on net worth since it represents the exchange of one type of asset for another or the incurrence of a liability matched by the acquisition of an asset. It is, however, included in a total called expenditure ~~outlays~~ (or, sometimes, outlays ~~expenditure~~). ~~Outlays are~~Expenditure is defined as follows:

~~Outlays~~

Expenditure

*equals* Expense,

*plus* ~~Acquisitions less disposals of~~Net investment in non-financial assets.

~~The net acquisition of~~Net investment in non-financial assets is the sum of the gross capital formation and acquisitions less disposals of non-produced non-financial assets.

## ~~8.~~5. Net operating balance

~~30.75~~30.74 The net operating balance is defined as revenue less expense. It is the balance of all transactions that affect net worth. It is equivalent to the changes in net worth due to saving and capital transfers in the SNA sequence of economic accounts. It provides a measure of the sustainability of government policies as it represents the resources acquired or consumed by the government's current operations. Specifically:

Net operating balance

*equals* Revenue,

*less* Expense.

## ~~9.~~6. Net lending or net borrowing

~~30.76~~30.75 Net lending or net borrowing can be calculated as the net operating balance less the net ~~acquisition of~~investment in non-financial assets or total revenue less total outlays. It represents the amount the government has available to lend or must borrow to finance its non-financial operations. Specifically:

Net lending or net borrowing

*equals* Net operating balance,

*less* ~~Acquisitions less disposals of~~Net investment in non-financial assets. or, alternatively:

Net lending or net borrowing

*equals* Revenue,

*less* ~~Outlays~~Expenditure.

~~30.77~~30.76 Net lending or net borrowing is also the balancing item of the financial account, although in practice a statistical discrepancy could appear as a result of using different sources and of possible errors and omissions.

## ~~10.~~7. Consolidation

~~30.78~~30.77 For analytical purposes, there is often interest in the relationship between net lending or net borrowing and the change in government liabilities. Attention to government liabilities usually ~~centres~~centers on the amount owed to non-~~-~~government units or abroad. There may be a substantial amount of liabilities incurred by one government unit and held by a second government unit. The government finance presentation consolidates all flows and stocks within each subsector and sector, and thus all asset and liability positions between units belonging to the same grouping are eliminated. This procedure still allows the separate identification of the debt of the general government sector, the central government subsector and the public sector, which are analytically useful.

~~30.79~~30.78 Consolidation is a method of presenting statistics for a set of units as if they constituted a single unit. It involves eliminating transactions and reciprocal stock positions among the units that are being consolidated. Consolidation may be undertaken for any group of units, but it is particularly useful to consolidate the units within the general government sector and its subsectors. For example, assessing the overall impact of government operations on the total economy or the sustainability of government operations is more effective when the transactions between different levels of government are eliminated and only those transactions that are with other sectors or non- residents remain. Consolidation is of particular relevance for transactions such as property income (in particular interest), current and capital transfers and transactions in financial assets and liabilities. For example, the consolidated figures on the ratio of revenue or expense to GDP are more useful for some purposes than the unconsolidated figures.

~~30.80~~30.79 In the SNA, consolidation is discouraged. Even in the government finance presentation, where consolidation is often useful, it takes place only within a single account where the matching revenue and expense entries appear. For this reason, consolidation adjustments do not affect balancing items. For example, a grant (or transfer) from a central government to a local government unit is consolidated by eliminating the expense from central government and the revenue from the local government, thus leaving the net operating balance of the general government sector unchanged.

~~30.81~~30.80 Conceptually, the nature of consolidation is to eliminate all flows and stock positions among the consolidated units, but practicality should be kept in mind. For example, it may be argued that transactions in the production account, such as output and intermediate consumption of goods and services, should not be consolidated. The decision about the level of detail employed in consolidation should be based on the policy usefulness of the consolidated data and the relative importance of the various types of transactions or stocks.

~~30.82~~30.81 Within a government finance presentation, the major transactions considered for consolidation, in probable order of importance, are:

a. Current and capital transfers, such as central government grants to lower levels of government;

b. Transactions in financial assets and liabilities, such as loans to other governments for policy purposes, acquisitions of government securities by social security units and debt forgiveness;

c. Interest revenue and expense on intergovernmental holdings of financial assets and liabilities;

d. Acquisitions and disposals of non-financial assets, including intergovernmental transactions in land, buildings and equipment;

e. Taxes paid by one government unit or entity to another;

f. Purchases and sales of goods and services between government units.

~~30.83~~30.82 Two types of transactions that appear to take place between two government units are never consolidated because they are re-routed in the SNA to other units. The first is that all employer social contributions, whether paid to social security or to government pension funds, are treated as being paid to the employee as part of ~~compensation~~remuneration of employees, and then paid by the employee to the fund. The second is that all taxes withheld by government units from the ~~compensation~~remuneration of their employees, such as pay-as-you-earn (PAYE) taxes, and paid to other governments should be treated as being paid directly by the employees. The government employer is simply the collecting agent in this case for the second government unit. However, taxes on gross payroll and labour force that are not treated as social contributions should be consolidated when they are significant and can be identified.

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~~30.84~~30.83 Practical difficulties always arise with consolidation. For example, when a transaction to be consolidated is identified in the records of one unit, the corresponding transaction should appear in the accounts of the counterparty~~, but~~. However, it may not be recorded there, it may be recorded in a different period, it may be recorded at a different value, or it may be classified as a different type of transaction. Such errors in the strict application of a quadruple accounting system may exist in relation to any transaction but become apparent when consolidation is attempted.

~~30.85~~30.84 Even if transactions between the subsectors of government are being consolidated when presenting the accounts for general government as a whole, they should not be eliminated for the accounts of each subsector considered separately.

### ~~11.~~8. Classification of the functions of government

~~30.86~~30.85 A classification of expenditure transactions ~~on outlays~~ using the Classification of Functions of Government (COFOG) is integral to the government finance presentation. This functional classification shows the purpose for which outlays are undertaken. These purposes may differ significantly from the administrative arrangements of governments. For example, an administrative unit responsible for health services may undertake some activities with an educational purpose, such as training of medical professionals. A cross classification of the ~~transactions~~expenditure of government by both economic nature and according to functions~~,~~ (as shown, for example, in ~~GFSM2001,~~GFSM) is encouraged.

## ~~12.~~D. Accounting issues particular to the general government and public sectors

~~30.87~~30.86 The accounting rules of the SNA apply to general government and public sectors in the same way that they apply to all other sectors of the economy. However, due to the particular nature of the activities of government units, some additional guidance is useful to assist with the treatment of selected transactions. These topics are grouped under four headings:

a. Clarification of the recording of taxes;

b. Interaction with non-resident government-type authorities (including taxes paid to another authority);

c. Issues related to debt;

d. Interaction with the corporations sectors.

A separate section for each of these headings follows.

### 1. Clarification of the recording of taxes

## Government issued permits

~~30.88~~30.87 Taxes are compulsory unrequited payments, in cash or in kind, made by institutional units to the general government exercising its sovereign powers or to a supranational authority. They usually constitute the major part of government revenue, up to 90 ~~per cent~~percent in some countries. Taxes are described as unrequited because, in most cases, the government provides nothing commensurate in exchange to the individual unit making the payment. However, ~~there are~~in some cases~~ where~~, the government does provide something to the individual unit in return for ~~a~~the payment in the form of the ~~direct~~ granting of a permit, or ~~authorization. In this case, the payment is part of a mandatory process that ensures proper recognition of ownership or that activities are performed under the strict authorization by the law~~license. The borderline between when such payments are to be treated as a tax and when as the sale of a service or as the sale of an asset by the government requires ~~additional guidance~~explanation.

~~30.89 As noted in chapters 7 and 8 when discussing the difference between a tax and a fee for a service, the borderline is not always clear-cut in practice. The following recommendations apply.~~

~~a. The payment is recorded as a tax when a licence or a permit is automatically granted by the government as a mandatory condition to perform an activity or acquire an asset and when the government unit performs little or no work other than a minimum control of the legal capacity of the acquirer to receive the permit (for instance, to confirm the applicant has not been convicted of a crime). The payment of the fee in such a case is not commensurate with the control function that the government exercises.~~

~~b. The payment is recorded as the purchase of a service when, for instance, issuing the licence or permit implies a proper regulatory function of the government by exercising control on the activity, checking the competence or qualifications of the persons concerned, etc. In such a case, the payment is taken to be proportion to the costs of producing the service for all or any of the entities benefiting from the services and is borne by those benefiting. Only if the payment is out of proportion to the costs of producing the services, is it treated as a tax.~~

30.88 One of the regulatory functions of governments is to forbid the ownership or use of certain goods, or the pursuit of certain activities, unless specific permission has been granted by issuing a permit or license for which a fee must be paid. Most mandatory payments for permits and licenses authorizing pursuit of an activity or ownership of a good can be considered unrequited, making them a tax rather than a fee for services. Usually, the primary beneficiary of the regulatory schemes that require these payments is society as a whole, not the individual unit making the payment. In other cases, the permit is simply issued automatically upon receipt of the payment. Furthermore, the payments to apply for a permit or license are frequently non-refundable if the permit or license is not granted.

30.89 Nevertheless, as noted in paragraph 9.55, in cases where the transaction involves a material service element and the payment amount is not disproportionate to the cost of supplying the service, recording a sale of services to the recipient of the permit or license may be appropriate.

30.90 Chapter ~~17~~27 discusses the case of licences issued by government in strictly limited numbers.

a. If the licence is not one to use a natural resource that qualifies as an asset and which the government controls on behalf of the community, then the payment for the licence is a tax. ~~Notwithstanding, if the licence is legally and practically transferable to a third party, it may still be classified as an asset in the category of contracts, leases and licences.~~

b. When the licence is to make use of a natural resource that qualifies as an asset and which the government controls on behalf of the community, all payments for the licence ~~are treated either as~~ or the ~~acquisition~~use

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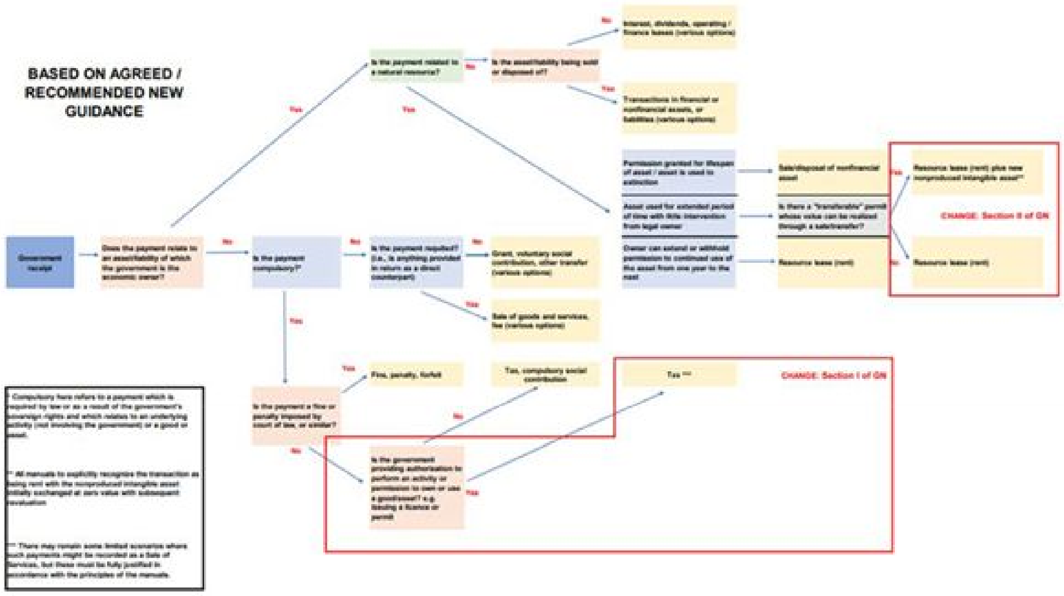
of ~~an~~the natural resource asset ~~in the category of contracts, leases or licences or as the payment~~are treated as payments of rent. The conditions that need to be considered in deciding between the acquisition of an asset and the payment of rent are described in detail in ~~part 5 of~~ chapter ~~17~~27.

Permission to use a produced asset owned by government is treated as an operating or financial lease, as appropriate.

30.91 A decision tree on the classification of payments to government is shown in Figure 30.2. The decision tree summarizes the treatment of payments for permits and licenses, payments for use or ownership of natural resources, and types of payments to government.

**Figure 30.2. Decision Tree for Classifying Payments to Government**




Source: GN WS 14

## Accrual recording of taxes

~~30.91~~30.92 Like all transactions in the system, government transactions should be recorded on an accrual basis. This is true on both the revenue side (for example, taxes and social contributions) and the expense side (for example, interest charges). Unless both parties to a transaction record their view of the transaction at the same point in time, the accounts do not balance.

~~30.92~~30.93 For the government, recording revenue and claims when the underlying event occurs is particularly difficult ~~since government~~if the government's recordings are ~~often~~ on a cash basis. This is especially the case for taxes. Further, when accrued taxes are calculated from assessments of taxes due, there may be a risk of over- or understatement of tax revenue. Since tax revenue is a crucial government finance aggregate, such an error must be avoided.

~~30.93~~30.94 As explained in chapter ~~3~~4, the period of time between the moment a tax or any distributive transaction is recorded as accruing in the non-financial accounts and the moment the payment is actually made is bridged by recording an account receivable or payable in the financial account. In cases where a prepayment covering two or more accounting periods is made to government, an account payable is recorded in the financial account of government for the amounts due in future periods. In effect this is a financial advance made to government by the payee. It is a liability of the government and an asset of the payee. This liability is extinguished as the amounts fall due in future periods.

~~30.94~~30.95 The amount of taxes recorded as accruing recognizes that some taxes that may be due in principle are in practice unlikely to be collected. The alternative means of making the necessary adjustments are described in paragraphs ~~8.58~~9.59 to 9.61.~~58 to 8.59.~~8.59.

### Tax credits

~~30.95~~30.96 Tax relief can take the form of a tax allowance, an exemption, a deduction or a tax credit. Tax allowances, exemptions and deductions are subtracted from the tax base before the tax liability is computed. A 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 credits can sometimes be payable, in the sense that any amount of the credit that exceeds the tax liability is paid to the beneficiary. In contrast, some tax credits are non-payable (sometimes called wastable) and are limited to the size of the tax liability.

~~30.96~~30.97 In *Revenue Statistics* and ~~*GFSM2001*~~GFSM~~ ~~, a tax relief that is embedded in the tax system is recorded as reducing the tax liability of the taxpayer and therefore as reducing government tax revenue. This is the case for tax allowances, exemptions and deductions, since they enter directly into the calculation of the tax liability. This is also the case for non-payable tax credits as their value to the taxpayer is limited to the size of their tax liability. ~~For payable tax credits, only the excess over the corresponding liability, which corresponds to an outlay by government, is shown as an~~However, when tax relief is granted in the form of payable tax credits, it should be recorded on a gross basis: the total amount of tax receivable should be recorded as tax revenue of government and the total amounts of payable tax credits should be recorded as expense.

~~30.97 In contrast, in the SNA, the total amounts due as payable tax credits should be considered as expense and recorded as such at their total amount. In consequence, tax revenue should be recorded without any deduction for payable tax credits.~~

30.98 Treating payable tax credits in this way has no impact on the net borrowing or net lending of the general government, but has an impact on both the tax burden and the ratios of public expense or expenditure to GDP. ~~Because of the need to explain differences in presentation between different statistical systems, however, in the SNA the amounts of payable tax credits that are offset against tax liabilities should also be shown.~~

## 2. Transactions with other national, international and supranational organizations

30.99 Transactions may occur between government units and either international or supranational organizations, regarded as non-resident units. Even when government acts as the unit channelling funds to or from the non-resident unit, the transactions are recorded as taking place directly with the non-resident unit. Six cases may be considered:

a. *Taxes*: Some taxes on products, such as import duties, excises and value added taxes, might be payable to a supranational organization because they are considered to be levied directly by the supranational organization.

b. *Subsidies*: Any subsidies paid by a supranational organization directly to a resident producer are recorded as payable by the supranational organization rather than a resident government unit.

c. *Current international cooperation:* This consists of current transfers in cash or in kind between the

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governments of different countries or between governments and international organizations and includes specifically:

Transfers between governments that are used by the recipients to finance current expenditures, including emergency aid after natural disasters; they include transfers in kind in the form of food, clothing, blankets, medicines, etc.;

Annual or other regular contributions paid by member governments to international organizations (excluding taxes payable to supranational organizations);

Payments by governments or international organizations to other governments to cover the salaries of those technical assistance staff who are resident in the country in which they are working and are employed by the host government.

d. *Miscellaneous current transfers:* These consist of payments to international or supranational authorities that are regarded as being compulsory but are not taxes.

e. *Capital transfers:* These include investment grants and other capital transfers, including the counterpart transaction of debt cancellation as a capital transfer payable and the counterpart of debt assumption as a capital transfer receivable.

f. *Financial transactions:* Some financial transactions, usually loans, may be recorded when granted by international organizations (for example, the World Bank and the International Monetary Fund) or granted to other governments.

## International membership dues

30.100 In ~~a few~~some cases, membership dues and subscription fees payable to international organizations may not be treated as transfers but as payments for a service, recorded on an accrual basis. Exceptionally, ~~and~~ when there is a possibility, even if unlikely, of repayment of the full amount, the payment may represent the acquisition of a financial asset.

## International assistance

30.101 International assistance sometimes takes the form of making goods, such as food and clothing or emergency equipment available following a natural disaster. In addition to the goods or services themselves, all costs identifiable with the delivery of the goods or services such as transportation to the foreign country, delivery within that country, the ~~compensation~~remuneration of government employees of the donating country to prepare the shipments or oversee their delivery, insurance and so forth should be included in the value of the transfer to the extent that these costs are met by the donor.

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30.102 The prices of the goods or services in the receiving country might be quite different from the prices in the donor country. As a general principle, the value of the donation to the recipient should be regarded as equal to the cost of providing the assistance to the recipient. It follows that the prices of the donor country should be used as a basis for the calculation of the value of the donation.

30.103 When the goods and services and associated delivery charges are donated by government, NPISHs or households, the donated items are ~~negative~~excluded from final consumption ~~matching~~(and a current transfer ~~in kind~~is recorded. If the items are ~~provided~~donated by corporations, they are recorded as a current transfer ~~in cash~~ followed by a purchase of the goods by the recipient. In both cases the items involved are included in exports of the donor country and imports of the recipient country.

## 3. Debt and related operations

### Debt

30.104 Debt is a commonly used concept, defined as a specific subset of liabilities identified according to the types of financial instruments included or excluded. Generally, debt is defined as all liabilities that require payment or payments of interest or principal by the debtor to the creditor at a date or dates in the future. Consequently, all debt instruments are liabilities, but some liabilities such as shares, equity and financial derivatives are not debt. However, due to specific legal, institutional or practical arrangements some other definitions of debt may also exist. It is therefore useful in all cases to clearly identify the definition of debt according to the instruments included.

30.105 Debt operations are often used by government as a means of providing economic aid to other units. The general principle for any cancellation or assumption of debt of one unit by another unit made by mutual agreement is to consider that there is a voluntary transfer of wealth between the two units. This means that the counterpart transaction of the liability assumed or of the claim cancelled is a capital transfer.

### Debt reorganization

~~30.106 There are four main types of debt reorganization:~~

30.106 Debt reorganization (also referred to as debt restructuring) is an arrangement involving both the creditor and the debtor (and sometimes third parties) that alters the terms established for servicing an existing debt. Governments can be involved in debt reorganization as debtors, creditors, or guarantors. There are four main types of debt reorganization:

a. Debt forgiveness. A reduction in the amount of, or the extinguishing of, a debt obligation by the creditor via a contractual arrangement with the debtor.

b. Debt rescheduling or re-financing. A change in the terms and conditions of the amount owed, which may result or not in a reduction in burden in present value terms.

c. Debt conversion~~. The~~ and debt prepayment. In a debt conversion, the creditor exchanges the debt claim

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for something of economic value~~,~~ other than another debt claim, on the same debtor. This includes debt-for-~~-~~equity swaps and debt~~-prepayment-~~for-development swaps among other arrangements.

d. Debt assumption and debt payments on behalf of others when a third party is also involved.

*Debt forgiveness (or debt cancellation)*

30.107 Debt forgiveness 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 forgiveness is distinguished from debt write-off by the agreement between the parties and the intention to convey a benefit, rather than unilateral recognition by the creditor that the amount is unlikely to be collected. Debt forgiven may include all or part of the principal outstanding, inclusive of any accrued interest arrears (interest that fell due in the past) and any other interest costs that have accrued. Debt forgiveness does not arise from the cancellation of future interest payments that have not yet fallen due and have not yet accrued.

30.108 Debt forgiveness is recorded as a capital transfer received by the debtor from the creditor at the time specified in the agreement that the debt forgiveness takes effect with a repayment of the debtor's liability in the financial account and a matching receipt by the creditor. In the balance sheet, the debtor's liability and creditor's asset are reduced by the amount of debt that is forgiven. Valuation of the amount of the debt forgiven is at market prices for flows and stocks, except for loans where the nominal value is used.

*Debt rescheduling and refinancing*

30.109 Debt rescheduling (or refinancing) is an agreement to alter the terms and conditions for servicing an existing debt, usually on more favourable terms for the debtor. Debt rescheduling involves rearrangements on the same type of instrument, with the same principal value and the same creditor as with the old debt. Refinancing entails a different debt instrument, generally at a different value and may be with a creditor different than that from the old debt.

30.110 Under both arrangements, the debt instrument that is being rescheduled or refinanced is considered to be extinguished and replaced by a new debt instrument with the new terms and conditions. If there is a difference in value between the extinguished debt instrument and the new debt instrument~~, part~~ of the same type, the~~-~~ difference is a type of debt forgiveness by government and a capital transfer is ~~necessary~~recorded to account for the difference.

30.111 *Debt rescheduling* is a bilateral arrangement between the debtor and the creditor that constitutes a formal deferment 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 repayment of interest and principal, fixing the exchange rate at favourable levels for foreign currency debt, and rescheduling the payment of arrears, if any.

30.112 The treatment for debt rescheduling is that the existing contract is extinguished and a new contract created. The applicable existing debt is recorded as being repaid and a new debt instrument (or instruments) of the same type and with the same creditor is created with the new terms and conditions.

30.113 The transaction is recorded at the time agreed by both parties ~~record the change in terms in their books,~~ and ~~is valued~~ at the value of the new debt.

30.114 *Debt refinancing* involves the replacement of an existing debt instrument or instruments, including any arrears, with a new debt instrument or instruments. It can involve the exchange of the same type of debt instrument (such as a loan for a loan), or different types of debt instruments (such as a loan for a bond). For instance, ~~the~~a public sector unit may convert various export credit debts into a single loan~~. Also, debt refinancing can be said to have taken place when a debtor exchanges~~ or exchange existing bonds for new bonds through exchange offers given by its creditor (rather than a change in terms and conditions).

30.115 The treatment of debt refinancing transactions is similar to debt rescheduling to the extent that the debt being refinanced is extinguished and replaced with a new financial instrument or instruments. However, unlike in rescheduling, the old debt is extinguished at the value of the new debt instrument except for non-marketable debt ~~owed.~~(e.g., a loan) owed to official creditors. The balance sheet reflects the transactions extinguishing the old debt instrument and the creation of the new debt instrument along with any valuation change ~~-~~(the difference between the value of the old and new debt instruments) recorded in the revaluation account.

### *Debt conversion*

30.116 ~~*A*~~*Debt conversion* (swap) is an exchange of debt~~-~~, typically at a discount, for~~-~~ a nondebt claim (such as equity~~-*swap*~~), or for counterpart funds that can be used to finance a particular project or policy. An example is a debt-for-equity swap, which occurs when a creditor agrees to replace a debt owed to it ~~by an~~with equity ~~security~~. For example, the government may agree with a public enterprise to accept an increase in its equity stake in the public enterprises instead of making a loan. If there is a difference in value between the extinguished debt instrument and the new equity instrument, it is a type of debt forgiveness by government and a capital transfer is necessary to account for the difference.

### *Debt assumption*

30.117 *Debt assumption* occurs when one unit assumes responsibility for another unit's outstanding liability to a creditor. When a government assumes a debt, in most instances the counterpart transaction of the new government liability is a capital transfer in favour of the defaulting debtor. However, if the government acquires an effective legal claim against the defaulting unit and there is a realistic probability that the claim will be paid, the government may record, as the counterpart transaction of its new liability, the acquisition of a financial asset equal to the present value of the amount expected to be received. If this amount is equal to the liability assumed, no further entries are required. If the amount expected to be recovered is less than the liability assumed, the government records a capital transfer for the difference between the liability incurred and any asset acquired. Similarly, if a government has its debt assumed by another government, then it ~~records~~might record a capital transfer receivable, a new debt to the assuming government unit, or a combination of the two.

30.118 Debt assumption frequently occurs when a government guarantees a debt of another unit and the guarantee is called (or activated). The treatment of the guarantee itself is described below.

30.119 *Debt payments on behalf of others* are similar to debt assumptions, but the unit making the payments does not assume the entire debt. The transactions recorded are similar to those described under debt forgiveness.

## Other issues related to debt re-organization

30.120 *Debt write-offs* refer to unilateral reductions by a creditor in the amount owed to it, usually when a creditor concludes that a debt obligation has no value or a reduced value because part or all of the debt is not going to be paid. Frequently the debtor is bankrupt or has disappeared. An other change in the volume of assets is used to record the write-off. Unlike the cases of debt assumption and debt forgiveness, no capital transfer is recorded and therefore there is no impact on net lending or borrowing of government.

30.121 *Debt arrears* occur when a debtor misses an interest or principal payment. The debt instrument will not normally change, but knowing the amount of debts in arrears can provide important information. When feasible and important, therefore, each category of debt should be divided into those instruments that are in arrears and those not in arrears.

30.122 *Debt defeasance* allows a debtor (whose debts are in the form generally of debt securities and loans) to remove certain liabilities from the balance sheet by pairing irrevocably assets of equal value to the liabilities. Defeasance may be carried out either by placing the paired assets and liabilities in a trust account within the institutional unit concerned, or by transferring the paired assets and liabilities to another institutional unit. In the former case, there are no transactions with respect to defeasance and the assets and liabilities should not be excluded from the balance sheet of the unit. In the latter case, the assets and liabilities in question are moved to the balance sheet of second unit as long as this unit is recognized as an institutional unit in the SNA. Often the unit to which the paired assets and liabilities may be moved is ~~an SPE.~~a special purpose unit. The conditions under which ~~an SPE~~a special purpose unit is considered to be an institutional unit are described in paragraphs ~~4.55~~ 5.86 to 5.90 and 5.100 to 5.101. ~~4.55 to 4.67.~~ 4.67. If the ~~SPE~~special purpose unit is purely passive it is not considered to be an institutional unit and the assets and liabilities concerned do not move off-balance sheet.

30.123 *Debt issued on concessional terms*~~. There is no precise definition of concessional loans, but it is generally accepted that they occur~~ occurs when units lend to other units ~~and the~~at a contractual interest rate that is intentionally set below the market interest rate that would ~~otherwise~~normally apply. The degree of concessionality can be enhanced with grace periods, and frequencies of payments and a maturity period favourable to the debtor. Since the terms of a concessional loan are more favourable to the debtor than market conditions would otherwise permit, concessional loans effectively include a transfer from the creditor to the debtor.

30.124 Loans with concessional interest rates ~~to a foreign government~~ could be seen as providing a stream of current ~~transfer~~transfers equal to the difference between imputed interest payments based on the applicable market rate of interest and the actual interest ~~and the market equivalent interest. If~~payments required under the terms of the loan. However, for practical reasons, such ~~a transfer were recognized, it would usually be~~ current transfers are only recorded ~~as current~~ in cases of an employer lending to employees at below-market rates of interest. In the cases of loans provided by governments and international ~~cooperation, and the interest recorded would be adjusted by the same~~ organizations that contain a gift or transfer element, the difference between the amount~~. However, the means of incorporating the impact within the SNA and international accounts have not been fully developed, although various alternatives have been advanced. Accordingly, until the appropriate treatment of~~ borrowed on concessional ~~debt is agreed, information on concessional debt should be provided~~ terms (the face value of the loan) and the market value of loan at the time of origination may be presented as a capital transfer to the borrower in supplementary tables.

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30.125 Further details on the recording of debt operations can be found in ~~GFSM2001~~GFSM~~–~~, the Eurostat Manual on Government ~~Debt and~~ Deficit and Debt, the Public Sector Debt Statistics Guide for Compilers and Users, the External Debt Statistics Guide for Compilers and Users, and Appendix 2 of ~~BPM6~~BPM7.

### Government guarantees

30.126 Three types of guarantees are recognized in the SNA, standardized guarantees, guarantees that meet the definition of a financial derivative and one-off guarantees. The recording of standardized guarantees (for government and other units offering such guarantees) is described in ~~part 3 of~~ chapter ~~17~~25.

30.127 Guarantees that meet the definition of financial derivatives are those that are actively traded on financial markets, such as credit default swaps. The derivative is based on the risk of default of a reference instrument and so is not actually linked to an individual loan or bond. They have no effect on the net lending or borrowing of government.

30.128 One-off guarantees exist where the conditions of the loan or the security are so particular that it is not possible for the degree of risk associated with the loan to be calculated with any degree of accuracy. In most cases, the granting of a one-off guarantee is considered a contingency and is not recorded as a liability for the guarantor. Payments under a one-off guarantee are recorded when the call on the guarantee is made or when the fact that such a call will be made is very well established. As an exception, one-off guarantees granted by governments to corporations in certain financially distressed situations and with a very high likelihood to be called are treated as if these guarantees were called at inception. A particular case in point is a bailout by government, which is discussed below.

30.129 The activation of a one-off guarantee is treated in the same way as a debt assumption. The original debt is liquidated and a new debt is created between the guarantor and the creditor. In most instances, the guarantor is deemed to make a capital transfer to the original debtor, unless the guarantor acquires an effective claim on the creditor, in which case it leads to the recognition of a financial asset (~~a liability of the debtor).~~the liability of the creditor towards the guarantor). In exceptional cases where there is a very high likelihood that the guarantee will be called (such as one-off guarantees granted by governments to corporations in financial distress), the one-off guarantee may be treated as called at inception.

30.130 The activation of a guarantee may or may not require repayment of debt at once. The accrual principle for time of recording requires that the total amount of debt assumed is recorded at the time the guarantee is activated and the debt assumed. Repayments of principal by the guarantor (the new debtor) and interest accruals on the assumed debt are recorded as these flows occur.

### Securitization

30.131 Securitization occurs when a unit, named the originator, conveys the ownership rights over financial or non-~~-~~financial 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 is often ~~an SPE.~~a special purpose unit. 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. Government units have made widespread use of this source of ~~finance~~financing.

30.132 The first case involving government to be considered is when the securitization comprises the sale (or the transfer) of an asset. (In the SNA, a stream of future tax receipts is not recognized as a government asset that could be used for securitization.) The key question for how to record the transaction properly is to determine whether the transfer of the asset is a sale of an existing asset to the securitization unit or a way to borrow using possible future flows of revenues as collateral. In order to be treated as a sale, the asset must already appear in the balance sheet of the government and there must be a full change of ownership to the securitization unit as evidenced by the transfer of the risks and rewards linked to the asset. The following factors must also be considered:

a. To be recorded as a sale, the purchase price must be equal to the current market price.

b. If the government, as the originator, guarantees repayment of any debt related to the asset incurred by the securitization unit, it is unlikely that all of the risks associated with the asset have been transferred.

30.133 The second case involving government is the securitization of future revenue flows. In the SNA, a stream of future incomes is not recognized as an asset. In most of these cases, it is not the rights to the income that are used as collateral, but the obligation of the government to use a sufficient amount of the future income to repay the borrowing in full. If more income is earned than is needed to repay the borrowing, the excess is retained by the government. Because receipts of future income are uncertain, “rights” to considerably more income than is necessary to repay the borrowing of the securitization unit are usually used as collateral. The amount received by the government as the originator is treated as borrowing, usually in the form of a loan.

### Government assumption of pension liabilities

30.134 On occasion, large one-off transactions may occur between a government and another unit, usually a public corporation, linked to pension reforms or to privatization of public corporations. The goal may be to make a public corporation competitive and financially more attractive by removing existing pension liabilities from the balance sheet of the public corporation. This goal is commonly achieved by the government assuming the liability in question in exchange for a cash payment of the same value. If the cash payment is not equal in value to the liability incurred, a capital transfer is recorded for the difference.

## 4. Relations of general government with corporations

### Earnings from equity investment

30.135 A government unit has a close relationship with any public corporation or quasi-corporation that it controls. Despite this close relationship, flows related to the equity investment between a government unit and its controlled corporation are treated in the same way as flows related to equity investment between any corporation and its owners. An equity investment is the action by economic agents of placing funds at the disposal of corporations. The amounts invested, described as equity capital, are part of the own funds of the corporation and the corporation has a large degree of freedom in the way in which they are used. In return, the owners receive shares or some other form of equity securities. These financial assets represent property rights on corporations and quasi- corporations and entitle the holders to:

a. A share of any dividends (or withdrawals of income from quasi-corporations) paid at the discretion of the corporation but not to a fixed and predetermined income, and

b. A share in the net assets of the corporation in the event of its liquidation.

### Dividends versus withdrawal of equity

30.136 It is important to distinguish between the return of the equity investment by the corporation to its owner and the payment of income in the form of dividends. Only regular distributions from the entrepreneurial income are recorded as property income either as dividends or withdrawals of income from quasi-corporations. Large and irregular payments, based on accumulated reserves or sale of assets are recorded as a withdrawal of equity.

30.137 However, it is encouraged to produce, as supplementary items, estimates applying an alternative treatment of earnings from equity investment in corporations in which the retained earnings of corporations are recorded as distributed to the shareholders and reinvested by them. This alternative treatment is also relevant for public corporations.

### Disposal of assets

~~30.137~~30.138 The sale of non-financial assets owned by public corporations, such as buildings and land, does not by itself constitute privatization and is recorded in the capital account of the corporations sector as disposals of fixed assets or other non-financial assets. However, if the public corporation sells assets and then surrenders the proceeds of such a sale to general government, this is recorded as a withdrawal of government's equity in the corporation. A withdrawal of equity is also recorded if the public corporation disposes of a financial asset and surrenders the proceeds to government.

### Acquisition of equity, capital transfers and subsidies

~~30.138~~30.139 Subsidies are current transfers, usually made on a regular basis, from government to ~~corporations~~enterprises designed to influence their levels of production, the prices at which their outputs are sold or the remuneration of the ~~corporations~~enterprises. Payments to public corporations on a large and irregular basis (often called "capital injections" in the media) are not subsidies. They are treated as either a capital transfer or the acquisition of equity:

a. Payments to cover cumulated losses over two or more years arising as a result of public policy purposes should be recorded as a capital transfer.

b. A payment made in a commercial or competitive context may be treated as an acquisition of equity. This should be limited to cases where the government is acting similarly to a private shareholder in that it has a valid expectation of a cash return in the form of future property income. In this case, the corporation will probably issue new shares to the government and enjoy a large degree of freedom over how the funds provided are used.

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Treating the payments as the acquisition of equity depends on evidence of the corporation's profitability and its ability to pay dividends in future.

### Privatization

~~30.139~~30.140 Privatization is usually understood to consist of the sale of shares or other equity held by government in a public corporation to other units. Often these other units are outside the public sector but they need not be; for example, a public corporation may buy shares in a unit newly separated from government. Such sales are purely financial transactions, recorded in the financial account of the SNA. The assets owned by the public corporation continue to belong to the corporation; it is the ownership of the corporation itself, as represented by the ownership of the equity in it, that changes hands. In effect, the government's claim on the public corporation reduces because government exchanges shares or equity in the public corporation for cash or other financial assets. The cost of any financial services that government must purchase to achieve the sale are treated as an expense that should be recorded as intermediate consumption by general government in the SNA.

~~30.140~~30.141 Privatization may be organized in more complicated institutional arrangements. For instance, some or all of the non-financial assets of a public corporation may be sold by a public holding company, or other public agency, controlled by a government and all or part of the proceeds paid to the government. In such cases, the public corporation will record the disposal of non-financial assets in the capital account, while the payment to the government of the proceeds from the sale is recorded as a withdrawal of equity.

~~30.141~~30.142 The case where the privatization is arranged via a restructuring agency is discussed in paragraphs ~~22.47~~30.45 to ~~22.50.~~30.48

### Nationalization

~~30.142~~30.143 Nationalization is a process whereby government takes control of specific assets or an entire corporation, usually by acquiring the majority or the whole stake in the corporation. The recording of flows differs according to the way the government takes control.

a. *Appropriation or confiscation*: the change in ownership of assets is not the result of a transaction made by mutual agreement. There is no payment to the owners (or the compensation is not commensurate with the fair value of the assets). The difference between the market value of the assets acquired and any compensation provided is recorded as an uncompensated seizure in the other changes in the volume of assets account.

b. *Purchase of shares*: the government buys all or some of the shares in the corporation at a price that is the market price or very close to it. There is usually a legal context for the transaction which ensures that it is made by mutual agreement, even though the former owner may have little choice whether or not to accept the offer, or to negotiate the price. The purchase of shares is a financial transaction recorded in the financial account.

### Bailouts

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~~30.143~~30.144 A bailout is a term meaning a rescue from financial distress. It is often used when a government unit provides either short-term financial assistance to a corporation to help it survive a period of financial difficulty or a more permanent injection of financial resources to help recapitalize the corporation. A bailout may in effect constitute another means of nationalization if the government acquires control of the corporation it is bailing out. Bailouts of financial institutions are particularly noteworthy. Bailouts are likely to involve highly publicized one-time transactions involving large amounts and are therefore easy to identify.

~~30.144~~30.145 Intervention of general government may take various forms. For instance:

a. A government might provide equity financing or a loan on exceptionally favourable terms.

b. A government might purchase assets from the enterprise to be assisted for prices greater than their true market value~~.~~ or accept less than a fair price to assume its liabilities.

c. A government might create a special purpose ~~entity~~unit or other type of public body to finance or to manage the sales of assets or liabilities of the enterprise to be assisted.

~~30.145~~30.146 In most of these cases, the assistance provided by government to the unit suffering financial distress is recorded as a capital transfer. In determining the magnitude of the capital transfers, the following points need to be taken into account.

a. If the government buys assets from the enterprise to be assisted, the amount paid will normally be more than the true market price of the assets. The purchase of assets other than loans should be recorded at the actual market price and a capital transfer should be recorded for the difference between the market price and the total amount paid.

b. Governments often buy loans from financial institutions during a bailout. Unless a loan becomes tradeable and is traded with established market value, it is always recorded in the SNA at nominal value. Only if a market for the loans develops and the loans are regularly traded ~~there~~ are they reclassified as securities and recorded at market value.

c. When a government buys a loan at nominal value when the fair value is much less, no capital transfer for the difference in value is recorded. However, if there is reliable information that some loans are irrecoverable, their value is reduced to zero as an other volume change in the balance sheet of the corporation and a capital transfer should be recorded from government to the corporation for their former nominal value. If there is some possibility that some part of the loan may be recoverable in the future, the loans are reclassified (at their zero value) from the balance sheet of the corporation to that of the government at the time the capital transfer is recorded. If the value of the loans subsequently increases, this is shown as a revaluation item in the government's balance sheet.

d. As part of a bailout, government may extend the range of guarantees it is prepared to offer. These guarantees should be recorded as described above in paragraphs 30.127 to 30.131 according to whether this is a one-off guarantee or part of a standardized guarantee scheme.

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~~22.126 to 22.130 according to whether this is a one-off guarantee or part of a standardized guarantee scheme.~~

~~30.146~~30.147 If a public institutional unit is created by government ~~simply~~solely to assume management of the bailout, the unit should be classified in the general government sector. If the new unit has other functions and the bailout is a temporary task, its classification as a government unit or a public corporation is made following the general rules as described in the section above on restructuring agencies. Units that purchase financial assets from distressed financial corporations with the objective of selling them in an orderly manner cannot be considered financial intermediaries. If the unit has been created by government for this specific task, it is classified in the general government sector.

30.148 It is usually assumed that the controlling government will provide a bailout to the public corporations it controls if necessary. This implicit guarantee of the liabilities of a controlled public corporation means that the public corporation's negative net worth will become part of the net worth of the controlling government if it fails (or, possibly, part of the net worth of another public corporation controlled by the same government that is used to conduct the bailout). A controlling government's equity in a corporation that it controls can therefore be negative. Negative equity positions in controlled public corporations should be allowed to pass through to the balance sheet of the controlling government rather than recorded as zero. In addition, the reporting of negative equity positions as supplementary "of which" items is encouraged. The same treatment of negative net equity positions also applies to the central bank.

### Restructuring, mergers and reclassifications

~~30.147~~30.149 When a public corporation is restructured, financial assets and liabilities may appear or disappear reflecting new financial relationships. These changes are recorded as changes in sector classification and structure in the other changes in the volume of assets and liabilities account. An example of such a restructuring is when a corporation is split into two or more institutional units and new financial assets and liabilities are created.

~~30.148~~30.150 The purchase of shares and other equity of a corporation as part of a merger, on the other hand, is to be recorded as a financial transaction between the purchasing corporation and the previous owner.

~~30.149~~30.151 Any change in the classification of assets and liabilities not related to restructuring or changes in sector classification is recorded as a change in the classification of assets or liabilities in the other changes in the volume of assets and liabilities account.

### Transactions with the central bank

~~30.150~~30.152 It is appropriate to begin by recalling the definition of the central bank and associated explanations from chapter ~~4~~5. The central bank is the national financial institution that exercises control over key aspects of the financial system. In general, the following financial institutions are classified in this subsector:

a. The national central bank, including where it is part of a system of central banks; and

b. Currency boards or independent currency authorities that issue national currency that is fully backed by foreign exchange reserves.

c. Central monetary agencies of essentially public origin (for example, agencies managing foreign exchange or issuing bank notes and coin) that keep a complete set of accounts but are not classified as part of central government. Supervisory authorities that are separate institutional units are not included with the central bank but are included with financial auxiliaries.

As long as the central bank is a separate institutional unit, it is always allocated to the financial corporations sector even ~~if~~though it is ~~primarily~~ considered as a non-market producer.

~~30.151~~30.153 While the bank may be legally independent of government, it is charged with carrying out government policy under the legislation establishing it. The central bank is always treated as being controlled by government and is included in the financial corporations sector as a public corporation. It is the single exception to the rule that a unit whose output is ~~primarily~~ non-market is not to be classified as a corporation.

~~30.152~~30.154 Two types of payments by the central bank to the government require clarification:

a. Payments made on a regular basis, usually in the form of dividends, based on the current activity of the central bank (such as managing foreign exchange reserves). These payments are recorded as dividends so long as they are not abnormally higher than the sum of net interest and net commissions receivable by the bank. Amounts in excess of this sum are to be recorded as a withdrawal of equity.

b. Exceptional payments following sales or revaluation of reserve assets. These payments should be recorded as a withdrawal of equity. The rationale is that these assets are being managed as the economic property of the nation and not of the bank itself. Their valuation affects the equity liability of the central bank and the equity assets of the government. Holding gains on the reserve assets (assets of the central bank) have a counterpart in the equity liability of the central bank and the equity assets of the central government.

~~30.153~~30.155 The measurement of output of the central bank is described in paragraphs 7.165-7.169.~~6.151to 6.156. As part of government policy, the central bank may pay interest on deposits at artificially high or low rates. The treatment of interest payments in this case is described in paragraphs 7.122~~ 8.151 to ~~7.126~~8.155. .151 to 7.156.

## Public-private partnerships

~~30.154~~30.156 Public-private partnerships (PPPs) are long-term contracts between ~~two units, whereby one~~ a private unit (usually a private enterprise but occasionally a private NPI) and a public unit for the provision of a public asset or set of assets and related services in which the private party acquires~~ or~~, builds, or refurbishes an asset ~~or set of assets~~, operates ~~it for period and then hands the asset over to a second unit. Such~~ the asset for the contract period and bears significant risk and management responsibility. There are many types of PPP arrangements ~~are usually between a private enterprise and government but other combinations are possible, with a public corporation as either party or a private NPI as the second party. These schemes are~~, described variously as ~~Public Private Partnerships (PPPs),~~ Private Finance Initiatives (PFIs), Build~~, Own,~~ -Operate~~,~~ -Transfer schemes (BOTs), Build-Own-Operate-Transfer schemes (BOOTs~~)~~), Design-Build-Operate schemes (DBOs), Design-Build-Finance-

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Operate schemes (DBFOs), concessions, and so on. ~~The basic principles of all are the same and are treated the same way in the SNA.~~

30.157 Governments engage in PPPs for ~~a variety of~~several reasons, including the hope that private management may lead to more efficient production~~ and that~~, the desire to defer or spread payment obligations, and to benefit from access to a broader range of ~~financial~~financing sources~~ can be obtained. In~~. During the contract period, the PPP contractor operates the asset and assumes the associated risk and has the economic ownership. ~~Once~~The legal ownership of the assets during the contract period depends on the terms of the contract and the applicable laws. Usually, once the contract period is over, the asset is transferred to the public sector, leaving the government ~~has~~with both economic and legal ownership. ~~It is not easy to establish which unit is the legal~~ (An asset's economic owner ~~of an asset during the contract period or how the implicit transactions when~~can differ from its ~~economic ownership changes should be recorded. There may be an advance agreement on the timing of the transfer of~~ legal owner, as economic ownership ~~part way through the service lives of the assets, under agreed terms that do not reflect market prices~~in the SNA is based on who bears the majority of the risks and rewards, and economic ownership in the SNA may also differ from ownership of PPP assets in business accounts based on control over the assets).

~~30.155~~ PPP contracts vary in their terms concerning the operation and maintenance of the assets~~. In consequence, some actual transactions may have to be partitioned~~ during the contract period and the disposition of the assets at its end, and in the standards for the price, quality and volume of the services to ~~reveal their true economic character.~~

30.158 ~~PPPs vary greatly.~~be supplied. A ~~general description that includes the most~~ common type of arrangement is ~~as follows. A~~ for a private enterprise ~~agrees~~ to acquire a complex of fixed assets and then ~~to~~ use those assets ~~together with other production inputs~~ to produce services~~. Those services may be~~ delivered to the government, either for use as an input to its own production (for example, motor vehicle maintenance services) or for distribution to the public without payment (for example, education services~~), in which case the~~). If the services are to be distributed to the publiche government will make performance-based periodic payments ~~during the contract period. The private enterprise expects to recover its costs~~linked to the asset's availability and ~~earn an adequate rate~~the delivery of ~~return on its investment from those payments.~~the related services. Alternatively, in a concession arrangement, the private enterprise ~~may~~builds or acquires assets, then uses those assets to sell ~~the~~ services to the public (for example, a toll road~~), with the price regulated~~). In either case, the payments to be received by the ~~government but set at a level that the~~ private enterprise ~~expects will allow it~~are expected to ~~recover~~cover its costs and allow it to earn an adequate rate of return on its investment. ~~At the end of the contract period, the government may gain legal and economic ownership of the assets, possibly without payment.~~

~~30.156~~30.159 There can be many variations in PPP contracts regarding the legal ownership of the asset during the contract period, the disposition of the assets at the end of the contract, the required operation and maintenance of the assets during the contract, the price, quality and volume of services produced and so forth. At the end of the contract period, the government may gain legal and economic ownership of the assets without payment.

~~30.157~~30.160 ~~The~~ Even though the private enterprise is responsible for constructing or acquiring the fixed assets, ~~although the acquisition is often aided~~the financing may be provided by the ~~backing of the~~ government~~. The~~ or facilitated by a government guarantee, and the contract may require~~, however,~~ that the assets meet the design, quality and capacity specified by the government~~,~~. The contract may also require that the assets be used in the manner specified by the government to produce ~~the~~ services~~ required by the contract~~ and be maintained in accordance with standards specified by the government. Furthermore, the assets typically have longer service lives ~~much longer~~ than the contract period, so that the government will control the assets, bear the risks and receive the rewards for a ~~major~~significant portion of the assets' service lives. Thus, it frequently is not obvious whether the private enterprise or the government ~~controls the assets over their service lives or will bear~~bears the majority of the risks and ~~reap~~reaps the majority of the rewards.

~~30.158~~30.161 As with operating and financial leases, the economic owner of the assets ~~related to~~of a PPP is

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determined by assessing which unit bears the majority of the risks and which unit is expected to receive a majority of the rewards of the assets. The factors ~~that need~~ to ~~be considered~~consider in making this assessment can be broadly divided into two groups, those associated with acquiring the asset and those associated with using it in production. Some of the risks associated with acquiring the asset are:

a. The degree to which the government controls the design, quality, size and maintenance of the assets;

b. Construction risk, which includes the possibility of additional costs resulting from late delivery, not meeting specifications or building codes and environmental and other risks requiring payments to third parties.

Some of the risks associated with using the asset in production are:

a. Supply risk, which covers the degree to which the government is able to control the services produced, the units to which the services are provided and the prices of the services produced;

b. Demand risk, which includes the possibility that the demand for the services, either from government ~~or~~, or from the public at large in the case of a concession arrangement, is higher or lower than expected

~~from the public at large in the case of a paying service is higher or lower than expected;~~

c. Residual value and obsolescence risk, which includes the risk that the 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;

d. Availability risk, which includes the 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.

~~30.159~~30.162 The relative importance of each factor is likely to vary with each PPP. It is not possible to state in advance a set of prescriptive rules that will be applicable to every situation ~~in a satisfactory way.~~. The provisions of each PPP must be evaluated in order to decide which unit is the ~~legal~~economic owner.

~~30.160~~30.163 Likewise, the complexity and variety of PPP contracts preclude the enumeration of detailed rules governing the transactions to be recorded concerning the control and use of the assets. Instead, ~~all of~~ the facts and circumstances of each contract should be considered, and ~~then~~ an accounting treatment should be selected that best brings out the underlying economic relationships. There are, however, a few common difficulties.

If the private enterprise is assessed as being the legal owner during the contract period and if, as usual, the government obtains legal and economic ownership at the end of the contract without an explicit payment, a transaction must be recorded for the government's acquisition of the assets.

30.164 One ~~general~~ approach is for the government gradually to 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. At the end of the contract period, the government records the acquisition of the asset and the disappearance of the financial claim, and the private unit records the disposal of the asset and the disappearance of the liability for the claim. Implementing this approach requires

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existing monetary transactions to be ~~rearranged~~partitioned or new transactions to be ~~constructed~~imputed using assumptions about expected asset values and interest rates.

~~30.161~~30.165 ~~An~~A simpler alternative ~~approach~~ is to record the change of legal and economic ownership as a capital transfer~~. The capital transfer~~ occurring in the same period as the change in ownership. This approach does not reflect the underlying economic reality as well, but data limitations, uncertainty about the expected residual value of the assets, and contract provisions allowing various options to be exercised by either party could make recording a capital transfer acceptable on pragmatic grounds.

~~30.162~~30.166 If the government is assessed as being the ~~legal~~economic owner of the PPP asset during the contract period but does not make any explicit payment at the beginning of the contract, ~~a transaction~~ transactions must be imputed to cover the acquisition~~. The most common suggestion is that the~~ of the asset. An acquisition ~~be made~~ via ~~an imputed~~a financial lease may be imputed because of the similarity with actual financial leases. The details of the implementation of ~~that choice, however, depends~~this approach depend on the specific contract provisions, ~~how they are interpreted~~ and possibly other factors~~. For example~~, but in general, a loan ~~could be~~ structured as financial lease is imputed~~ and~~. If there are actual government payments to the private unit, ~~if~~ they ~~exist,~~ could be partitioned so that ~~a portion~~portions of each payment ~~represents repayment of the~~ go towards imputed payments of principle and interest on the loan. If there are no actual government payments~~, then non-monetary transactions could be constructed~~ (as in a concession arrangement), part of the payments from the public for use of the asset may be re-routed through the government, with the imputed revenue being used by the government for imputed payments of principle and interest on the loan~~ payments.~~.

## ~~13.~~E. The public sector presentation of statistics

~~30.163~~30.167 As described in section B, the public sector includes all resident institutional units controlled directly or indirectly by resident government units. In other words, the public sector consists of all units of the general government sector plus all resident public corporations.

~~30.164~~30.168 Statistics for the public sector can be presented both within the sequence of economic accounts for institutional units and sectors or within the same government finance framework as described in section C of this chapter, depending on the use to be made of the statistics.

~~30.165~~30.169 With either method of presentation, it is useful to show both subsectors of the public sector and the entire public sector, with the total public sector statistics shown both unconsolidated and consolidated. For example, one column might have the statistics for the general government sector, a second column for the aggregate of all public corporations and a third column would have the unconsolidated totals for the entire public sector. Depending on the flows involved, a fourth column could show the amounts to be eliminated by consolidation and a fifth column could show the consolidated totals for the entire public sector.

~~30.166~~30.170 Not all flows need to be consolidated for the public sector. Because the public sector is a mixture of market and non-~~-~~market producers, most components of revenue and expense will have limited economic meaning for the public sector. Elements of the financial account and the balance sheet are the most likely candidates to be consolidated.

~~30.167~~30.171 The same balancing items as stressed for the general government sector are likely to be important for the public sector. The public sector net operating balance (or saving in the SNA sequence of economic accounts) will indicate trends in net worth resulting from the public sector's current operations. This is particularly useful if there are public corporations operating at significant losses.

~~30.168~~30.172 Net lending or net borrowing for the total public sector is ~~known as~~an indicator of the public sector borrowing requirement. Net lending indicates the net financing supplied to either the rest of the economy or the rest of the world; net borrowing indicates net financing obtained by the public sector from either the rest of the economy or the rest of the world.

~~30.169~~30.173 The balance sheet provides information ~~of~~on net worth, determined as the value of total assets less ~~total~~tot al liabilities, and financial net worth, determined as the difference between the value of total financial assets and ~~the~~ total liabilities. The latter is often cited because of the public sector's influence on the financial system and because it is often difficult to value government-unique non-financial assets.

## F. Links to International Public Sector Accounting Standards (IPSAS)

30.174 The *International Public Sector Accounting Standards* (IPSAS) are a comprehensive set of accounting standards for public sector entities that meet the following criteria:

a. Are responsible for the delivery of services to benefit the public and/or redistribute income and wealth;

b. Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of governments, social contributions, debt or fees; and

c. Do not have a primary objective to make profits.

There is a close relationship between the SNA and IPSAS. They are both accrual-based accounting standards and have similar measures of revenues, expenditures, assets, and liabilities, and similar accounting concepts of control, economic substance, recognition, and valuation. Compilation of macroeconomic statistics in accordance with the guidelines of the SNA is facilitated by the adoption of IPSAS by public sector entities.

30.175 The SNA and IPSAS have different objectives, as shown in Table 30.1. The objective of IPSAS is to provide useful information for accountability and decision-making on the finances of public sector entities, while the SNA provides information for monitoring and analyzing the performance of an economy. The SNA is an integrated system of accounts covering the total economy and its five institutional sectors, one of which is the general government sector. Government-controlled units that are market producers or that are non-resident are outside the boundary of the general government sector, but IPSAS do not distinguish between market and non-market producers, or between resident and non-resident units.

30.176 The difference in objectives causes some differences in the information presented and in how accounting concepts are implemented. The main differences between IPSAS and the SNA involve the reporting entity, consolidation, asset recognition, liability recognition, valuation, and the treatment of revaluations and other changes in volume.

30.177 *Reporting entity*: In IPSAS, the reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares general purpose financial reports. In the SNA, the elementary entity for statistical reporting purposes is an institutional unit, which is an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. However, the data reported in the SNA focuses on groups of institutional units (sectors or subsectors).

30.178 *Consolidation*: In IPSAS, consolidation within the controlling entity is required. In the SNA, flows between units within the sector or subsector are generally not consolidated, but consolidated accounts may be compiled in supplementary presentations and analyses, as is the case for the general government sector. The consolidated general government sector comprises resident institutional units controlled by government and engaged in non-market production. In IPSAS all entities controlled by the reporting entity are consolidated regardless of their market/non-market producer and residency status.

30.179 *Recognition of assets*: IPSAS recognizes assets based on control, while the SNA recognizes assets based on economic ownership, where the economic owner is the institutional unit entitled to claim the benefits associated with the use of the resource in the course of economic activity by virtue of accepting the associated risks. For example, the party treated as the owner of the asset in some public-private partnerships or service concession arrangements could be different under the two approaches.

30.180 *Recognition of liabilities:* In IPSAS, a liability is recognized whenever there exists an obligation of the entity to transfer resources as a result of past events and an estimate can be made of the amount of the obligation. However, in the integrated framework of the SNA, the need for symmetric recording means that a liability can only be recognized if there is a recognizable claim by a counterparty. This can affect the recording of provisions. For example, a provision for environmental restoration that is recognized as a liability in IPSAS might be disclosed in supplementary tables in the SNA but would not be recognized in the sequence of economic accounts.

30.181 *Valuation*: In IPSAS, assets are valued by applying either a historical cost model or a current value model. In the SNA, the methods for valuing assets try to approximate the current market prices or, in case (equivalent) market prices are not available, the current operational value or for some financial instruments the nominal value.

30.182 *Revaluations and other changes in volume of assets*: IPSAS include some changes in the value of assets caused by price changes and other changes in volume in the surplus or deficit (which is the balancing item of the Statement of Financial Performance) and include some others directly in the net assets/equity component of the Statement of Financial Position. In the SNA, revaluations and other changes in the volume of assets and liabilities are kept separate from transactions, so they do not affect earned income and/or disposable income.

**Table 30.1. Comparison of SNA and IPSAS**

| **System of National Accounts** | **IPSAS** |
|---|---|
| **Objective** | |
| Allow users of macro-economic statistics to monitor and analyze the performance of the economy. | Allow users of general purpose financial reports to evaluate the financial performance and financial position of public sector entities, and to hold management accountable and inform decision-making |
| **Reporting Unit** | |
| Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. However, the primary focus is on groups of institutional units (sectors or subsectors). | A reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares general purpose financial reports. A reporting entity may comprise two or more separate entities that present general purpose financial reports as if they are a single entity; such a reporting entity is referred to as an economic entity or group reporting entity. |
| **Scope** | |
| Total economy and the resident units comprised by its five institutional sectors. The general government sector includes government units at all levels of government, social security funds, and non-market producers controlled by government units. | Public sector entities that meet the following criteria:<br>(a) Are responsible for the delivery of services to benefit the public or redistribute income and wealth;<br>(b) Mainly finance their activities, directly or indirectly, by taxes and/or transfers from other levels of government, social contributions, or fees; and<br>(c) Do not have a primary objective of making profits. |
| **Consolidation** | |
| Flows between the units within a sector or subsector are generally not consolidated.<br><br>Consolidated accounts are compiled for complementary or analytical presentations, including for the general government sector. | IPSAS requires presentation of consolidated financial statements for the controlling entity. In this case, the reporting unit is the economic entity, defined as the controlling entity and its controlled entities. Control is the main criterion that determines consolidation. At the highest level of consolidation, the whole-of-government reporting entity may include government departments, subnational |

| System of National Accounts | IPSAS |
| --- | --- |
| | bodies such as state governments, government-owned enterprises, and non-resident entities. |
| **Recognition of Assets** | |
| Based on economic ownership. The economic owner of a non-financial asset or financial asset is the institutional unit entitled to claim the benefits associated with the use of the asset by virtue of accepting the associated risks. | Based on control. Control of the resource entails the ability to use the resource (or direct other parties in its use) so as to derive the benefit of its services or other economic benefits embodied in the resource. |
| **Recognition of Liabilities** | |
| To maintain symmetric recording in the integrated framework of economic accounts, liabilities are only recognized when there is a recognizable corresponding claim of a counterparty. For example, provisions for environmental restoration are recognized but not in the main framework of economic accounts. | A liability is recognized whenever an obligation to transfer resources exists as a result of past events and the obligation can be measured. |

**Table 30.1. continued**

| System of National Accounts | IPSAS |
| --- | --- |
| **Valuation** | |
| Current market prices are used to value flows and stocks. Production cost, the market price of a similar item, the written-down current replacement cost or present value of future benefits may be used as alternative valuation methods if a market price is unavailable. | On initial recognition, IPSAS requires measurement at transaction price, or deemed cost where appropriate. On subsequent measurement, historical cost, current operational value, cost of fulfilment, or fair value may be used. |
| **Revaluations and Other Volume Changes** | |
| Holding gains or losses are reported in the revaluation account, and changes in volume are reported and in the other changes in volume account. | Some gains or losses due to revaluations or changes in volume of assets and liabilities are recognized in the Statement of Financial Performance and some are recognized in the Statement of Financial Position. |

# Chapter 32: Households (revised title and revised content)

**(OLD Chapter 24: The households sector)**

## A. Introduction

32.1 The economy functions because people want goods and services and are prepared to work to obtain them. At the most basic level there is subsistence activity where people work to grow food to eat. Any sort of development gives opportunities to earn money by working for others and using it to buy goods and services different from those one's labour has created.

32.2 In addition society recognizes that some individuals cannot participate in the economy in this way and so makes transfers available to the young, the old and the sick, for example. Often these transfers are undertaken by government which redistributes income on behalf of the community at large. In addition, transfers may be made by non-profit institutions or by extended family members, or others, based on traditional and cultural norms. Some individuals do not spend all their income but use some to acquire wealth.

32.3 Lastly there is income arising from the ownership of wealth. At its simplest, wealth is due to the accumulation of income earned in earlier periods (possibly generations earlier). Wealth gives rise to income because others wish to make use of it and pay to do so. In the SNA such payments are called property income. Like income, wealth may be transferred from one owner to another.

32.4 The SNA gives a clear and full accounting of all income accruing to households in the period itemized by type of income. It also accounts clearly for how this income is spent on goods and services, transferred to others or used to ~~acquire~~ accumulate ~~more~~ wealth. However, while the sequence of economic accounts ensures that the accounts of all households are balanced, it does not show how this balance is achieved for subsets of households.

32.5 This chapter is about how to use information from the SNA sequence of economic accounts on the households sector in conjunction with other data sources to investigate the behaviour of households in greater detail. The focus here is on how income is used, how the patterns of income and use vary across types of households – also referred to as subsectors - and about the links between income and wealth at a detailed level. There are many different types of households that can be formed including those grouped by income decile, those undertaking unincorporated production activities and those whose members have specific characteristics (e.g. in terms of number or age of individuals).

32.6 A ~~Such a~~ focus on types of households is of both analytical and policy interest. It is a quite different view of economic behaviour from the predominant view of the SNA which is how income is generated. In the most structured form, accounts for the distribution of income, consumption and wealth across types of households, i.e., household distributional accounts, provide a rich and integrated dataset for the analysis of the household sector.

~~32.4~~32.7 In addition, as introduced in Chapter 2 and elaborated in Chapters 34 and 35, there is a wide range of data about the well-being and sustainability of households that can be organized using accounting approaches that is outside the scope of the sequence of economic accounts. Relevant topics include unpaid household service work, health care activity, education and training activity and human capital. These topics are not discussed in this chapter.

~~32.5~~32.8 The difficulty in disaggregating the households sector arises for a number of reasons that are listed here and discussed further in Section B.4.

a. The first is that income is earned by individuals but consumption is undertaken by households.

b. The second is that it is difficult to find a basis for subsectoring households such that the households in each subsector behave in a similar fashion to one another. Even if their income patterns are broadly similar, their expenditure patterns may differ according to the number and age of the members of the households. Grouping by the latter may give no similarity in the level of income.

c. The third reason concerns the source of data on household income and expenditure. Typically, information on corporations comes from establishment surveys and information on government comes from administrative sources. These sources are fairly comprehensive and are in large part the only source, or at least the primary source, for the data to feed into the SNA. Data for households

~~commonly~~often comes from household income and expenditure surveys ~~but these surveys~~which are based on smaller samples, may be less frequent than establishment surveys and the data from them may be difficult to reconcile with the totals for income and expenditure that emerge from the accounting constraints in the SNA. However, administrative ~~D~~data, for example those from taxation systems, may be available ~~in some countries~~ to provide higher levels of granularity ~~and~~thus supporting improved disaggregation of data by type of household.

~~32.6~~

~~32.7 Structure of the chapter~~

~~32.8~~

32.9 The households sector may be viewed in a number of different ways depending on whether the interest is primarily on what sort of production households undertake, what sort of income they earn or what patterns of consumption are portrayed. Given these different perspectives, it is not easy to come up with a single definitive set of subsectors for households. The conceptual and practical reasons for the difficulties are reviewed in section B. A review of possible subsectors is given in section C. The next ~~three~~ four sections (D, E, ~~and~~ F and G) in turn look at households as producers, households as consumers and household income and . ~~The last section, section G looks at~~ household wealth and associated income flows. The last section, section H, discusses accounting for the distribution of household income, consumption and wealth.

## B. Household composition and ~~sectoring~~measurement

### 1. Definition of a household.

32.10 It is useful to begin by recalling the definition of a~~the~~ household given in paragraphs [5.xxx]~~4.149 to. 4.157.~~ ***A household is defined as 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***. In general, each member of a household should have some claim upon the collective resources of the household. At least some decisions affecting consumption or other economic activities must be taken for the household as a whole.

32.11 Households often coincide with families, but members of the same household do not necessarily have to belong to the same family so long as there is some sharing of resources and consumption. Households may be of any size and take a wide variety of different forms in different societies or cultures depending on tradition, religion, education, climate, geography, history and other socio-economic factors. The definition of a household that is adopted by survey statisticians familiar with the socio-economic conditions within a given country is likely to approximate closely to the concept of a household as defined in the SNA, although survey statisticians may add more precise, or operational, criteria within a particular country.

32.12 Domestic staff who live on the same premises as their employer do not form part of their employer's household even though they may be provided with accommodation and meals as remuneration in kind. Paid domestic employees have no claim upon the collective resources of their employers' households and the accommodation and food they consume are not included with their employers' consumption. They should therefore be treated as belonging to separate households from their employers.

32.13 Persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time, usually one year, are treated as belonging to a single institutional household when they have little or no autonomy of action or decision in economic matters. Some examples of persons belonging to institutional households are the following:

a. Members of religious orders living in monasteries, convents or similar institutions;

b. Long-term patients in hospitals, including psychiatric facilities; ~~mental hospitals;~~

c. Prisoners serving long sentences;

d. Elderly ~~Old~~ persons living permanently in ~~retirement~~ care homes.

32.14 On the other hand, persons who enter hospitals, clinics, convalescent homes, religious retreats, or similar institutions for short periods, who attend residential schools, colleges or universities, or who serve short prison sentences should be treated as members of the individual households to which they normally belong.

## 2. Residence

32.15 As described in Chapter 5, all members of the same household have the same residence as the household itself, even though they may cross borders to work or otherwise spend periods of time abroad. While a~~A~~ll households are resident in the economy that is their centre of economic interest, ~~but~~ also of ~~increasing~~ interest is the phenomenon of a person abroad, often but not necessarily a family member, who remits significant amounts to the family in the domestic economy. (The same phenomenon also exists within a country, between urban and rural areas, for example.) The aspect of people moving abroad in response to better employment prospects may be seen as another facet of globalization and one that may have a significant impact on the distribution of income across households~~can be deserves to be monitored through the household distributional accounts (section H)~~. The recording of remittances is discussed in detail in BPM Appendix 5.

## 3. Unincorporated enterprises

32.16 All households undertake final consumption and, to a greater or lesser extent, all undertake accumulation but a household does not necessarily undertake production. To the extent possible, the production activities within households are treated as being undertaken by quasi-corporations, included in one of the corporations sectors and separated from the rest of the household sector. However, as explained in paragraphs 5.xxx, a quasi-corporation can only be created when a full set of accounts, including balance sheet entries and information about withdrawals of income from the quasi-corporation, is available. Very frequently, and especially so in the case of a professional working alone, there may be complete information available on the production activities but it may not be possible to separate out other income flows, transfers and financial transactions relating to the production activity from those for the household in general. In this case as well as in ones where even the information on the production activity is incomplete, an unincorporated enterprise remains as part of the household.

32.17 Even when a quasi-corporation can be created and removed from the rest of the household accounts, the household may still include an unincorporated enterprise relating to other activity. For example, within a given household one person may be able to separate the production activity of repairing vehicles but another may not be able to separate the production activity of providing food for sale from the rest of the household's activities. Moreover, many households without any other production activities will contain unincorporated enterprises providing housing services from owner- occupied dwellings and from employing domestic staff.

32.18 Just as there may be production undertaken within the households sector, there may be people providing labour to these unincorporated enterprises. Members of the household who work in the unincorporated enterprise are called self-employed and their remuneration is termed mixed income rather than ~~compensation~~remuneration of employees. Individuals who are not members of the household who are employed in an unincorporated enterprise are employees. It is possible but not always likely that the enterprise also pays for social security for these people. It is possible but even less likely that the ~~household~~enterprise may offer other social insurance benefits to their employees.

32.19 There is further discussion about labour input ~~employment~~ within households in chapters 16~~19~~ and 39~~25~~.

## 4. Determining subsectors

32.20 As noted in the introduction, the difficulty in disaggregating the households sector arises for a number of reasons. The first is that income is earned by individuals but consumption is undertaken by households. While all households contain all individuals, it is very difficult to associate particular income recipients with particular household groups, i.e. subsectors. It is possible to have one table showing the types of income earned and the types of individuals receiving them. It is also possible to have a table of types of households and the pattern of household consumption of each. Only in the highly stylized situation of one income earner only per household (and only one source of income) can the type of income be matched with the type of household and even then only if households are categorized according to the type of income. The problem could be compared to that of the supply and use tables but whereas it is possible to establish which industries make which products, there is no natural relationship between individuals as income recipients and the household to which they belong when households are grouped by any criterion other than main income source.

32.21 The problem of trying to link income flows from the SNA with an analytically meaningful ~~a desirable~~ set of household characteristics means that ~~is one of the most difficult aspects of building a social accounting matrix. V~~very often it is necessary to revert to modelling to reconcile income related to individuals to consumption related to households.

32.22 The second problem is related to the homogeneity of households. Various criteria may be used to disaggregate the sector (discussed in section C) but whatever criterion is used, it is difficult to assert that the behaviour of the sample of households within a group is typical of the whole. This is a difficulty not normally encountered in industrial classifications and surveys. For example, if a survey covers 50 per cent of firms in a given industry it is probably reasonable to suppose that the pattern of expenditure is typical of the whole. If an enterprise doubles its turnover, the level of intermediate consumption will probably approximately double but its composition may not alter significantly. Such assumptions are very suspect in the case of household groups. This is another area where it may be necessary to use modelling to underpin analysis, ~~difficult to use a social accounting matrix for analysis without having further recourse to modelling,~~ this time to determine how individual households within a group~~s of households~~ react to different stimuli.

32.23 The third reason concerns the sources of data on different types of households. The information for the corporations sectors generally derives from enterprise surveys. The household aggregates of income and expenditure are then known from the accounting identities in the sequence of economic accounts. While it is true that information from household surveys may sometimes reveal errors in industry data or vice versa, it is more problematic~~al~~ to take information from household surveys on, say, expenditure patterns of one group of households and suppose all other members of the group behave in the same way. For this reason a household income and expenditure survey is often reported as a freestanding exercise and integration with the national accounts totals is not as frequently undertaken as part of compiling the full ~~set of national~~sequence of economic accounts, as is the case with establishment surveys. In order to explore why this may be so, it is useful to look briefly at some of the problems experienced with household surveys.

## 5. Household surveys

32.24 Any attempt to disaggregate the households sector is likely to be dependent on a household income and expenditure survey. The conventions adopted by survey statisticians and those of national accountants are not always the same. A household expenditure survey for example may not include estimates of owner-occupied housing services ~~imputed rental of owner-occupied dwellings~~ or ~~own account~~ production for own final use. It may measure income after tax and measure expenditure on a cash and not on an accrual basis. Various publications have been prepared to examine such differences and make recommendations on how to reconcile survey data with national accounts requirements. Particularly relevant is the *Final Report and Recommendations of the Expert Group on Household Income Statistics* (Canberra group, 2001) and *Household Income and Expenditure* (International Labour Organization, 2003). In addition, relevant information concerning the use of micro data is available in the international guidelines for measuring the distribution of household wealth in micro statistics (OECD, 2013), and the framework for the integrated analysis of micro data on household income, consumption and wealth (OECD, 2013).

32.25 A major problem with household surveys is that it is very common for respondents to underestimate or underreport their income. This may be deliberate or may simply be a lack of understanding of what should be included, a lack of access to detailed information or ~~simple~~ forgetfulness.

32.26 Similarly some items of consumption are regularly underreported, most notably expenditure on alcohol and tobacco. On the other hand, consumption of some items is over-reported. For example, if a survey asks for expenditure on durables based on the recall of the respondent of what has been spent over the last two or three years, people often underestimate how long it is since purchases were made and will report more expenditure in

**Commented [ED1]:** Although not raised as a topic for updating in the 2025SNA, following feedback on the revised chapter, it is intended to review the text in this section (and other places in the chapter as relevant) to ensure that the content is current with respect to advances in the collection of households statistics this period than has actually been the case. ~~This phenomenon does not only apply to very large items of expenditure; it is reported that household surveys have suggested that the purchase of toothbrushes, for example, is many times higher than in the sales reported by shops.~~

32.27 The problem of non-response is a concern in household surveys since it is quite likely that some of the households that refuse to respond have income and expenditure patterns that are different from respondents. For example people with incomes arising from illegal activities may be very reluctant to supply information and may choose not to participate in the survey. Similarly it is common for households at the very top and very bottom of the distribution to be omitted from the survey either by design or on the grounds of practicality.

32.28 Household surveys may be designed to investigate particular phenomena that are not necessarily the primary interest for national accounts. For example, they may be restricted to low income earners in urban areas. While this information is highly valuable and useful, it is not sufficient to produce aggregate figures for national accounts. Sometimes even if the coverage is more comprehensive, the sample size may not be such as to allow disaggregation along the lines desirable within the sequence of economic ~~national~~ accounts. It is important to realize that a desired pattern of subsectoring should be determined before the survey is undertaken to ensure the desired characteristics will be adequately represented in the survey sample.

~~32.28~~32.29 Advances in the alignment of micro and macro data sources for the household sector have been made, particularly in the context of developing distributional accounts for households. For this purpose the reconciliation of data items across different households subsectors is a core part of the measurement approach. Section H provides an overview of relevant issues.

## C. Subsectoring households

### 1. The production perspective

~~32.29~~32.30 A first consideration is to investigate the possibility of subsectoring households according to their involvement in production. This may be done following the pattern shown in chapter 39~~25~~ to identify informal and other production activity undertaken by households.

~~32.30~~32.31 The first division is to separate institutional households and those households that do encompass an unincorporated enterprise from those that do not. Thereafter it is straightforward to identify those households whose only productive activity is connected with the owner occupation of houses or the employment of domestic staff. The households that are left may be further divided between those that employ staff to work in their unincorporated enterprises and those that do not. As described in the chapter on the informal sector, when proceeding along these lines it is sometimes desirable to identify the type of productive activity of an unincorporated enterprise, in particular identifying agricultural activity separately from other types of productive activity.

~~32.31~~32.32 Within the SNA, all household enterprises that can be treated as quasi-corporations because they have complete sets of accounts showing their ownership of assets (separately from those of the household to which they belong) and the withdrawal of income to their owners are classified in one of the corporations sectors. The number of household enterprises that can be treated as quasi- corporations, and thus removed from the households sector, varies considerably from country to country depending on the availability of accounting information and the resources available to identify such enterprises and treat them as quasi-corporations.

~~32.32~~32.33 Although it is possible to identify households that only have owner-occupied housing as their ~~unincorporated enterprise~~productive activity, in many cases ~~other unincorporated enterprises~~households will use their dwellings for a number of purposes. ~~undertake owner occupation of their houses as well.~~ While from a production point of view it is possible to separate the different types of production activities, for the institutional unit as a whole it is not possible to make this separation.

~~32.33~~32.34 In most countries, many households do not have unincorporated enterprises, so when subsectoring is done according to production undertaken by households, those without unincorporated enterprises are grouped together in a single, very large, subsector. The only common factor these households share is that they do not have an unincorporated enterprise. Thus while subsectoring households according to production is useful in some circumstances it has ~~its~~ limitations in terms of identifying the role of different types of households in the economy.

### 2. The consumption perspective

~~32.34~~32.35 It is widely observed that as household income rises so the pattern of consumption changes. The proportion of expenditure devoted to food and other necessities declines as more income is available and more expenditure is devoted to more luxury goods. Thus one approach to disaggregating households according to consumption patterns is in fact to disaggregate by level of income, assuming this captures the differences in consumption patterns. Studies showing consumption patterns according to income deciles are quite common and give interesting information about how patterns of consumption change as the overall level of income increases.

~~32.35~~32.36 The question arises of how household consumption patterns may relate to incomes of individuals. There is no obvious way to identify how recipients of income fall into one or other income deciles when tho~~e~~se deciles are calculated on a household basis. Households with a high aggregate income may result from one very well-paid worker or from a number of middle income earners. Further, although the production account shows total ~~compensation~~ remuneration of employees and it may be possible to compare this to the total number of employees, this gives no information about the distribution of income across the labour force in the enterprise. Not all income comes from ~~compensation~~ remuneration of employees and the effect on total household consumption of other sources of income is equally uncertain.

32.37 Using the level of household income as a proxy for consumption patterns has some significant problems. One possible disaggregation of households where consumption patterns might be significantly different would be according to whether the household includes children and, where it does not, whether the household is relatively young (and may be setting up home for the first time) or relatively ~~old~~ elderly (where expenditure on consumer durables may be lower than for other groups). However, here again there is no easy way to link the source of the income with the type of consumption of the household in which the income recipient resides.

~~32.36~~32.38 While using the level of household income as a proxy for consumption patterns has some challenges, approaches for making suitable adjustments have been developed. At their simplest, national accounts measures often use a per capita approach or divide the income of the household by the number of household members. These simple adjustments, however, assume that there are no economies of scale from living in the same household. To reflect this effect, equivalence scales can be used to adjust household income to reflect the economies of scale achieved in consumption by households comprising more than one person. Section H provides a longer introduction to the use of equivalence scales.

### 3. The income perspective

~~32.37~~32.39 An alternative ~~more promising~~ approach to subsectoring ~~appears to come from~~ considers~~ing~~ not the level of income and consumption but the type of income. In this approach ~~As proposed in chapter 4, the following scheme might be considered.~~ h~~H~~ouseholds may be grouped into subsectors according to the nature of their largest source of income. For this purpose, the following types of household income need to be distinguished:

a. Income accruing to the owners of household unincorporated enterprises with paid employees (employers' mixed income);

b. Incomes accruing to the owners of household unincorporated enterprises without paid employees (own-account workers mixed income);

c. ~~Compensation~~ Remuneration of employees;

d. Property and transfer incomes.

~~32.38~~32.40 Households are allocated to subsectors according to which of the four categories of income listed above is the largest for the household as a whole, even if it does not always account for more than half of total household income. When more than one income of a given category is received within the same household, for example, because more than one member of the household earns ~~compensation~~ remuneration of employees or because more than one property or transfer income is received, the classification should be based on the total household income within each category. The four subsectors are described as follows:

a. Employers;

b. Own-account workers;

c. Employees;

d. Recipients of property and transfer incomes.

~~32.39~~32.41 The fourth subsector, households for which property and transfer incomes make up the largest source of income, constitutes a heterogeneous group and it is recommended that it should be divided into three further subsectors when possible. These subsectors are defined as follows:

a. Recipients of property incomes;

b. Recipients of pensions;

c. Recipients of other transfer incomes.

### 4. Using a reference person

~~32.40~~32.42 Other methods of subsectoring usually require a reference person to be identified for each household. The reference person is not necessarily the person that other members of the household regard as the "head of the household", as the reference person should be decided on grounds of economic importance rather than age or seniority. The reference person should normally be the person with the largest income although the reference person could also be the person who makes the major decisions with regard to the consumption of the household.

~~32.41~~32.43 Once a reference person has been identified, it is possible to group households into subsectors on the basis of the reference person's characteristics. For example, subsectors may be defined according to:

a. Occupation of the reference person;

b. Industry, if any, in which the reference person works;

c. Educational attainment of the reference person;

d. Qualifications or skills possessed by the reference person.

### 5. The consequences of demographic change

~~32.42~~32.44 A growing policy interest in some countries is the effect of demographic change on household well-being and the response required by government. For example, in an ageing population, there may be less demand for educational services and more for health services.

~~32.43~~32.45 Another concern is whether pension provision is sufficient to ensure that individuals have an adequate level of income in retirement without looking to government for income support. A focus on such issues might suggest subsectoring households according to whether the reference person ~~main income earner~~ is (i) in work, (ii) of working age but not in work, or (iii) in retirement. Again, categorization according to the main income earner will give different results from categorizing income as a whole.

### 6. Other considerations

~~32.44~~32.46 It is possible to consider subsectoring households on quite different grounds. Examples include the number of persons in the household, the region where the household is located, ~~the qualifications or education level of the head of the household,~~ the industry where the ~~head of the household~~reference person works, whether the household owns property or other assets and so on.

## D. Households as producers

### 1. Households and the informal sector

~~32.45~~32.47 In all countries, there are some production activities undertaken by households. Many of these may be described as informal and, as described in chapter 39~~25~~, measuring the extent of the informal sector and how this changes as the economy develops gives particular insight into the extension of the market economy beyond formal enterprises.

~~32.46~~32.48 The difficulty of separating the productive activity of a household from the rest of the institutional unit has been discussed in a number of places in earlier chapters, particularly in chapter ~~4~~5, and is referred to above in discussion about the subsectors for households. This section therefore discusses only some aspects of those productive activities that inevitably remain within the households sector.

### 2. Agriculture

32.49 In some countries, subsistence agriculture, or indeed the results of any agricultural production which are used entirely by those responsible for the production, is a very significant part of household consumption and by extension of GDP. In countries where much of the staple food is grown for own consumption, and it is seasonal, it is necessary to consider whether some part of the increase in the value of the crop due to storage is part of production. There are details of how this may be done in the annex to chapter ~~6~~7.

~~32.47~~32.50 It should be recalled that the purchaser's price for agricultural products used for own consumption does not mean the price at the nearest local market which would include transportation costs. The market price is the price that somebody would pay for the crops where they are grown. This is frequently called the farm-gate price.

~~32.48~~32.51 In principle, all fruit and vegetables grown for their own use by households with small allotments or large gardens should be included within the production boundary, even in developed countries. In practice it is unlikely to be worth the effort of making estimates unless the amounts involved are significantly large.

### 3. Housing

~~32.49~~32.52 In almost all economies, a large number of households live in dwellings that they own, thus requiring estimates of owner-occupied housing services. The size of the rental market may be very small and may be confined to some areas, for example urban areas, which makes it difficult to use observed market rentals as a means of estimating the services provided by all owner-occupied dwellings. In chapter ~~20~~18, it is explained that in principle the rent on an ~~capital~~ asset can be calculated by applying a discount factor to the value of the asset ~~stock of capital~~ at the beginning of a period, so if the value of the house is known, a figure for the services provided can be estimated. However, this approach also is problematic in those circumstances where there are no data on the stock of capital or where there is uncertainty on the rate of return ~~to be estimated~~. For ~~simple~~ rural dwellings, it may be necessary to calculate the cost of construction and estimate how long the building is usable without major renovation.

~~32.50~~32.53 All dwellings require regular maintenance. The production account for ~~an~~ owner-occupied housing services ~~dwelling~~ treats as intermediate consumption only the goods and services necessary to undertake the sort of repairs that are typically the responsibility of the landlord in the case of rented buildings. These may include payment to specialists in the building trade, for example plumbers or painters, and the cost of these specialists will include their ~~compensation~~ remuneration of employees. However, when work is undertaken by the owner himself only the cost of the materials is included in intermediate consumption with no estimate made for the value of the owner's time spent on repairs. In consequence, there is no ~~compensation~~ remuneration of employees appearing in the production account for owner-occupied housing services~~dwellings~~. (This may be seen to be a pragmatic convention. If labour costs were to be imputed to the owner undertaking repairs, this would be recorded as income accruing to the household but the income from the owner-occupied housing services ~~rental on the house~~ would be reduced by an exactly offsetting amount.)

~~32.51~~32.54 The whole of the owner-occupied housing services ~~imputed rental~~ less actual costs (including costs other than those relating to repairs, such as other taxes on production) incurred is treated as operating surplus of the owner. The accounts for the owner of the building show the whole of the value of the owner-occupied housing services ~~imputed rental~~ as output, any costs incurred as intermediate consumption and the difference as gross operating surplus which is paid to the household in its capacity as the owner of the unincorporated enterprise. In the use of income account, the full value of the owner-occupied housing services ~~of the rental~~ is shown as part of household consumption ~~of the imputed rental of owner-occupied dwellings~~.

~~32.52~~32.55 When major repairs are undertaken, these are treated as gross fixed capital formation and recorded following the treatments in ~~C~~chapter 11. Note that gross fixed capital formation undertaken on own-account should include an estimate of the imputed value of labour input provided free ~~but the same conventions apply concerning the recording of compensation of employees~~following the treatment in 7.xxx. For more details on differentiating between regular maintenance and major repairs, see paragraphs 11.53 to 11.55.

~~32.53~~32.56 Some houses are owned by households but leased out by them. In this case the rental paid by the tenant is the value of the output of the rental service. The production account for the earning household shows intermediate consumption charged against this output to derive the operating surplus of the activity, which is treated as income to the owning household. In some cases, the whole of the intermediate consumption may be a service charge paid to a rental agency. It is conceivable that occasionally the service paid to the rental agency may exceed the rental income so that the rental activity produces a loss for the owning household. For example, if a house stands empty for a time, there may still be a fee payable to the rental agency. The earning household will often regard this as acceptable because one reason for owning a house to rent is because it is hoped a holding gain will be made on owning the house over a long period.

~~32.54~~32.57 By convention, all the value added arising from leasing dwellings by households is treated as operating surplus, not mixed income.

~~32.55~~32.58 Some houses will be owned as second homes either in the same economy or abroad. The same principles apply as in the case of owner-occupied housing services ~~imputed rental of owner-occupied dwellings~~ and rental services activities that come from renting out a house. If the house is in another country, it is treated as belonging to a notional resident unit in that country. The legal owner then has a financial claim on the notional resident unit. The notional resident unit therefore appears to be a direct investment enterprise wholly owned by a non-resident. However, the only asset of the unit is the value of the property and the whole of the operating surplus from renting out the house is treated as being withdrawn from the notional unit and remitted to the owner so there are no retained earnings remaining to be treated as reinvested earnings.

~~32.56~~32.59 To the extent that the house abroad is used by nationals of the economy where the legal owner is resident, the rentals should be treated as exports of services from the foreign country and imports of services to the domestic economy. However, the operating surplus of the notional unit is remitted to the owner and appears as a property income outflow from the foreign country and inflow to the domestic economy, offsetting the flows of rental services (at least in part).

~~32.57~~32.60 When a house is financed by a mortgage, in principle implicit financial services on loans and deposits ~~FISIM charges~~ relating to interest payments on the loan should be treated as part of the intermediate consumption of the production activity associated with renting the property (either for use by the owner or by a tenant). However, it may be difficult to identify implicit financial services on loans and deposits~~FISIM~~ related only to interest on the mortgage and in some cases a loan using the property as collateral may not be used to secure the property for the purpose of having a dwelling available. In practice, if implicit financial services on loans and deposits~~FISIM~~ are ~~is~~ not treated as part of the intermediate consumption of the rental activity, the operating surplus from the rental activity, and GDP as well, will be higher than otherwise but the consumption expenditure of the household will be higher by the same amount.

## 4. Domestic staff

~~32.58~~32.61 Services provided by paid domestic staff are valued at the remuneration ~~cost of the compensation~~ of employees paid to those staff ~~but~~ and including any income in kind such as free accommodation or free meals as well as any social insurance contributions that may be paid on behalf of the staff. By convention the production account for paid domestic services consists only of this ~~compensation~~ remuneration of employees. All of the products used in the performance of domestic services, such as cleaning materials and tools used, are treated as final consumption expenditure of the household.

~~32.59~~32.62 Individuals who provide paid domestic services must be members of another household. Payments to children for performing tasks in the house are not treated as the provision of paid domestic services but simply as if the payment were a transfer within the household. On the other hand payments to a child for babysitting a neighbour's children should in principle be treated as domestic services but these may be too small and difficult to measure.

~~32.60~~32.63 In practice, some countries may include full-time domestic employees as members of the households, in which case a transfer within the households is recorded, even though transfers within an institutional unit are not normally recorded. This in turn means there is an element of double counting for the household concerned with a payment to the domestic staff and the expenditure by those staff both being included in the household's consumption expenditure.

### 5. Unpaid household service work

~~32.61~~32.64 In chapter 34~~29~~ there is discussion of the possibility of extending the production boundary to record all forms of unpaid household service work and volunteering thus encompassing the production of ~~within the context of a satellite account to include~~ all domestic services, including those that are not performed in return for payment.

## E. Households as consumers

### 1. Consumption goods and services provided in kind

~~32.62~~32.65 Chapter 10~~9~~ describes the different concepts of consumption expenditure, actual consumption and the use of consumption goods and services. Within the SNA, only the first two are measured and the difference between them is accounted for by social transfers in kind provided by government and NPISHs to households. In principle it might be interesting to be able to distinguish social transfers in kind provided to children (for example most education), to the elderly (particularly health care) or perhaps on a regional basis. However, since there are considerable difficulties in working at this level of detail in the sequence of economic accounts, ~~and so~~ it is recommended ~~probable~~ that such extra detail is ~~could be~~ provided ~~only~~ in thematic ~~the context of a satellite~~ accounts as described in Chapter 34 and 38 such as the health care activity account and the education and training activity account .

~~32.63~~32.66 In principle, transfers in kind between households should be recorded in the SNA. However, if there are no subsectors of the households sector, such transfers will not appear in the accounts when they occur between resident households. On the other hand transfers in kind between resident and non-resident households may be quite significant and should be captured through information on remittances in the balance of payments data. Practical considerations are described in International Transactions in Remittances: Guide for Compilers and Users (International Monetary Fund, 2008b). ~~)~~

32.67 When there is a significant amount of consumption ~~represented by own account~~sourced from own-account production, income in kind, barter or transfers in kind it would be useful to itemize the distinction between consumption expenditure by households in kind from consumption purchased in the market place.

### 2. Expenditure by ~~tourists~~visitors

32.68 Most data sources for household consumption from the supply side are not able to distinguish whether purchases are made by visitors from resident households or by non-resident households. Equally, the same sources will not reveal purchases made abroad by resident households. These two items are often of a sufficiently significant size that it is important that they be estimated both for the impact on the balance of payments and in order to ensure that the supply and use table can be adequately balanced. Further consideration of expenditure by ~~tourists~~ visitors, in particular for tourists, can be undertaken following the general principles of thematic accounting described in Chapter 38,

~~is discussed in chapter 29 in the context of a tourism satellite account.~~

### 3. Consumption expenditure by type of product

~~32.64~~32.69 Most household surveys itemize consumption according to the purposes it is intended to serve: food, housing, etc. This type of breakdown is the one used in the Classification Of Individual COnsumption by Purpose (COICOP). For inclusion in the supply and use table, and indeed for other analyses, it is useful to prepare a table showing the cross classification of consumption by purpose and by type of product. This is useful not only in terms of providing the information for the supply and use tables but also in examining the information used to compile consumer price indices, which in turn are used to deflate consumption expenditure. If the data permit, it may also be useful to look at the composition of consumption expenditure by type of household with a view to calculating consumer price indices for different groups of households, for example for the elderly or for those with young children.

## F. Household income

~~32.65~~32.70 It is a well-established phenomenon in all countries that income is distributed unevenly and in a very skewed manner. Very many people have income significantly below the average or median income and very few people have extremely large incomes. A poverty line is sometimes quoted as half the median income but an income of twice the median does not imply great wealth; the wealthiest individuals in an economy may have incomes many times larger than the average or median income.

32.71 The reason that the sequence of economic accounts is important is that it gives a picture of how income is distributed and redistributed either compulsorily via taxes and benefits or voluntarily via transfers or because of ownership of financial or other assets (property income). In order to examine whether the process of distribution and redistribution of income significantly changes the overall distribution of income in the economy it is necessary to be able to show the flows between different groups of households. As noted in the introduction, it is difficult to allocate income and consumption across ~~from one particular source to one~~ household groups ~~rather than another~~, distributional accounts for household income, consumption and wealth can be compiled as part of the sequence of economic accounts as described in Section H (below).

~~32.66~~32.72 To complement the detailed information on different household groups presented in distributional accounts, a range of other ~~This is not straightforward and not a standard part of the SNA. However, it is straightforward to provide more~~ information can be provided to analysts on the type of household incomes building on the data from the other parts of ~~than the total contained in~~ the ~~standard~~ sequence of economic accounts. As far as value added is concerned, it may be possible to distinguish ~~compensation~~ remuneration of employees paid by individual industries or perhaps according to level of education or by region. Mixed income can similarly be distinguished. ~~Consumption of fixed capital~~Depreciation should be separated between that due to owner-occupied dwellings and that relating to other assets of unincorporated enterprises.

~~32.67~~32.73 The ~~standard~~ sequence of economic accounts contains information on transfers in the form of taxes paid and social insurance contributions and benefits split between pensions and other benefits. In some countries it is especially relevant to show personal remittances from abroad to demonstrate the impact on the domestic economy of those with strong ties to economies abroad. For countries with a large migrant population it may be similarly useful to identify the corresponding outflows and their destination.

~~32.68~~32.74 Within property income it is useful to distinguish those flows that place resources at the disposal of the recipients from those where the receipts are already precommitted as saving, for example, pension entitlements, property income on life insurance and interest that derives from the increase in the value of bonds. It should be noted that it is particularly useful to identify the withdrawal of income from quasi-corporations if there are many household enterprises treated as quasi-corporations.

~~32.69~~32.75 It may be useful to identify and show separately income in kind of all types, such as wages and salaries in kind and transfers in kind, and then derive a total excluding both these and the precommitted saving which might be called discretionary income.

## G. Household wealth and associated income flows

### 1. Household balance sheets

~~32.70~~32.76 For many households, their main assets are their land, houses and accumulated pension entitlements.

Where they exist, claims on enterprises may also be significant. Investment in financial assets outside pension funds may also be important in some countries. However, set against the assets must be the liabilities of the households, including the loans involved in mortgages and other financial liabilities and, for example, credit card or other debt.

~~32.71~~32.77 For households including an unincorporated enterprise other than owner-occupied dwellings, there may be other fixed assets recorded on the balance sheet but these tend to be small relative to housing.

## 2. Family trusts

32.78 Trusts are arrangements whereby an economic agent (a trustee) holds property (but not economic ownership) as its nominal owner for the good of one or more beneficiaries. Their job is to hold, manage and administer the funds in the trust on behalf of the settlor (the creator of the trust). Their fiduciary duty as a trustee requires them to act in the best interest of the beneficiaries of the trust. The duties of a trustee are laid out upon the creation of the trust, and while they may differ depending on the situation, some tasks are common. The trustee oversees the distribution of the trust's funds to the beneficiaries. While the assets remain a part of the trust, the trustee is responsible for any investments that are made, ensuring any assets included in the trust, taking care of the administration, and overseeing the payment of taxes.~~Family trusts are owned by households, though some trusts may be owned by a number of households collectively possibly including non-resident households. Trusts may be set up to protect wealth until a beneficiary comes of age or meets another criterion, they may be set up to preserve family estates and so on. The SNA recommends that trusts should be treated as quasi-corporations and included in the financial corporations sector as captive financial institutions. However the trusts must have liabilities to the beneficiaries sufficient to reduce their net worth to zero. In compiling the balance sheet for the households sector, the value of the assets corresponding to the liabilities due to resident households must be included.~~

~~32.72~~32.79 Looking more specifically at trusts set up by households, the trustee is not the economic owner of the assets. The trustee may be the legal owner of the assets, but the accumulated assets in the trust constitute a separate fund and are not part of the trustee's own assets, indicating that economic ownership is different from nominal/legal ownership. Where family trusts are important and when household wealth is the subject of interest, it may be useful to introduce a supplementary heading under other equity owned by households to show the value of trusts separately from the equity of other quasi- corporations such as partnerships. There are a range of considerations in determining the appropriate treatment of trusts, including, for example the potential for trustees and the beneficiaries to be resident in different economies. The relevant treatments are described at length in Chapter 5, 5.103-111.

## 3. Pension considerations

~~32.73~~32.80 There is a question about whether the rundown of wealth post retirement should be recorded as income or as dis- saving.

~~32.74~~32.81 By treating pension schemes as social insurance schemes, pension benefits are shown as current transfers, and thus income, rather than as a run-down of saving. If a pension scheme is not treated in this way, though, there is still income accruing to the pension beneficiary in the form of the property income payable on the pension entitlements. For a defined benefit scheme, this property income represents the unwinding of the discount factor on future entitlements. The decrease in the entitlements is equal to the difference between the benefits payable and this property income, similar to the position for an annuity explained at the end of part 1 of chapter 17.

~~32.75~~32.82 ~~To the extent that the value of the pension as a form of wealth is based on the net present value of future income flows, pension receipts can be partitioned into the rundown of savings and income accruing.~~ In cases where there are no pension entitlements, a household with a significant level of financial assets is still likely to receive significant property income, though the mix of property income and holding gains and losses will depend on the investment strategy of the household concerned.

~~32.76~~32.83 For a household where one or more of the members is building a pension, significant income will accrue each year but this is not accessible to the household to spend. It must be accumulated to fund future pension entitlements and thus shows as an increase in wealth.

~~32.77~~32.84 It is possible to construct an asset account for pension entitlements showing the ~~start of year~~ level of entitlements at the beginning of the year, increments due to contributions made ~~work~~ done in the year, increases due to the fact that retirement has become a year nearer (the unwinding of a discount factor) and other changes such as an allowance for inflation, ~~less~~ decreases due to pension payments or other changes that reduce entitlements.

### 4. Consumer durables

32.85 Within the SNA, consumer durables are not treated as a form of wealth but as a form of expenditure. However, there may be considerable interest in having a memorandum item in the balance sheets to show the worth of consumer durables. As noted in Section H (below) this memorandum item would also be relevant in the compilation of distributional accounts for households. The acquisition of durables may well be cyclical and there is interest in compiling ~~a satellite~~ accounts that would replace the purchase of consumer durables as current expenditure by figures for the flow of services provided from the same items treated as fixed capital. The dual use of consumer durables as part of consumption activity of households and as inputs to production activity by unincorporated enterprises should be accounted for by partitioning the use of the durables. The measurement of ~~is~~ consumer durables is discussed further in chapter 11. ~~29.~~

### 5. The distribution of wealth

~~32.78~~32.86 Increasing interest is being shown in conducting surveys of household wealth along lines similar to surveys of household income and expenditure. Again the interest is to look at a disaggregation of the households sector to discover the composition of household wealth and its relation to household income.

~~32.79~~32.87 In general the distribution of wealth is even more strongly skewed than income. A family where the main earners are in mid career may have a comfortable level of income and occupy their own house but still have a considerable mortgage and may not yet have built up significant pension reserves. These topics are considered further in Section H (below).

## H. Distributional accounts for household income, consumption and wealth

### 1. Introduction

32.88 Aggregates and average growth rates for the accounting entries for each institutional sector only provide a partial story of the operation of the economy, in particular they may conceal large discrepancies between different types of households. Recognizing this challenge, the SNA sequence of economic accounts includes distributional accounts for the households sector that take into account the joint relationships between income, consumption and wealth. In turn this supports the computation of multivariate indicators (such as consumption-to-income, debt-to-income or wealth-to-income ratios) for the various breakdowns of the households sector. The description of distributional accounts for households in this Section complements the wider discussion of the use of accounting approaches to support the measurement of the material well-being of households introduced in Chapter 2 and discussed more fully in Chapter 34.

32.89 A motivation for the compilation of household distributional accounts is that while distributional information is often available from micro statistics, these results may not always be consistent across the primary components of material well-being (including income, consumption and wealth). In this regard, household surveys or administrative data covering all these aspects are rarely available. Further, these data may not always be consistent over time and their aggregated trends may often diverge from aggregate national accounts data. Section B.5 discusses these issues in more detail.

32.90 The compilation of household distributional accounts entails breaking down accounting entries for the aggregate household sector into more granular subsectors consisting of specific groups of households. This should be done for the sequence of economic accounts representing different types of economic activity occurring within a period of time, including balance sheets. This will lead to a consistent and comprehensive description of different groups of households across the various accounts.

32.91 Thus, deriving household distributional information within the structure of the sequence of economic accounts enables the derivation of distributional results that are consistent across the various economic accounts and institutional sectors, coherent with macroeconomic aggregates and comparable over time and across countries. This information will be of considerable relevance for macroeconomic analyses and the monitoring of material well-being, providing new insight in how specific household groups are faring and assessing how macroeconomic trends and policies may affect specific household groups.

## 2. Establishing the focus of measurement

32.92 As noted in Section B the household sector in the SNA includes both private and institutional households. The latter concern persons living permanently in an institution, or who may be expected to reside in an institution for a very long, or indefinite, period of time, with little or no autonomy of decision in economic matters. These types of households may comprise large groups of individuals with very different socio-demographic backgrounds, who are not related, and who may have very different income and consumption patterns. As a consequence, they behave differently and the data about their income, consumption and wealth is not readily comparable with those of private households. For that reason, it is recommended that institutional households are treated separately from private households in the compilation of household distributional accounts, i.e., that results for institutional households should be analysed and presented as a separate category. The focus of the description in this section is on distributional accounts for private resident households.

32.93 Approaches to incorporating institutional households to provide a complete scope for the sector may be considered, for example, treating the population living in the institutions as multiple, often single person, households. However, compilers and users need to be aware that this may not do justice to the specific circumstances these individuals live in. Furthermore, treating them as a single household comprising many individuals may lead to heterogeneous results and may distort distributional analyses.

32.94 Although the household constitutes the unit of observation in compiling distributional accounts, household units differ in size and composition, and as a consequence they will have different consumption needs. By way of example, the consumption opportunities from an income of 3,000 monetary units per month for a single person household are not comparable to those from an income of 3,000 monetary units for a household consisting of two adults and three children living at home. Therefore, to arrive at comparable results across households and support meaningful analysis of data on income, consumption and wealth at the household level, it is recommended to focus on 'equivalized' results, using equivalence scales that take into account differences in the size and composition of households. This involves recalculating initial estimates according to the number of consumption units in each household and then assigning a value to each household type in proportion to its needs reflecting its size and composition. Considerations in establishing equivalence scales are discussed below.

32.95 While approaches for estimating and applying equivalence scales for income and consumption are well developed, for wealth, there is less consensus on the appropriate equivalence scale. However, for consistency across domains, it is recommended to use the same equivalence scales to adjust wealth as those used to adjust income and consumption, when presenting results on income, consumption and wealth in conjunction. This recognizes that wealth may often be used to support current consumption. However, since wealth is a stock and not a flow measure, for specific purposes, it may be relevant to show results on the distribution of wealth on the basis of alternative equivalence scales.

32.96 A complete sequence of distributional accounts for households encompasses a large number of accounting entries. It is therefore relevant to focus attention on the derivation of the following main balancing items for the purposes of distributional analysis:

- For analyzing the distribution of household income, the relevant balancing items are 'earned income', 'disposable income' and 'disposable income adjusted for social transfers in kind'.
- For analyzing the distribution of household consumption, the relevant entries are 'final consumption expenditure' and 'actual final consumption'.
- For analyzing the distribution of household wealth, the relevant balancing items are 'net worth' and 'net financial worth'.

32.97 In addition, it is recognised that there are a range of alternative income concepts that may be of relevance for certain types of analysis. These are discussed in Chapter 34, Section B.2. Further, countries are encouraged to show estimates of consumer durables by household type as a separate category particularly as they may significantly affect savings results and provide insights into the distribution of household wealth. For wealth, a broader wealth concept could be envisaged that includes social security pension entitlements. These possible extensions are not discussed further in this section.

32.98 The groupings that should be used in selecting households to be the focus of the distribution accounts are those that:

- provide most insight in differences in consumption, income, and wealth patterns between groups;
- are of most interest for economic analysis and government policy purposes;
- enable users to easily identify themselves with one of the groups; and
- meet specific user demands.

32.99 Based on these criteria, the primary recommendation for the grouping of households is on the basis of deciles of equivalized household disposable income. This involves looking at the relative income available to a household, ranking households accordingly and allocating them into decile groups. Of course, a decile breakdown may still conceal large inequalities within these groups and hence further breakdowns into more granular groups may be considered. This may be particularly relevant for the top income and wealth groups. Thus, accounts for the top 5%, 1% and even 0.1% of income earners may be compiled.

32.100 Other household groupings that may be considered include those based on levels of permanent income, main source of income the age of the reference person and the composition of households. Section C and Chapter 34 provide additional discussion on the subsectoring of households and the range of characteristics of households and household members that can be considered in distributional accounting and analysis.

32.101 The compilation of household distributional accounts will generally be undertaken at discrete points in time providing a static view of distributions. A dynamic approach to the analysis of household distributions, i.e., comparing changes in distributions over time, will also be of relevance. Maintaining a standard conceptual structure and associated definitions for the distributional accounts provides a good basis for this analysis of change recognizing that there is a range of challenges in dynamic structural analysis that will need to be considered.

## 3. Compiling distributional accounts for households

32.102 This section describes the basic approach for compiling distributional accounts in line with aggregate accounting entries in the sequence of economic accounts on the basis of underlying micro data sources. The application of the approach requires engagement and close collaboration with the experts in the relevant micro statistics. More detailed compilation guidance is available in the *Handbook of Distributional National Accounts* (OECD, 2023). Relevant information concerning the use of micro data is available in the international guidelines for measuring the distribution of household wealth in micro statistics (OECD, 2013), and the framework for the integrated analysis of micro data on household income, consumption and wealth (OECD, 2013).

32.103 There are five main steps in compiling distributional accounts for households:

1. Adjust national accounts aggregates to focus on private resident households
2. Select relevant micro data for the purposes of disaggregating macro accounting entries for each household subsector/group
3. Impute for missing elements and align micro-macro results
4. Cluster households according to household subsectors/groups
5. Derive relevant distributional and analytical indicators – e.g. ratio to the average, ratio of the highest to lowest shares, coefficient of variation to the average, share by household group, debt to income ratios, savings ratios by household group.

32.104 In undertaking these steps, the following accounting issues are noted, recognizing that there are a range of data confrontation and compilation issues that must also be considered as detailed in the compilation guidance referred to above.

32.105 While the aggregate results for the household sector are a solid starting point for the compilation of distributional accounts, these aggregates may conceal information on inter-households flows and stocks. Although these stocks and flows may not be relevant from a macroeconomic perspective, they may be very relevant in deriving distributional results. Thus, even if for the household sector as a whole, these flows and stocks may cancel out, this need not be the case at the level of household groups. Some household groups may turn out to be net contributors/debtors, while other household groups may turn out to be net receivers/creditors. For that reason, it is important in the compilation process to explicitly acknowledge inter-household flows and stocks and if they are not already covered in the aggregates of the household sector, compilers should derive separate estimates. Particular stocks and flows of relevance include current transfers (e.g., remittances), capital transfers (e.g., bequests, inheritances), second-hand trade, and loans (including the related interest flows).

32.106 Some accounting entries are specific to the national accounts and do not have a corresponding item in micro data sources. Such accounting entries will require imputations to allow for a complete allocation to the relevant household in compiling distributional results. Particular entries of relevance include employers' imputed social contributions, investment income disbursements (e.g., for life and non-life insurance), implicit financial services on loans and deposits, estimates for the non-observed economy and social transfers in kind. On the financial side, it may also concern currency and pension entitlements.

32.107 In addition to specific challenges in the compilation of distributional accounts for income, consumption and wealth separately, there is also a general challenge of ensuring coherence across the sequence of economic accounts, in particular between the financial accounts and non-financial accounts. At an aggregate level there is commonly a large statistical discrepancy that will also need to be considered for the various household groups.

32.108 Different household groups may face different price levels. Further, households in specific regions may for example face higher prices than in other regions. If these issues are of relevance, correction may be made using regional prices thus supporting fairer comparisons of income levels across households living in different regions. More generally, household groups may experience price changes differently, depending on the composition of their consumption basket. For that reason, it would be appropriate to have relevant price indices for each household group that may be used to analyse changes in real adjusted disposable income per household group.

32.109 In the derivation of equivalence scales, a value is assigned to each household type in proportion to its needs, often depending on their age, but possibly also taking into account other socio-demographic characteristics, such as sex or gender, level of income, labour force status and home ownership. The value may also depend on the specific delineation of the income or consumption measure that is analysed. For example, if the analysis includes social transfers in kind, this may require a somewhat different assignment of number of consumption units to the individual household members than when these transfers are excluded.

32.110 Furthermore, the value of the consumption unit may depend on the composition of consumption expenditure of various households. Thus, equivalence scales that are appropriate for lower income households may be less appropriate for higher income households due to different consumption patterns. For that reason, equivalence scales may differ across countries, as well as within a country for households with different socio-demographic characteristics.

32.111 As it is virtually impossible to derive equivalence scales that take into account all the relevant underlying factors, distributional studies often apply a simplified scale. Although this may have some caveats, it ensures consistency and transparency towards users, and also facilitates the assessment of the impact of the equivalence scale on the results. There are three commonly used equivalence scales in international comparisons:

- the square root of household size that, as it states, derives the number of consumption units by taking the square root of number of persons in the household;
- the OECD scale that assigns a value of 1 to the first household member, of 0.7 to each additional adult (14+) and of 0.5 to each child (up to 13); and
- the modified OECD scale that assigns a value of 1 to the household head, of 0.5 to each additional adult member (14+) and of 0.3 to each child (up to 13).

~~32.80~~32.112 These equivalence scales are often used in the analysis of the distribution of both income and consumption. With respect to wealth, the use of equivalence scales depends on the purpose of the analysis. The use of equivalence scales should be avoided when analysing the characteristics of individual components of wealth and distribution of net wealth. To control for different household structures, complementary analysis can be done on per capita basis. However, for the joint analysis of income, consumption and wealth, it is practical to use the same equivalence scales to adjust wealth as those used to adjust income and consumption. As mentioned above, in this case, wealth is treated as a source of future income streams that can be used to finance current consumption and contribute to current material well-being in the household (see also Section 7.3.6. of the OECD Guidelines on Micro Statistics on Household Wealth (OECD (2013)).

# Chapter 28: Non-financial corporations (revised title and revised content)

**(OLD Chapter 21: Measuring corporate activity)**

## A. Introduction

28.1 Non-financial corporations have long held an important role in the economy, but their role has shifted over time. For a long time non-financial corporations were the main organizational form for heavy industry such as manufacturing, mining, transport and utilities. Over time, their importance in producing services has grown, and the growth of digitalization has led to large non-financial corporations investing in software assets, databases and digital platforms. These changes have led to more investment in intellectual property products relative to traditional plant and equipment. Non-financial corporations have also become increasingly global, with growing importance to multinational enterprises, foreign direct investment, and outsourcing of production. This chapter discusses how these and other developments are reflected in the national accounts.

**Commented [ED1]:** A new introductory paragraph to reflect the new title of the chapter and to make it parallel to the introductory paragraph in chapter 29.

~~28.1~~28.2 This chapter discusses aspects particular to corporations, many of which are common to both the financial and non-financial corporation sectors. Chapter 29 will focus on topics that are particular to financial corporations, but most of the issues discussed in this chapter are relevant to both financial and non-financial corporations, so reference will be made to corporations in general terms except for a few issues that are specific to non-financial corporations.

**Commented [ED2]:** Explains that this chapter mostly discusses topics that are relevant for all corporations, both financial and non-financial.

~~28.2~~28.3 This chapter begins in section B by discussing the demography of corporations; how they come about, how they disappear and how they merge with one another. The consequences of these actions in the SNA are almost all to do with recording the acquisition of the owner's equity in corporations and in some cases reclassification of assets and liabilities between sectors. Section C looks at some subsectoring of non-financial corporations and how this can be effectively deployed for analysis. Section D considers the relationships between corporations in the domestic economy and in the rest of the world. Much of this section is concerned with aspects of globalization and the derivation of relevant indicators, topics which are covered in more detail in chapter 23. Section E recalls some of the discussion in chapter 17 and looks further at the contribution of assets to production. Section F looks at the consequences of financial distress and the implications of remedial action for recording within the SNA. The last section, section G, covers a rather different subject and looks at the emergence of commercial accounting standards such as the International Financial Reporting Standards (IFRS) and at the relationship between IFRS and the SNA.

### 1. A note on terminology

~~28.3~~28.4 As explained in section B of chapter 5, the term corporation is used in the SNA to cover a wide variety of legal forms of institutional units. In addition, the expression enterprise is used in connection with production activities. While corporation is normally the term of preference in the SNA, other documents, notably the *OECD Benchmark Definition of Foreign Direct Investment,* fourth edition (Organisation for Economic Co-operation and Development, 2008) referred to as the *BD*, tend to use enterprise in preference to corporation. Further, the register of all enterprises or corporations is usually called a business register, even though "business" is not a term commonly used in national accounts. In this chapter, all three terms are used without implying a difference between them.

## B. The demography of corporations

~~28.4~~28.5 Maintaining a list of corporations is similar to maintaining a list of all individuals present in the country in that it is necessary to record new corporations as they come into being and to record those that cease to be. A business register normally serves an administrative function in keeping track of the existing businesses in the economy but also serves as the basic sampling frame for surveys directed at businesses. Thus it is normal for a business register to contain information on the activity, size, location, etc. of each business and to note when the main activity of a corporation changes from one type of activity to another. In addition a business register may also include information on the links one corporation may have to other resident and non-resident corporations. Best practices in the development and maintenance of business registers are presented in *Guidelines on Statistical Business Registers* (United Nations, 2024).

## 1. The creation of corporations

~~28.5~~28.6 Corporations can come into being in a number of ways. One is when what was previously an unincorporated enterprise within the household sector becomes incorporated. (The exact process of incorporation, such as when this may or must happen and how it is effected, will depend on the company law in effect in the country concerned.) When this happens, the assets and liabilities that were previously indistinguishably part of the household are separated off and become those of the corporation. In return for giving up control of these assets, and responsibility for the liabilities, the household acquires equity in the new corporation, initially exactly equal in value to the assets less liabilities transferred to the corporation. This transaction is recorded in the financial account. Once an enterprise is incorporated, the owning household no longer has a claim on the assets and has no responsibility for the liabilities but instead owns the equity in the corporation.

~~28.6~~28.7 An individual may simply decide to set up a business, set up a legal entity and begin operations. Initially, there may be no assets of the entity and no liabilities but as these accrue they belong to the corporation and the owner's equity changes correspondingly. On a larger scale, there may be an agreement between a number of units, one or more of whom propose a business plan and one or more of whom agree to finance the operation. A formal agreement results in which the split of the rewards from the corporation's activity is determined and also the division of the responsibilities. The assets of the new corporation are recorded as being acquired by it and an amount of owner's equity in the corporation incurred as a liability towards the parties supplying the finance is also recorded.

~~28.7~~28.8 It is not necessary for the corporation to issue shares for the agreement on the share of the profit arising from the activities of the corporation to be binding. Cooperatives and limited liability partnerships are two examples of units the SNA treats as corporations where the way in which profits are shared between the owners is clear even though there are formally no shares.

~~28.8~~28.9 Corporations may also come into being at the initiative of government, an NPISH or a unit in another economy. In addition, a corporation may come into existence by the splitting of a previously existing corporation. This possibility is discussed below under mergers and acquisitions.

## 2. The dissolution of corporations

~~28.9~~28.10 Similarly there are several ways in which corporations may go out of existence. The first is when an entity is wound up after having been declared bankrupt. (The exact process varies from country to country. In some countries a declaration of bankruptcy means the corporation must stop trading immediately and the process of winding up its affairs begins. In other countries, there may be a time lag while the corporation has an opportunity to continue trading while it tries to recover its position and only if this fails is it wound up.) When a corporation is wound up, the receiver (the unit responsible for administering the liquidation of the corporation) sells all of its assets and distributes the proceeds amongst those having a claim on the corporation in a legally predetermined order. The shareholders are normally the last to be allocated any proceeds. In the case where the corporation is bankrupt it is quite common that the shareholders receive nothing. Only in very exceptional circumstances will the shareholders have any responsibility to provide funds towards settling other liabilities of the corporation.

~~28.10~~28.11 A corporation may be wound up voluntarily by its owners. When this happens the assets are sold and the proceeds are divided amongst the owners according to the shares each has in the corporation. If the corporation is one that had issued shares, it can only be wound up if a clear majority of shareholders agree or if a clear majority of the shares are first acquired by a sufficiently small number of units who can reach agreement to wind up the corporation.

~~28.11~~28.12 The acquisition of all shares of a corporation need not be a preliminary to the corporation ceasing to exist; it may simply continue with a smaller number of shareholders or even as a private unlisted corporation. The advantage of remaining incorporated is that there is a limit to the liability of the owners to meet any shortfall on the corporation's balance sheet. Thus even when an individual or group of individuals wants to control the whole of a corporation they may choose simply to make it an unlisted corporation but still one with the limited liability that comes with incorporation.

~~28.12~~28.13 A third way in which a corporation may disappear is through it being merged with another corporation, though a merger does not automatically imply the merged corporation disappears. This too is discussed below under mergers and acquisitions.

## 3. Nationalization and privatization

~~28.13~~28.14 The government may decide to take ownership of a corporation for a number of reasons, either because it is felt it is in the public interest for government to control the corporation, in response to financial distress or for other reasons. When this happens the ownership of the corporation passes to the government, that is the government acquires the equity in the corporation, but the assets of the corporation remain on its balance sheet unless the government decides to nationalize the corporation and disband it at the same time. Often but not always, government may make a payment to the previous owners of the corporation but this may not necessarily correspond to their view of a fair price. Unless the corporation is dissolved, the process of nationalization leads to a change in the ownership of the corporation from private units to the government but the assets and other liabilities of the corporation continue to be owned by the corporation. The sale or purchase of equity in the corporation is recorded as a transaction in the financial account. There is also a reclassification of the assets and liabilities of a corporation being nationalized from the national private subsector to the public subsector recorded in the other change in the volume of assets account.

~~28.14~~28.15 The government may also decide to privatize a corporation it currently controls. When this happens the most usual mechanism is that its shares are offered to the public either for sale or, in some cases, without charge or perhaps at a price lower than the market would bear. When shares are offered free or at a reduced price, a capital transfer from government to the eventual shareholders needs to be recorded in the accounts as well as the acquisition of shares. As with nationalization, only the equity in the corporation changes hands, not its assets and other liabilities, and the change in ownership of the equity is recorded as a transaction in the financial account. The ownership of the assets and liabilities remains with the corporation but they are reclassified from the public to national private subsector in the other changes in the volume of assets and liabilities account.

~~28.15~~28.16 There is more discussion on nationalization and privatization in chapter 30.

## 4. Mergers and acquisitions

~~28.16~~28.17 The process of corporations merging and de-merging is of interest within an economy but especially interesting when the merger (or de-merger) involves units in different economies. Foreign direct investment can hardly be discussed without considering the subject of mergers and acquisitions. Some of the expressions commonly used in this field are listed below. The descriptions come from the BD but similar concepts appear also in the BPM7.

~~28.17~~28.18 A merger refers to the combination of two or more corporations to share resources in order to achieve common objectives. A merger implies that, as a result of the operation, only one entity will survive and frequently occurs following an acquisition (described below). There are several types of merger possible.

a. A *statutory merger* relates to the business combination where the merged (or target) corporation will cease to exist. The acquiring corporation will assume the assets and liabilities of the merged corporations. In most cases, the owners of merged corporations remain joint owners of the combined corporation.

b. A *subsidiary merger* relates to an operation where the acquired corporation becomes a subsidiary of the parent corporation. In a reverse subsidiary merger, a subsidiary of the acquiring corporation will be merged into the target corporation.

c. *Consolidation* is a type of merger which refers to a business combination whereby two or more corporations join to form an entirely new corporation. All corporations involved in the merger cease to exist and their shareholders become shareholders of the new corporation. The terms consolidation and merger are frequently used interchangeably. However, the distinction between the two is usually in reference to the size of the combining corporations. Consolidation relates to an operation where the combining corporations have similar sizes while merger generally implies significant differences.

d. A *reverse merger* is a deal where the acquiring corporation ceases to exist and merges into the target corporation. If a corporation is eager to get public listing in a short period of time, it can buy a corporation with listed shares and merge into it in order to become a new corporation with tradeable shares.

e. A *merger of equals* is a type of merger where the corporations involved are of similar size.

~~28.18~~28.19 An acquisition is a transaction between two parties based on terms established by the market where each corporation acts in its own interest. The acquiring corporation achieves control of the target corporation. The target corporation becomes either an associate or a subsidiary or part of a subsidiary of the acquiring corporation.

a. A *takeover* is a form of acquisition where the acquiring corporation is much larger than the target corporation. The term is sometimes used to designate hostile transactions. However, mergers of equals (in size or belonging to the same sector of activity) may also result in a hostile takeover.

b. A *reverse takeover* refers to an operation where the target corporation is bigger than the acquiring corporation.

~~28.19~~28.20 A divestment (de-merger) refers to the selling of the parts of the corporation due to various reasons:

a. A subsidiary or part of the corporation may no longer be performing well in comparison to its competitors;

b. A subsidiary or a part may be performing well but may not be well positioned within the industry to remain competitive and meet long-term objectives;

c. Strategic priorities of the corporation to remain competitive may change over time and lead to divestments;

d. Loss of managerial control or ineffective management;

e. Too much diversification may create difficulties and thus lead the parent corporations to reduce the diversification of its activities;

f. The parent corporation may have financial difficulties and may need to raise cash;

g. Divestments may be realized as a defence against a hostile takeover.

~~28.20~~28.21 Corporate divestments can be conducted in different ways:

a. A *corporate sell-off* is the sale of a subsidiary to buyers that are other corporations in most cases.

b. A *corporate spin-off* occurs when the divested part of a corporation is floated on the stock exchange. The newly floated corporation is separately valued on the stock exchange and is an independent corporation. The shares in the newly listed corporation are distributed to the shareholders of the parent corporations who thereafter own shares in two corporations rather than one.

c. An *equity carve out* is similar to a corporate spin-off but the parent retains the majority control. This form has the advantage of raising cash for the divestor.

d. *Management buy-outs and buy-ins* occur when the buyer is the manager or a group of managers of the corporation that is being sold off.

~~28.21~~28.22 In all these cases, transactions in the equity of the two corporations involved need to be recorded in the financial account and, possibly, a change of classification by sector in the other changes in the volume of assets and liabilities account.

## C. Subsectors

~~28.22~~28.23 The subsectoring of the non-financial corporations sector~~s~~ is discussed in section D of chapter 5. There is a three-way split of corporations between those that are national private corporations, those that are controlled by the government (public corporations) and those that are foreign controlled. Within national private corporations and public corporations, "of which" items are included for domestically controlled public and private corporations that are part of a domestic multinational enterprise group (or "MNE" group, see paragraph 5.38). Furthermore, for countries where this is important, it is recommended to include within foreign-controlled corporations "of which" items for SPEs. In addition to these breakdowns according to ultimate control, it is also desirable to distinguish between market non-profit institutions (NPIs) and for-profit institutions (FPIs). The subsectors are shown in table 5.2 in chapter 5.

~~28.23~~28.24 The reason for identifying NPIs is twofold. In the first place, in order to have a comprehensive picture of NPIs, as described in chapter 31, it is necessary to be able to identify those market NPIs that are assigned to the corporations sector. Identifying them separately may be unexpected to some users, since there is often a misconception that all NPIs are non-market and fall in the NPISH sector. The other reason for identifying NPIs separately is that for some analyses it may be desirable to analyse corporations excluding the NPIs if it is felt that their economic behaviour is significantly different.

~~28.24~~28.25 In identifying publicly controlled corporations, there is a question about how to provide long time series if there has been a significant change in the number and type of corporations subject to public control during the period. It is usual to provide a time series that includes only those corporations that were subject to public control at each period in question. Because interest usually focuses on how much of the corporate sector was controlled by the government, and how this has changed over time, this gives an appropriate picture. However, if the intent is to explore the behaviour of the same group of corporations over time a supplementary table may be prepared that takes the current definition of publicly controlled corporations and uses this set of corporations over the time period considered regardless of whether or not they were publicly controlled for the whole of that period.

~~28.25~~28.26 Identifying foreign controlled corporations and domestically controlled corporations that are part of an MNE group is key to looking at the interaction between the domestic economy and the rest of the world. Chapter 23 discusses the role of MNEs and members of MNE groups in the economy and describes supplementary data that can be used for monitoring the activities of foreign controlled corporations and domestic MNEs. Exploring this in greater detail is the subject of the following section.

## D. Relations between corporations in different economies

~~28.26~~28.27 Deregulation of markets, technological innovations and cheaper communication tools have allowed investors to diversify their participation in competitive markets abroad. In consequence, a significant increase in cross- border financial movements including direct investment has become a key factor in international economic integration, more generally referred to as globalization.

~~28.27~~28.28 Regular analysis of direct investment trends and developments is an integral part of most macroeconomic and cross-border financial analysis. It is of prime importance to policy analysts to identify the source and destination of these investments. Several indicators based on direct investment statistics facilitate the measurement of the extent and impact of globalization.

## 1. Foreign direct investment

~~28.28~~28.29 Foreign direct investment (FDI) is a key feature of the external accounts and it is useful to review some of the basic concepts associated with this. Further details can be found in both BPM7 and the BD. In the context of FDI, the term enterprise tends to be used rather than corporation, but as noted in the introduction, no difference of meaning is intended.

~~28.29~~28.30 Direct investment statistics embody four distinct statistical accounts:

a. Investment positions,

b. Financial transactions,

c. Associated income flows between enterprises that are related through a direct investment relationship, and

d. Other changes in the value of assets and liabilities, especially revaluation terms.

~~28.30~~28.31 Direct investment is a category of cross-border investment associated with a resident in one economy (the direct investor) having control or a significant degree of influence on the management of an enterprise (the direct investment enterprise) that is resident in another economy. Ownership of 10 percent or more of the voting power is evidence of a direct investment relationship.

~~28.31~~28.32 Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investors are different from those of portfolio investors who do not have significant influence on the management of the enterprise.

~~28.32~~28.33 Direct investment enterprises are corporations which may either be subsidiaries in which over 50 per cent of the voting power is held, or associates in which between 10 per cent and 50 per cent of the voting power is held or they may be quasi-corporations, such as branches, which are effectively 100 per cent owned by their respective parents. Enterprises that have no direct investment influence upon one another (that is the 10 per cent voting power criterion is not met) but are directly or indirectly influenced in the ownership hierarchy by the same enterprise (which must be a direct investor in at least one of them) are described as fellow enterprises.

~~28.33~~28.34 Direct investment relationships are identified according to the criteria of the Framework for Direct Investment Relationships (FDIR, described in the BD), including both direct and indirect relationships, through a chain of ownership. Suppose that corporation A controls corporation B and B controls C then A in effect has control over C also.

## 2. FDI and globalization

~~28.34~~28.35 Direct investment positions show an important class of investment made abroad and received from abroad, divided between equity and debt, at a given reference point in time. FDI positions as a percentage of GDP give one indication of the extent of globalization at that time. These structural indicators demonstrate the interdependence of economies.

~~28.35~~28.36 Financial transactions show the net inward and outward investments with assets (acquisitions less disposals or redemptions) and liabilities (incurrence less discharges) presented separately by instrument in any given period. FDI financial transactions expressed as a percentage of GDP provide one indicator of the changes over that period in the degree of globalization of an economy. This indicator provides early information on the relative attractiveness of economies (both domestic and foreign) for new investments after allowing for the withdrawal of investments or disinvestment during the same time period.

~~28.36~~28.37 Direct investment income provides information on the earnings of direct investors and of the direct investment enterprises. Direct investment earnings arise (i) from distributed earnings as well as undistributed earnings which are treated as reinvestment of earnings in that enterprise and (ii) from interest on inter-company loans, trade credit and other forms of debt. FDI income flows as a percentage of GDP provide information on the relative importance of the earnings of direct investment in both the reporting economy and abroad.

### 3. The role of "pass through funds"

~~28.37~~28.38 "Pass through funds" or "funds in transit" are funds that pass through a direct investment enterprise resident in one economy to an affiliate in another economy, so that the funds do not stay in the economy of the affiliate. Such flows have little impact on the economy they pass through. While special purpose entities, holding companies and financial institutions that serve other non-financial affiliates are particularly associated with funds in transit, other enterprises may also have pass through funds in direct investment flows.

~~28.38~~28.39 Pass through funds are included in direct investment in standard presentations because they are an integral part of a direct investor's financial transactions and positions with affiliated enterprises. (An exception is made for positions in debt instruments between related financial institutions.) Excluding these funds from direct investment would distort and substantially understate direct investment financial flows and positions at aggregate levels. Further, inclusion of these data in direct investment promotes symmetry and consistency among economies. However, for the economies through which the funds pass, it is useful to identify inflows and outflows not intended for use locally by the entity concerned.

~~28.39~~28.40 FDI has a key role to play in development, especially in emerging countries. In order to explore how much of global FDI reaches these countries, and where it originates, a supplementary analysis is useful. Such an analysis identifies the country where the pass through funds originate by identifying the first unit other than a pass through fund in the host or investing economy (in the outward or inward chain) as appropriate.

### 4. Ultimate investing country

~~28.40~~28.41 Presentations of FDI according to the *BD* show the country of the immediate counterparty and the industry of the immediate counterparty for outward FDI. For inward FDI, it is possible to determine not only the immediate counterparty but also the ultimate investor. The ultimate investor for this purpose is the enterprise that has control over the investment decision to have an FDI position in the direct investment enterprise. As such the ultimate investor controls the immediate direct investor. It is identified by proceeding up the immediate direct investors ownership chain through the controlling links (ownership of more than 50 per cent of the voting power) until an enterprise is reached that is not controlled by another enterprise. If there is no enterprise that controls the immediate direct investor, then the direct investor is effectively the ultimate investor in the direct investment enterprise.

~~28.41~~28.42 The country in which the ultimate investor is resident is the ultimate investing country in the direct investment enterprise. It is possible that the ultimate investor is a resident of the same economy as the direct investment enterprise. (A controls B controls C. A and C are resident in the same economy but B is resident in another.) This phenomenon is known as round tripping.

~~28.42~~28.43 In order to transform the usual presentation by country to the supplementary ultimate investing country presentation, the entire FDI position that is attributed to the country of residence of the immediate direct investor(s) is allocated to the country of residence of the ultimate controlling parent.

### 5. Multinational enterprises

28.44 As well as information relating to (foreign) direct investment where only a 10 per cent voting power is required to identify a (foreign) direct investor, there is interest in analysing the activities of members of MNEs~~)~~ groups, where control is determined to exist through (i) an immediate (foreign) direct investment relationship where the direct investor owns more than 50 per cent of the voting power in the (foreign) direct investment corporation; or (ii) an indirect (foreign) direct investment relationship arising from the ownership of voting power in one direct investment corporation that owns voting power in another corporation(s) – indirectly through a chain of control (see paragraphs 5.126 to 5.127). Thus the members of MNE groups correspond to foreign controlled enterprises in the sense of subsectors in the SNA.

~~28.43~~28.45 If a domestically controlled public or private corporation is an MNE or is a member of an MNE group, i.e., it is either the ultimate controlling parent of one or more foreign corporations or it is controlled by a domestic MNE that is the ultimate controlling parent of one or more foreign corporations, then it should be classified as part of an "of which" subsector of corporations that are part of a domestic MNE (see paragraph 5.38). Section E of chapter 23 describes a template for institutional sector accounts and external accounts with additional granularity and SPEs (figure 23.6) which is designed to present details on foreign controlled corporations and domestically controlled public and private corporations that are part of domestic MNE groups.

28.46 In addition to statistics on the activities of MNEs, statistics are also available for the wider group of corporations with links in other economies, not just those where there is majority ownership, called foreign affiliates. These statistics are known as Foreign AffiliaTes Statistics (FATS), and are described in European Business Statistics Compilers' Manual for Foreign Affiliate Statistics (FATS) (Eurostat, 2024) and elaborated in Measuring Globalisation: Handbook on Economic Globalisation Statistics (Organisation for Economic Co-operation and Development, 2005). Work is continuing to ensure the consistency of the various sets of statistics cited in these and other publications on globalization.

~~28.44~~28.47 Another template for supplementary data presented in chapter 23 (table 23.2) identifies the role of enterprise characteristics in the current account. The template breaks down domestic versus foreign ultimate control and also calls for the identification of small and medium-sized enterprises. The chapter also suggests providing statistics on the Activities of Multinational Enterprises (AMNE statistics) and the closely related FATS. These statistics provide an additional perspective on the impact of foreign direct investment that is complementary to data on international flows and positions.

### 6. Outsourcing

~~28.45~~28.48 There are two ways in which a non-financial corporation A in economy X may have another non-financial corporation B in economy Y assemble parts for it. Although the effect appears similar, the consequences for recording in the accounts are quite different. Suppose that A and B are unrelated enterprises, and B contracts to do work for A in return for a fee. (This case is described elsewhere, for example in chapter 36.) In this case there is no recorded transfer of the items from A to B (or X to Y). Only the agreed fee is recorded as a transaction between the two economies.

~~28.46~~28.49 However, if A and B both belong to the same group of corporations, then it may be the case that there is a transfer of the risks and rewards of the items on their dispatch from A to B. The question is whether a realistic price is entered for the items in the trade figures for both A (and X) and B (and Y) as the items move internationally. When A and B are related, transfer pricing is used to value the transactions between affiliated enterprises. In some cases the transfer prices may be distorted. Suppose the tax regime in Y is more liberal than that in X. It may then be the case that A artificially lowers the price of the items dispatched to B in order to minimize profits in X while B records a higher profit subject to the lower tax regime in Y. In principle, international accounting standards and the balance of payments recommendations indicate that items transferring across borders should be valued at "arm's length" prices, that is to say prices that would prevail if there were no relationship between the two corporations involved. Making such an adjustment is not easy but it is in the interests of tax authorities, customs officials and the statistician to see whether appropriate adjustments can be made if the sums involved are significant and adjustments can be made with sufficient reliability. Other aspects of global production are discussed in section B of chapter 23.

## E. The contribution of assets to production

~~28.47~~28.50 Chapter 17 discusses the role of capital services in production and the calculation of multifactor productivity (MFP). The assets to be considered in calculating productivity are those fixed assets that are both owned and used by the enterprise plus any natural resources and other non-produced assets including contracts, leases and licences and possibly marketing assets they both own and use in production. Assets that are not legally owned by the enterprise but are subject to a financial lease are included in the calculations in the same way that they are recorded on the balance sheet of the enterprise. However, assets that are leased under an operating lease agreement are excluded. This may mean two enterprises undertaking similar activities using similar assets may show different productivity figures because one uses assets it owns and the other assets that it leases. An area for supplementary analysis is to consider compiling information on assets according to the using rather than the owning industry and to look at the implications for operating surplus and productivity of the use of leased rather than owned assets.

## F. The consequences of financial distress

~~28.48~~28.51 Signs that a non-financial corporation is suffering financial distress include the level of profits that it has been generating recently and possibly the level of dividends it is able to offer. It is also probable that it suffers a cash flow problem and is unable to meet its liabilities on a timely basis. Competitors may take the opportunity to launch a takeover bid. However, if no takeover bid is offered the question here is how the corporation may survive at all.

~~28.49~~28.52 In a similar way, a financial corporation may suffer financial distress because it has difficulty in raising finance and is unable to service its liabilities. Again this is a circumstance in which a competitor may launch a takeover bid but this may not always be forthcoming.

~~28.50~~28.53 If the corporation, whether financial or non-financial, is deemed to be of national importance this may be an instance where government steps in and offers either to take over the corporation, in effect nationalizing it, or may offer a major capital injection in return for a degree of control, possibly full control, of the corporation. The recording of nationalization and capital injections by government as well as of the steps that may be taken under a bailout are discussed in chapter 30.

~~28.51~~28.54 Another possibility is that the government offers a guarantee to the creditors of the corporation in distress. The activation of a one-off guarantee is treated in the same way as a debt assumption. The original debt is liquidated and a new debt is created between the guarantor and the creditor. In most instances, the guarantor is deemed to make a capital transfer to the original debtor, unless the guarantor acquires an effective claim on the creditor, in which case it leads to the recognition of a financial asset (a liability of the debtor). The recording of guarantees including those offered by government is discussed in part B of chapter 25.

### 1. Bad debts

~~28.52~~28.55 All corporations, but especially financial corporations, may suffer from bad debts and this phenomenon may be particularly acute when other aspects of the economy also exert financial pressure on the corporation. Within the SNA, loans are always recorded as the amount that is due to be repaid to the creditor. In cases where the debtor has a bad credit rating this may overstate the market value of the loan. This is seldom done on a loan by loan basis but is regularly done for classes of loans.

~~28.53~~28.56 The SNA identifies a subset of bad debts as non- performing loans. As explained in paragraph 14.76, these are loans whose payments of interest or principal are past due by 90 days or more or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less than 90 days overdue, but there are other good reasons (such as a debtor filing for bankruptcy) to doubt that payments will be made in full. The SNA recommends that memorandum items be compiled for the accounts showing the nominal and market value of bad loans and the implications for interest flows, the amount of interest accruing on the nominal value, the amount of interest outstanding from previous periods and the amount relating to the current period that is unpaid. The proposed memorandum items are discussed in paragraphs 14.77 to 14.78.

~~Elaborating the accounting for assets where the market value suddenly diverges from past trend values and the whole question of when it might be appropriate to define and use "fair values" is one item on the research agenda as explained in annex 4. In addition, circumstances emerging from the credit crisis that emerged in 2008 will continue to be monitored to see if other memorandum items or other steps should be recommended.~~

### 2. Debt rescheduling

~~28.54~~28.57 According to the accrual basis, repayments of debts are recorded when they are extinguished (such as when they are paid, or rescheduled, or forgiven by the creditor). When arrears occur, no transactions should be imputed, but the arrears should continue to be shown in the same instrument until the liability is extinguished. See paragraph 4.223 for more information.

## G. Links to International Financial Reporting Standards (IFRS)

~~28.55~~28.58 The *International Financial Reporting Standards* (IFRS are a comprehensive set of accounting standards designed to apply to the general purpose financial statements and other financial reporting of profit-oriented entities.

~~28.56~~28.59 There is a close relationship between the SNA and IFRS. They are both accrual-based accounting standards and have similar measures of revenues, expenditures, assets and liabilities and similar accounting concepts of control, economic substance, recognition, and valuation. Compilation of macroeconomic statistics in accordance with the guidelines of the SNA is facilitated by the adoption of IFRS by profit-oriented entities.

~~28.57~~28.60 The SNA and IFRS have different objectives. The objective of general purpose financial statements is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. The SNA is an integrated system of accounts covering the total economy and its five institutional sectors, two of which are the financial corporations and the non-financial corporations.

~~28.58~~28.61 This difference in objectives causes some differences in the information presented and in how accounting concepts are implemented. The main differences between IFRS and the SNA involve reporting entity, scope, consolidation, recognition of assets, recognition of liabilities, valuation, and the treatment of revaluations and other changes in volume. Table 28.1 summarizes the differences between SNA and IFRS.

**Table 28.1. Comparison of SNA and IFRS**

| System of National Accounts | IFRS |
|---|---|
| **Objective** | |
| Allow users of macro-economic statistics to monitor and analyze the performance of the economy. | To provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. |
| **Reporting entity** | |
| Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. However, the primary focus is on groups of institutional units (sectors or subsectors). | An entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity. |
| **Scope** | |
| Total economy and the resident units comprised by its five institutional sectors. The general government sector includes government units at all levels of government, social security funds, and non-market producers controlled by government units. | Profit-oriented entities engaged in commercial, industrial, financial and similar activities, whether organized in corporate or in other forms. |
| **Consolidation** | |
| Flows between the units within a sector or subsector are generally not consolidated.<br>Consolidated accounts are compiled for complementary or analytical presentations, including for the general | IFRS requires presentation of consolidated financial statements for the controlling entity. In this case, the reporting unit is the group, defined as the parent and its subsidiaries. Control is the main criterion that determines |

**Commented [ED3]:** This section has been redrafted in response to Recommendation 7 of Guidance Note AI.1: "When it comes to valuation of transactions and positions in the SNA and BPM, it is also recommended to provide more details on the relationship between the SNA and BPM on the one hand, and business and public sector accounting standards on the other."

| System of National Accounts | IFRS |
|---|---|
| government sector. | consolidation. |
| **Recognition of assets** | |
| Based on economic ownership. The economic owner of a non-financial asset or financial asset is the institutional unit entitled to claim the benefits associated with the use of the asset by virtue of accepting the associated risks. | Based on control. Control of the resource entails the ability to use the economic resource and obtain the economic benefits that may flow from it. |
| **Recognition of liabilities** | |
| To maintain symmetric recording in the integrated framework of economic accounts, liabilities are only recognized when there is a recognizable corresponding claim of a counterparty. For example, provisions for one-off guarantees and bad debts are recognized in IPSAS but not in the main framework of economic accounts. | A liability is recognized whenever there is a present obligation of the entity to transfer economic resources as a result of past events. In IFRS, there is no need for a counterparty to recognize an asset for the reporting entity to recognize the liability. |
| **Valuation** | |
| Current market prices are used to value flows and stocks. Production cost, the market price of a similar item, the written-down current replacement cost or present value of future benefits may be used as alternative valuation methods if a market price is unavailable. | On initial recognition, IFRS requires measurement at transaction price. On subsequent measurement, historical cost, fair value, value in use, fulfilment value, or current cost can be used. |
| **Revaluations and other volume changes** | |
| Holding gains or losses are reported in the revaluation account, and changes in volume are reported and in the other changes in volume of assets and liabilities account. | Some gains or losses due to changes in prices or changes in volume of assets and liabilities are recognized in the Statement of Profit of Loss and some are recognized in the Statement Presenting Comprehensive Income. |

~~28.59~~28.62 For multinational enterprises, the standard accounts may be available only for the group as a whole where relationships between enterprises in different countries have been consolidated. In this case, national accountants would need to consult other sources for the required non-consolidated data.

~~28.60~~28.63 Three particular areas where the IFRS adopts approaches somewhat different from the SNA are in the area of the recognition of holding gains and losses as income, in the recording of provisions and contingent liabilities, and in recording operating leases for lessees (where the IFRS has a treatment that is inconsistent between lessors and lessees). As discussed in paragraph 14.114, certain types of provisions should be recorded as supplementary items in SNA balance sheets. For operating leases with a term of more than 12 months, the IFRS requires the lessee to recognize an asset and associated liabilities, even though those assets and liabilities are also recognized by the lessor. The SNA treatment of operating leases is based on the concept of economic ownership and treats operating leases, regardless of duration, as not involving a change of economic ownership (see section B of chapter 27).

~~28.61~~28.64 In addition to the IFRS for private corporations, the International Public Sector Accounting Standards (IPSAS) perform a similar function for government bodies. There is a discussion of the IPSAS in chapter 30.

**Commented [ED4]:** GN WS.9 - recording of provisions

# Chapter 31: Non-profit institutions

**(OLD Chapter 23: Non-profit institutions)**

Note: The changes introduced in this chapter are to maintain consistency with the 2018 *Handbook on Satellite Account on Non-profit and Related Institutions and Volunteer Work*. The 2018 handbook updated the recommendations of the 2003 *Handbook on Nonprofit Institutions in the System of National Accounts* by extending the coverage of the satellite account beyond NPIs to include related institutions in the social economy such as cooperatives, mutual societies and social enterprises with a primarily social or public benefit purpose.

## A. Introduction

### 1. Non-profit institutions in the SNA

31.1 Non-profit institutions (NPIs) play a somewhat unusual role in the SNA. Like corporations, some NPIs produce goods and services for sale with the intention to cover costs – that is to say, as market production. In common with other market producers, they cannot undertake final consumption. Like government units, some NPIs are non-market producers and make their output available free or at prices that are not economically significant to individual households or the community at large. Some of these non-market NPIs are controlled by government and included in the general government sector but those that are not are grouped in their own sector, the non-profit institutions serving households (NPISHs).

31.2 Most NPIs are separately identified institutional units. That is, they are capable in their own right of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities. It follows that a complete set of accounts for the unit, including a balance sheet of assets and liabilities, exists or could be constructed if required. In some countries, especially developing countries, an NPI may be an informal entity whose existence is recognized by society but does not have any legal status.

31.3 The distinguishing feature that identifies an NPI is that its status does not permit it to be a source of income, profit or other financial gain for the units that establish, control or finance it. An NPI may make a profit, it may be exempt from taxes, and it may have a charitable purpose, but none of these are determining characteristics. The only essential criterion for a unit to be treated as an NPI is that it may not be a source of income, profit or financial gain to its owners.

31.4 All NPIs produce goods and services, most often services~~,~~ intended for consumption by households or by corporations. Some NPIs that produce services for corporations typically ~~charging~~ charge fees (sometimes described as subscriptions and membership dues) intended to cover costs. They are often set up as associations that provide services exclusively to members. The level of fees charged, the price of membership, typically satisfies the SNA criteria of economically significant prices. For this reason, these NPIs are allocated to the corporations sectors. An example of an NPI serving corporations is a trade association.

31.5 A non-market NPI may be controlled by government in that government may appoint its officers and determine the objectives of the institution. It is treated as an institutional unit separate from government because it has independent control of its budget (even if much or all of the funding comes from government) but it is allocated to the general government institutional sector. Such institutions provide individual and collective services. An example is a research institute controlled by government.

31.6 Other NPIs exist to provide goods and services to households either in return for a fee or free. When fees are charged, these may or may not cover a large proportion of the NPI's costs and therefore may or may not be deemed to be economically significant prices. When the fees charged are regarded as being economically significant, the NPIs concerned are treated as providing market goods and services and are allocated to the corporations sectors. Otherwise, the NPIs fall into the institutional sector of NPISHs.

31.7 Thus it is possible to categorize NPIs as follows:

a. those providing services to corporations whose output is sold to the corporations concerned and treated as intermediate consumption;

b. those that are controlled by government and provide individual or collective services on a non-market basis;

c. those providing goods and services to households, divided between:

- those that provide goods and services to individual households at economically significant prices;
- those providing services to individual households free or at prices that are not economically significant;
- those that provide collective services free or at prices that are not economically significant.

31.8 Those NPIs that fall under the first bullet point in category (c) are allocated to the corporations sectors and expenditure on their output is treated as final consumption expenditure by households. Those that fall under the second bullet point under (c) are allocated to the NPISH sector and their output is treated as actual final consumption of households delivered as social transfers in kind. Those that fall under the third bullet point under (c) are also allocated to the NPISH sector, but their output remains as actual final consumption of NPISHs.

31.9 There are thus ~~a number of~~ four sectors where NPIs appear in the SNA: in both the financial and non-financial corporations sectors, in the general government sector and in the separate sector of NPISHs. Compilation of subsectors of the first three sectors ~~are established to~~ that contain NPIs only is recommended to increase the visibility of market and government-controlled NPIs. Those NPIs in the corporations sectors may be further subdivided to show those that are foreign controlled, those that are publicly controlled, and those that are subject to national private control. The NPIs in the general government sector may be subdivided by level of government; central, state, and local government. NPISHs may be divided between those that are foreign controlled and those subject to national private control.

## 2. The accounting rules for NPIs in the SNA

31.10 The output of NPIs is valued in the same way as for all institutional units. If the unit is a non-market producer, output is valued at the sum of costs, including ~~consumption of fixed capital but excluding a return to capital~~ depreciation and a return to capital. If the unit is a market producer, output is measured by sales adjusted for changes in inventories and any production for own capital formation~~. For some NPIs that cover a large proportion but not all their costs from sales,~~. Some of the latter NPIs may fall short of covering all their costs from adjusted sales, leaving the unit with a negative operating surplus. This negative operating surplus ~~is~~ may be covered by donations (current transfers).

## 3. A ~~satellite account for NPIs~~ thematic account on NPIs and other social economy institutions

31.11 For some time, there has been growing interest in studying the contribution to the economy of institutions such as NPIs because they are seen to constitute significant presence of growing economic and policy ~~interest~~relevance. Such institutions are variously referred to as “non-profit”, “voluntary”, “civil society” or “non-governmental” organizations and collectively as the “third”, “social economy”, “voluntary”, “non-profit” or “independent” sector~~.~~ attract interest because their operating characteristics are somewhat different from those of other units in the corporations and government sectors. Specifically:

a. They are not permitted to distribute profits (if an NPI) or are significantly restricted in their ability to distribute profits;

b. They may produce public goods as well as private goods;

c. They may receive as much or more from current transfers than they receive from selling their output;

d. They may depend on volunteer labour as well as paid labour;

e. Because they typically cannot pay dividends, they cannot attract equity capital in competition with corporations;

f. They may be eligible for special tax advantages ~~in many countries~~;

g. They typically have special legal provisions covering the governance, reporting requirements, political participation and so on;

h. Although they provide public goods and services, they do not have the same powers or restrictions as government in deciding what these goods and services should be and how they should be allocated.

31.12 ~~Arising out of this interest, a satellite account for NPIs has been developed as described in the *Handbook on Non-Profit Institutions in the System of National Accounts* (United Nations, 2003). Sections B and C describe the essential features of this satellite account. Section D discusses some other aspects of NPIs that it may be desirable to explore in addition to the satellite account.~~ The integrated framework of economic accounts provides limited visibility into the importance of NPIs in the economy because a large number of these NPIs are likely to be subsumed within the aggregates for corporations and government. To bring visibility to NPIs, guidelines for a thematic account on NPIs and related institutions have been developed, as described in the *Handbook on National Accounting: Satellite Account on Non-Profit and Related Institutions and Volunteer Work* (United Nations, 2018). This thematic account also contains data on related institutions with a social or public benefit purpose that are not NPIs and on volunteering. Sections B and C describe the essential features of this thematic account.

## B. The units included in the thematic account on non-profit and related social economy institutions

31.13 The starting point for developing a thematic account is to identify the units of interest. ~~As will be seen, the units chosen coincide largely (but not quite entirely) with the units described as NPIs in the SNA. One way of approaching a satellite account, therefore, would be to consider compiling~~ One possible approach would be to compile the complete sequence of accounts for an NPI sector made up of the NPI subsectors in the non-financial corporations sector, the financial corporations sector and the general government sector, and the whole of the NPISH sector. However, ~~because many of those interested in accounts for NPIs only do not come from an SNA background, the handbook starts by identifying characteristics of the units of interest.~~ many of the analytical questions related to NPIs require a broader view of institutions that have a social or public focus that includes some units that are not NPIs. Expanding the boundary of the concept covered by the thematic account to include these units therefore enhances the usefulness of the thematic account.

### 1. ~~Determining characteristics of units for the satellite account~~Characteristics of the units included in the thematic account on non-profit and related social economy institutions

31.14 Various alternatives have been put forward for the concept around which a ~~satellite~~thematic account for non-profit institutions could be formulated. The first of these is the concept of the "social economy" which depicts non-governmental institutions with a social or collective purpose. ~~Typically,~~ Mutual societies, cooperatives and associations would be included.

31.15 The second concept is that of "public benefit" organizations. This covers a narrower range of institutions that serve a broad public purpose and excludes institutions that serve only their own members

31.16 ~~In between these two is the concept of the non profit sector on the lines initially pioneered by the Johns Hopkins Comparative Non Profit Sector Project. In this project a definition of the non-profit units was elaborated along structural-operational lines.~~ The “third sector” or “social economy sector” covered by the thematic account discussed in the *Handbook on National Accounting: Satellite Account on Non- Profit and Related Institutions and Volunteer Work* encompasses non-governmental institutions that have social or public primary purpose. In the case of the related institutions, a restriction limiting the share of a unit’s profit that can be distributed to its members or owners to no more than half is generally treated as consistent with having a social or public primary purpose. The requirements for inclusion in the thematic account as an NPI or related type of institution are the following:

a. The organizations should exist as identifiable institutions;

b. They should be institutionally separate from government;

c. They d~~o not~~are not permitted to distribute profits (if an NPI), or are significantly restricted in their ability to distribute profits;

d. They are self-governing ~~,~~ that is to say they are not subject to control by other units;

e. Membership ~~of~~ in the unit is neither obligatory nor automatic but involves some degree of voluntary participation.

31.17 The main exclusions from the set of NPIs recognized in the SNA are those NPIs allocated to the general government sector because, although they are institutionally separate from government, they are controlled by government units. There are a small number of informal, usually temporary, NPIs that may be excluded also. These are discussed in section D.

## 2. Examples of non-profit units included

31.18 The following are illustrative examples of the kinds of entities that are likely to be found within the “non-profit sector” for the purposes of the thematic account on NPIs and related institutions. ~~satellite account.~~ .

a. *Non-profit service providers*, such as hospitals, higher education institutions, day-care centres, schools, social service providers and environmental groups;

b. *Non-governmental organizations* promoting economic development or poverty reduction in less developed areas;

c. *Arts and culture organizations*, including museums, performing arts centres, orchestras, ensembles and historical or literary societies;

d. *Sports clubs* involved in amateur sport, training, physical fitness and competitions;

e. *Advocacy groups* that work to promote civil and other rights, or advocate the social and political interests of general or special constituencies;

f. *Foundations*, that is, entities that have at their disposal assets or an endowment and, using the income generated by those assets, either make grants to other organizations or carry out their own projects and programs;

g. *Community-based or grass-roots associations* that are member-based and offer services to or advocate for members of a particular neighbourhood, community or village;

h. *Political parties* that support the placing of particular candidates into political office;

i. *Social clubs*, including touring clubs and country clubs, that provide services and recreational opportunities to individual members and communities;

j. *Unions, business and professional associations* that promote and safeguard labour, business or professional interests;

k. *Religious congregations*, such as parishes, synagogues, mosques, temples and shrines, which promote religious beliefs and administer religious services and rituals. However, an official state church incorporated into the state administration, particularly one supported by obligatory taxes, would not meet the "institutionally separate from government" criterion and thus would be excluded from the set of NPIs in the ~~satellite~~thematic account. It should be noted that religious congregations are different from religiously affiliated service agencies in such fields as health, education and social services. S~~imilarly, s~~ervice organizations related to a state church might still be considered to be within the non-profit sector, as long as they are separate institutional units and meet all the definitional criteria.

Both market and non-market units should be included in each of these categories, so long as the institution concerned is an NPI (and not just ~~an~~ NPISHs).

~~31.19~~

## 3. Borderline cases

~~31.20~~31.19 Certain other types of organizations are likely to occupy a grey area between the non-profit sector and either the corporations or general government sectors. Some of those entities will properly belong within the non-profit sector but most of these entities are part of the social economy covered in the related institutions segment of the thematic account on NPIs and related institutions. ~~for purposes of the NPI satellite account, while others will not.~~ The following guidelines may be helpful for making those decisions. (Obviously, these guidelines will have to be applied to types of organizations and not on an organization-by-organization basis, but the decision rules can still be instructive.) ~~The guidelines given here are those of the handbook, slightly modified in the light of experience with implementing the accounts. It is proposed that the modifications included here will be incorporated into the next edition of the handbook.~~ A key criterion for a unit to be includable in the thematic account is being prohibited or significantly restricted from distributing its profit. The main types of social economy institutions that can distribute a restricted share of their profit (usually defined as no more than half) are cooperatives, mutual societies, and social enterprises.

~~31.21~~31.20 *Cooperatives* are organizations formed freely by individuals to pursue the economic interests of their members. The basic principles of cooperatives include:

a. democratic control, that is, one person, one vote;

b. shared identity, that is members are both owners and customers; and

c. orientation to provide services to members "at cost".

As with other institutional units, if the articles of association of a cooperative prevent it from distributing its profit, then it will be treated as an NPI; if it can distribute its profit to its members, it is not an NPI ~~(in either the SNA or the satellite account)~~. However, if it is significantly restricted in its ability to distribute its profit to its members, it should be included in the thematic account as a related institution with a social purpose.

~~31.22~~31.21 *Mutual societies* include such organizations as mutual savings banks, savings and loan associations, mutual insurance companies, sickness funds, and burial funds. Mutual societies, like cooperatives, are organized by individuals seeking to improve their economic situation through collective activity. They differ from cooperatives, however, in that they are mechanisms for sharing risk, either personal or property, through periodic contributions to a common fund. Normally the depositors in mutual societies formally control their operations.

31.22 Because mutual societies operate in the commercial sphere, they fall in the financial corporations sector. Only if their articles of association prevent them from distributing profits to their members~~owners~~ are they treated as NPIs in the SNA (but still within the financial corporations sector) and included within the NPI ~~sector for~~part of the ~~satellite~~thematic account. However, they are included in the thematic account as related institution with a social or public benefit purpose if they are permitted to distribute a restricted portion of their profit to their members.

~~31.23~~

~~31.24~~31.23 *Self-help groups* are similar to both cooperatives and mutual societies in that individuals join to accomplish goals of mutual support that would be unattainable on an individual level. They differ from both, however, in that they are not principally engaged in commercial activities. As a general rule, self-help groups should be treated as membership organizations and included within the non- profit sector.

~~31.25~~31.24 S*ocial enterprises* (or *social ventures*) are enterprises organized for ~~the~~ purposes of employing and training disadvantaged individuals (handicapped, long-term unemployed, etc.) who would otherwise not find employment, ~~.~~ supplying products of special social value, or serving disadvantaged persons in other ways. The enterprise is considered an NPI unless it generates and distributes its surplus to owners or stockholders. However, social enterprises that distribute a restricted portion of their surplus to owners or stockholders are included in the thematic account as related institutions with a public benefit purpose.

~~31.26~~31.25 *Quasi-non-governmental organizations*, which are found in many European countries and elsewhere, are designed to function at arm's length from government departments, thus avoiding direct political control. To the extent that they are truly self-governing entities, they are appropriately considered part of the non-profit sector, even if they exercise the limited authority delegated to them by government agencies.

~~31.27~~31.26 *Universities*, like other institutions, can be either NPIs, public institutions or for-profit corporations. Differentiating NPIs from public institutions is especially difficult since both may receive significant amounts of government support, either directly or indirectly, and since even public institutions may have a significant degree of autonomy. The key, therefore, is whether the institution is clearly self-governing and not part of the government's administrative system. Educational institutions that are NPIs will have their own self-perpetuating boards that can determine all facets of organizational operations, without approval by government officials, and that can cease their operations without the approval of government authorities. Public educational institutions will have boards selected in significant part by government officials or agencies and lack the power to cease operations without an act of the government.

~~31.28~~31.27 *Hospitals*, like educational institutions, can also be either NPIs, public institutions or for-profit corporations. The same rules that apply to educational institutions also apply to hospitals.

~~31.29~~31.28 *Indigenous or territorial groups*, such as "band councils" in Canada (a form of First Nation government) and peasant or native communities in Peru, are organized around either cultural or ethnic groupings or a particular geographic area, mainly with the purpose of improving the welfare of their members. The difficulty arises when such groups essentially operate as local governments, often making and enforcing their own laws. When that is the case, the groups do not meet the "institutionally separate from government" criterion and fall outside the boundaries of the thematic account. ~~NPI satellite account.~~

## 4. Classification of NPIs

31.29 NPIs can be classified according to the activity they undertake or their envisaged purpose ~~for which they are envisaged~~. In terms of activity, the normal classification to be used is ISIC. Because the detail available in ISIC, Rev. 3 for many of the social services covered by NPI was not sufficient, an elaboration of the basic ISIC codes was developed for use in conjunction with the NPI satellite account. The updated version of this classification is known as the International Classification of Non-Profit and Third Sector Organizations (ICNP/TSO). Similarly, some elaboration of the classification of NPIs by purpose (COPNI) was developed. In ISIC, Rev. 4, however, an alternative aggregation for data reporting for non-profit institutions is given in part four, section D. The twelve ~~main headings~~ sections of the ICNP/TSO ~~of interest~~ are shown in table 23.1.

**Table 23.1: ICNP/TSO ~~groups~~Sections**

| ICNP/TSO Section |
| --- |

Section A: Culture, communication and recreation activities

Section B: Education services

Section C: Human health services

Section D: Social Services

Section E: Environmental protection and animal welfare activities

Section F: Community and economic development, and housing activities

Section G: Civic, advocacy, political and international activities

Section H: Philanthropic intermediaries and voluntarism promotion

Section I: Religious congregations and associations

Section J: Business, professional and labour organizations

Section K: Professional, scientific, accounting and administrative services

Section L: Other activities

Source: *Handbook of National Accounting: Satellite Account on Non-profit and Related Institutions and Volunteer Work*, Annex 5.1

~~31.30~~

## C. Accounts included ~~for non-profit institutions~~ in a thematic ~~satellite~~ account on NPIs and related social economy institutions

~~31.31~~31.30 The first set of accounts ~~prepared~~ included in the thematic ~~satellite~~ account on NPIs and related institutions corresponds exactly to those in the SNA sequence of accounts. Indeed, this can be seen as a simple aggregation across the subsectors for the NPIs in the corporations sectors plus NPISHs. NPIs in the general government sector are excluded from the ~~satellite~~ thematic account, as noted above.

~~31.32~~31.31 The second version of the accounts ~~is to~~ considers those NPIs that provide services at economically significant prices but where the sales of their output bring in revenue that is significant but less than the whole of their costs. Two possible scenarios exist. The first is that the organization ~~enterprise~~ undertakes different types of activities, some on a market basis and some on a non-market basis, but with the market basis activities predominating. Although the two types of activity cannot be allocated to separate institutional units, separate establishments for each can be distinguished. In principle, the production account of the establishments undertaking market activities should measure output by sales adjusted for changes in inventories and own-account fixed capital formation ~~be compiled as normal~~ but the production account for the non-market establishments should be based on the sum of costs. The value of this non-market output should be treated as distributed to households as social transfers in kind and added to household actual final consumption.

~~31.33~~31.32 The second possibility is that only one sort of activity is undertaken but the sales cover a large part of the costs, with the balance being made up of donations. The donations are treated in the SNA as current transfers (any donations designated for capital purposes being treated as capital transfers). The thematic ~~satellite~~ account treats these donations as analogous to subsidies and so measures the value of the output as the total sum of costs. In this case, the excess of output measured ~~in this way~~by costs over the proceeds from sales is treated as non-market output, social transfers in kind and part of actual consumption of households.

~~31.34~~31.33 The third variant on the accounts builds on the second version of the accounts by also including an estimate of the value of volunteer labour used in the NPIs. Volunteer labour constitutes a significant input to many NPIs. If a value is placed on this, it may exceed the value of monetary donations to some NPIs. In the ~~satellite~~ thematic account, it is recommended that the value of voluntary labour is estimated on the basis of the remuneration rates of employees undertaking similar work and not at the opportunity cost of the volunteers.~~Work is proceeding on the measurement of volunteer labour in the context of a satellite account. A draft~~ The *Manual on the Measurement of Volunteer Work* (International Labour Organization, 2011~~forthcoming~~) ~~was presented to the ICLS in December 2008~~provides guidelines on measuring volunteer work.

~~31.35~~31.34 The cost of the volunteer labour is treated as both part of compensation of employees and as a transfer back from these employees to the NPI where they work. The value of the output of the NPI, and the amount treated as social transfers in kind, is increased over the amount in the second version of the accounts by the estimated value of the volunteer labour.

~~31.36~~31.35 The ~~satellite~~ thematic account includes other tables apart from the sequence of accounts. One of these ~~is to show~~ shows details of revenue received with a breakdown by sector of origin and type of transaction. In particular, it is recommended to distinguish revenue coming from government split between sales and grants, and revenue ~~that~~ coming from the rest of the domestic economy split between private sales and current transfers (donations). Where possible both sales and transfers should be separated into those coming from the domestic economy and from the rest of the world.

31.36 Another table includes information in physical units such as the number of employees, number of volunteers, number of entities and number of members of the organization. In addition, some information is given on the financial account and the assets held by the NPI.

~~31.37~~

~~31.38~~31.37 ~~Fully annotated descriptions~~ Formats of the tables are included in Annex I of the ~~h~~*Handbook on the* ~~s~~*Satellite* ~~a~~*Account on Nonprofit and Related Institutions and Volunteer Work*.

# D. Other SNA considerations concerning NPIs

## 1. NPISHs and government

~~31.39~~31.38 In some countries, NPISHs take responsibility for the provision of specific services to households that the government does not see as part of its role to provide. In others, especially developing countries, NPISHs may provide services government would like to provide but simply does not have sufficient resources to do so. This becomes very clear following a natural disaster when NPISHs may be very active in relief work.

~~31.40~~31.39 Whether the unit undertaking the work is resident or not will depend on the normal rules concerning residence. Quick response actions that do not lead to long-term involvement in the country being assisted will be regarded as non-resident, with the production being recorded in the home countries of the units giving assistance and the assistance itself being shown as imports of goods and services funded by transfers. If the assistance extends beyond one year, the unit providing the assistance will be regarded as resident and a unit in the NPISH sector of the country receiving the assistance. In circumstances where international relief is important, it may be helpful to identify NPISHs subject to foreign control separately from other NPISHs and to identify donations from abroad for all NPISHs.

## 2. Informal and temporary NPISHs

~~31.41~~31.40 Quite frequently, a number of households may get together to pool resources of knowledge and volunteer labour to serve their local community. This could include teaching in informal schools, offering medical assistance or the construction of roads, a well, a school building, etc. When only services are provided on the basis of volunteer labour, no value for the output of the activity is recorded in the SNA.

~~31.42~~31.41 When physical structures result, the activity is included in the production boundary. The value of the output is estimated by comparison with similar products elsewhere in the economy or, when it has to be estimated at the sum of costs, an estimate is made for the implicit value of the labour input. This labour input is treated as gross mixed income accruing to households who then are assumed to “purchase” the product. In fact, they may then transfer the product to another unit, often government, for maintenance. However, the recommendation in the SNA, as described in paragraph 5.242 ~~4.168 5.234,~~ is that such organizations should be treated as informal partnerships rather than as NPISHs.

~~31.43~~31.42 If a group of households cooperates to produce goods for sale, even if the objective is still to be able to pay for work on a communal asset, this is not treated as a non-profit institution but as an unincorporated enterprise in the household sector.

~~31.44~~31.43 Many small groups of individuals or households may exist as a practical means of allocating shared costs. These may be as simple as a “coffee club” at the workplace or may be a more formal arrangement whereby the costs of common services provided to all tenants in a block of flats are shared equitably. Such groups are practical rather than economic. They are not treated as NPIs and their activities are not recorded in the SNA. Such costs as they incur should be recorded as paid by the units to which the costs are eventually allocated.

~~31.45~~31.44 In the case of microfinance, the unit providing the service is most likely to be either a corporation or an unincorporated enterprise. Even though the owner of the enterprise may not keep the profits but uses them to generate new loans, this does not automatically make the unit an NPI. The definition of an NPI is not that the owners choose not to withdraw profits but that they are not legally entitled to do so.

~~31.46~~

~~31.47~~31.45 In practice it may be difficult to compile information on informal NPISHs unless the results are sufficiently important to come to general attention.

## 3. The output of NPISHs

~~31.48~~31.46 NPISHs produce goods and services, but typically services, that are provided to individual households free or at prices that are not economically significant. However, it is possible conceptually for an NPISH to provide collective services. An example may be a well-financed institution that engages in research and development but makes its results freely available. Such an institution is engaged in non-market production but, because it is not controlled by government~~,~~ it falls in the NPISH sector. The value of its output is treated as final consumption expenditure and actual final consumption by the NPISH itself.

~~31.49~~31.47 The services provided by non-profit institutions serving households are not only very similar to those provided by government. They present much the same difficulties of measuring their output and of selecting suitable price indices for deflating output to volume terms.

# Chapter 39: (2025 SNA)/Chapter 18 (BPM7) Informal economy

**(moved downwards, revised title)**

**(OLD Chapter 25: Informal aspects of the economy)**

**[Sections or paragraphs marked (*) are SNA-only text and excluded from BPM7;**

**Sections or paragraphs marked (x) are BPM7-only text and excluded from SNA]**

## A. Introduction

39.1 The informal economy provides employment and income to many people who might otherwise be unemployed. Informal workers and enterprises tend to be vulnerable to negative economic shocks, which has consequences for inequality and poverty. Measuring the informal economy is important for designing, implementing, monitoring and analyzing macroeconomic and social policies. The measurement framework for the informal economy aims to ensure consistent measures of informal production and informal labour inputs. Data compiled according to this framework are designed to inform policy decisions that may decrease the vulnerability of informal workers and enterprises, especially in developing economies.

39.2 The informal economy refers to the productive activities carried out by persons or economic units that are not covered by formal arrangements established by regulations and laws, such as registration, regulation, payment of taxes, and coverage of workers by social security and other labour laws and regulations. The informal economy includes all informal productive activities carried within the general production boundary. Compiling statistics on the informal economy makes it possible to assess how far the benefits of development reach to people who are not counted by the statistics that are based on official registration or compliance with tax laws. Despite the difficulty of doing so, attempts must be made to identify and measure the informal economy. Each country should aim to develop its system of statistics on the informal economy in order to provide an adequate information base for a wide range of descriptive and analytical purposes, including for (a) describing and enhancing understanding of the informal economy and (b) supporting the development of policies addressing the informal economy, while taking account of specific national needs and circumstances.

39.3 The International Labour Organization (ILO) in its Resolution Concerning Statistics on the Informal Economy, (International Labour Office, 2023) adopted by the 21st International Conference of Labour Statisticians (ICLS) established the standards for statistics on the informal economy. Whilst there is commonality between the concepts and definitions in the ILO standards and those in the System of National Accounts (SNA) and the Balance of Payments and International Investment Position Manual (BPM), the meaning of these concepts and definitions is sometimes different from those used in the SNA and BPM. For example, the [BPM/SNA] includes illegal or illicit activities in the production boundary, whereas the ILO standards exclude them from the informal economy. This chapter ~~presents~~summarizes the ILO standards, giving emphasis to the concepts, definitions and classifications used in the ILO standards and explaining their relationship with the [SNA/BPM].

39.4 It is a common misconception that GDP is underestimated because it does not include the production of informal businesses and informal labour inputs. Conceptually the SNA includes all productive activities irrespective of whether these activities are formal or informal. The compilation of exhaustive measures in the presence of informality is certainly challenging, but as discussed in SNA paragraphs 7.47 to 7.56, compilers should always endeavor to make efforts to use data sources and estimation methods that cover ~~informal and other~~ non-observed activities. The framework for the informal economy described in this chapter does not focus on developing exhaustive measurements of production, but rather on providing a complete presentation of the informal economy.

39.5 The non-observed economy, including non-observed cross border trade in goods and services ~~is a concept that,~~ is conceptually distinct and different from the informal economy. The non-observed economy includes activities that, for various reasons, are not captured in regular statistical enquiries. It is a pragmatic term that is used in the context of achieving exhaustive statistics and includes misreporting by formal units such as large corporations. Efforts to cover the non-observed economy ensure that all productive activities are covered in statistical estimates even if not covered by statistical enquiries. Because informal activities tend to be difficult to measure and are sometimes omitted from statistical surveys or administrative data sources, there tend to be certain overlaps between the informal economy and the non-observed economy. Nevertheless, the concepts serve different purposes, and each includes elements that are not included in the other. The primary focus of this chapter is on the informal economy, but Section F discusses the non-observed economy in its relation to the informal economy.

### 1. The policy interest in measuring informal activities

39.6 Interest in the informal economy continues to attract considerable attention. Informal productive activities are often associated with lower and uncertain income for workers since informal workers and enterprises are less protected against negative economic shocks. This may have broader consequences for inequality and poverty since informality is correlated with vulnerability through the denial of rights at work, the absence of sufficient opportunities for quality employment, and the lack of effective social protection. The quantification of the informal economy and data on its characteristics are needed to enhance the international comparability of statistics on the informal economy, the measurement of decent work and the well-being of households and society in general, and in identifying the main drivers of informality. Analysing macro-economic and social policies on the informal economy facilitates the transition from the informal economy to formal productive activities and to the achievement of gender equality, sustainable development and social justice.

39.7 It should be noted that the relevance of statistics on the informal economy in a given country will depend on the nature of its society, labour markets and regulations as well as user needs, and that their implementation will therefore, to a certain extent, be determined by national circumstances.

### 2. Structure of the chapter

39.8 Sections B and C present a summary of the framework of the 21st ICLS *Resolution Concerning Statistics on the Informal Economy*. Section B looks at statistics on economic units and production in the informal economy, clarifies the use of existing terminology, and provides the definitions of the informal economy and the classifications used to identify and analyze informal productive activities. Section C focusses on informal work arrangements. Sections B and C also discuss the relationships between informal economy statistics and the [SNA/BPM7]. Informal aspects of two issues that are of special importance to the [national accounts/balance of payments], i.e., digitalization and informal cross-border flows, are discussed in Section D. Section E summarizes the data sources and the presentation of indicators for the informal economy. The relationship between the non-observed economy and the informal sector is presented in Section F. The interest in the informal economy has led to the production of several handbooks and studies of current practices. ~~It is impossible to report~~Reporting these in depth ~~in~~is beyond the scope of this chapter, but section G gives a brief description of ~~some of these~~the main available guidelines and indicates where they may be consulted.

## B. Framework for the informal economy

39.9 The standards adopted by the 21st ICLS for statistics on the informal economy are designed to guide countries in measuring informal productive activities of workers and economic units. The standards provide a conceptual framework for statistics on the informal economy, definitions of distinct subsets of economic units depending on their status of (in)formality and the intended destination of their production, a set of definitions of distinct subsets of informal work, a set of indicators to provide information on the characteristics, circumstances and needs of workers and economic units, and operational concepts, definitions and guidelines for the compilation of statistics on the informal economy. In designing the framework for statistics on the informal economy, care was taken to maintain coherence with other international statistical standards, particularly regarding the SNA and the BPM. [(x) SNA sentence: The next section explains the relationship between the terminology used in the 21st ICLS resolution and the familiar SNA terminology.] [(*) BPM7 sentence: More detail on the relationship between the terminology used in the 21st ICLS resolution and the SNA and BPM terminology is given in *2025 SNA*, chapter 39, section B.1, Clarifying the use of familiar terminology.]

## 1. Clarifying the use of familiar terminology (*)
## [Reminder: The '(*)' denotes SNA-only text that is excluded from BPM7]

39.10 The statistics on the informal economy compiled according to the 21st ICLS standards are aligned with the SNA, while using different terminologies from the SNA and BPM for some concepts and classifications to allow the statistics to highlight certain features of informality. The different uses of terms are presented below.

### Productive activities of economic units

39.11 In both the ICLS standards and SNA, the concept of productive activities of economic units includes processes or activities that are carried out under the control and responsibility of an economic unit, using inputs of labour, capital, goods and services to produce outputs of goods or services. Similarly, for the concept of "economic unit" the definition used in the statistics on the informal economy is aligned with that used in the SNA.

### Productive activities of persons

39.12 The concept of productive activities of persons in the statistics on the informal economy ~~is similar to the concept in the SNA as it~~ includes work and labour activities within the SNA production boundary~~, but it also includes~~ as well as activities outside the SNA production boundary although inside the general production boundary.

### Sector

39.13 The term "sector" used in the 21st ICLS *Resolution Concerning Statistics on the Informal Economy* does not have the same basis as the usual use of the word sector throughout the SNA. In the SNA, sectors are made up of complete institutional units; in the context of the informal economy only the productive activities are considered and other activities of the unit such as consumption and accumulation are excluded. In addition, the criteria used to identify the sectors in the statistics on the informal economy are based on the intended destination of the production and the formal status of the economic unit. Thus, for example, households having no productive activity are simply not considered in the steps to identify those unincorporated enterprises operated by households that are to be included in the informal economy.

### Enterprise

39.14 In the SNA, a corporation represents a single enterprise, but each ~~such~~ enterprise may consist of a number of establishments. A key difference between an enterprise and an establishment is that a full set of accounts must exist, or could be constructed, for an enterprise, but for an establishment a much more restricted set of data is available, typically only information relating to production, number of employees and the capital formation associated with the activity.

39.15 Within a household many different types of production activities may take place. ~~For none of these individually nor for the total of all activities that cannot be treated as quasi- corporations does a~~A complete set of accounts does not exist for individual activities that are not activities of quasi-corporations, nor for the total of all household activities. The SNA usage of "unincorporated enterprise" is taken to mean the totality of all unincorporated activity undertaken by a household even though in a supply and use table, for example, this may be partitioned by types of activity and be grouped with establishments of corporations undertaking the same activity.

39.16 The use of unincorporated enterprise in the 21st ICLS *Resolution Concerning Statistics on the Informal Economy* does not correspond to the sum of unincorporated activity of a household but to each activity separately. In SNA terms, the unincorporated enterprise is broken down into a number of unincorporated establishments, some of which may be included in the informal economy and some excluded, even for the same household. For example, if one member of a household operates an unincorporated repair business and another member of the same household operates an unincorporated childcare business, they would be treated as separate unincorporated establishments in the informal economy statistics. Furthermore, the informal economy statistics identify individual members of a household as owning and operating each establishment/enterprise and capable of employing workers. In the SNA, it is the household collectively that is responsible for all activity and for employing workers.

### Subsectoring production

39.17 The SNA subdivides production into market production, production for own final use and non-market production. Non-market production is not at issue here since it is never undertaken by households. However, to meet the 21st ICLS resolution it is necessary to subdivide production by households into production that is mainly for sale or barter and production that is mainly for own final use. In the case of unincorporated enterprises where the production is mainly sold or bartered (intended for the market), all of the production of the unit is included in production by the informal sector, while where the production is mainly for own final use, it is allocated to the household own-use production and community sector.

### Formal sector, informal sector and household own-use production and community sector

39.18 The SNA does not use the expression formal sector, but it is not difficult to conceive of all units in the corporations sectors, general government and NPISHs as being part of a formal sector as far as production is concerned. Quasi- corporations are included because they are included in the corporations sectors. However, this is not the same as saying that any unit that is not informal is formal, since households with unincorporated enterprises not included in the informal sector are divided between those that are treated as formal and the rest that are included in the household own-use production and community sector.

39.19 The meaning of household units according to the 21st ICLS resolution is thus quite different from that of the SNA since the SNA includes as households all the units included ~~under~~ under the 21st ICLS resolution as informal and mainly producing for the market, plus households mainly producing for own final use, plus those units with unincorporated enterprises treated as formal, plus households as consumers plus institutional households.

## 2. Informal productive activities

39.20 ***Informal productive activities*** are defined as all productive activities carried out by persons or economic units that are – in law or in practice – not covered by formal arrangements as established by regulations and laws, such as:

a. regulations that stipulate the rights and responsibilities and obligations of the economic units and the workers;

b. commercial laws that regulate the productive activities carried out by economic units and their engagement in commercial contracts, including to safeguard their intellectual and physical property;

c. procedures to report economic activities such as fiscal obligations in order, for example, to pay taxes or to cover employees by social security;

d. labour laws and regulations such as those relating to freedom of association, rights to collective bargaining, paid annual leave, paid sick leave, the minimum wage, hours of work, social security coverage and social dialogue; and

e. procedures that regulate access to the institutional infrastructure such as markets, governmental support mechanisms and financial institutions including banks.

39.21 Coverage by formal arrangements in law and in practice does not merely imply having legal coverage by the formal arrangements but means that the arrangements should be effectively accessed in practice by the worker and the economic unit by fulfilling procedures that entail duties and obligations for all parties involved.

39.22 Informal productive activities can be viewed as an underlying concept that contributes to recognizing two highly linked but also slightly different perspectives of informality, i.e., the perspective of workers and the perspective of economic units. This concept forms the conceptual foundation from which the different statistical components are derived and points toward which statistical components should be statistically quantified and described.

39.23 Informal productive activities of persons include informal tasks and duties carried out by persons in informal employment; in formal employment, carrying out partly informal activities tasks and duties; or in unpaid trainee work, volunteer work, own-use production work and other work activities (see section C of this chapter). Informal productive activities of economic units include informal production carried out by economic units in the informal sector or by households producing for own final use, including direct volunteer work, and production by non-formal non-profit organizations. Informal productive activities may be undertaken in most kinds of economic activity, including the agriculture, forestry and fishing industry, and include household own-use production work within the general production boundary. Housing services of owner occupiers are by convention excluded from the informal economy because no informal labour inputs are used for this production activity.

## 3. The informal economy

39.24 The ***informal economy*** comprises all informal productive activities of persons or economic units, whether or not they are carried out for pay or profit. The concept of the informal economy enables the comprehensive measurement of the informal productive activities carried out by economic units and of informal productive activities by workers in relation to employment and undertaken through forms of work other than employment.

39.25 For statistical purposes, the concept of the ***informal market economy*** is defined as all production for pay or profit in the informal sector and all productive activities of workers in employment that are – in law or in practice – not covered by formal arrangements.

39.26 Illegal and illicit activities where the production of goods and services are forbidden by law are excluded from the informal economy. However, the production of goods and services, that are usually legal, but become illegal when carried out by unauthorized producers, should be included in the informal economy.

39.27 The exclusion of illegal and illicit activities where the goods and services are forbidden by law relates only to the scope of what is measured in the informal economy. In the SNA, illegal productive activities that fit the characteristics of transactions are treated the same way as legal actions and are therefore included within the SNA production boundary (see SNA paragraph 7.53). For example, if the sale of narcotics is forbidden by law, those activities should be excluded from the informal economy statistics, although they are included in the SNA. Similarly, imports and exports of illegal goods and services are included in the external statistics but should be excluded from statistics on informal trade. Transactions in stolen goods are also included in the SNA and BPM but excluded from statistics on the informal economy and from informal trade. However, some activities that are usually legal may be carried out illegally because they are conducted by an unregistered producer (for example, the sale of transport services by an unregistered producer). These activities that are usually legal but may be carried out illegally are not to be regarded as illegal activities and are included in the informal economy statistics as well as the [BPM/SNA].

## 4. ~~Informal~~Formal sector, ~~formal~~informal sector and household own-use production and community sector

39.28 The criteria used to identify the sectors in the statistics on the informal economy are based on the intended destination of the production and the status of (in)formality of the economic unit. The intended destination reflects whether, or not, the production is mainly intended for the market with the purpose of generating a profit and income. The criterion of production that is “mainly intended for the market” is similar to the SNA definition of market producers as establishments, “all or most of whose output is market production” (see SNA paragraph 7.144). The formal status of the economic unit reflects whether the unit is formally recognized by government authorities as a distinct producer and is thus covered by formal arrangements.

39.29 The framework for informal economy statistics assigns all economic units to one of three sectors: the formal sector, the informal sector or the household own-use production and community sector, depending on the intended destination of the production and the status of (in)formality of the economic unit.

39.30 The ***formal sector*** comprises economic units that are formally recognized as distinct producers of goods and services for the consumption of others and whose production is mainly intended for the market with the purpose of generating an income or profit or for a non-profit purpose (i.e. non-profit institutions), or non-market production for use by other economic units, including the society as a whole. With respect to the SNA sectors, financial and non-financial corporations and general government are always formally recognized and therefore are part of the formal sector. In addition, formally recognized NPISHs are part of the formal sector. Households are assigned to the formal sector if they undertake production through a household unincorporated market enterprise that is registered in a government established system of registration or employs one or more persons to work as an employee with a formal job. Household unincorporated market enterprises that keep a complete set of accounts for tax purposes are treated as quasi-corporations and included in either the financial or non-financial corporations sectors in the SNA and as part of the formal sector in the ILO statistics.

39.31 The ***informal sector*** comprises economic units whose production is mainly intended for the market with the purpose of generating income and profit but that are not formally recognized as producers of goods and services distinct from the own-use production of the owner-operators' household. These economic units are all classified in the SNA as part of the household sector and may include informal partnerships. These economic units undertake production mainly intended for the market through a household unincorporated market enterprise that does not keep a set of accounts for tax purposes, is not registered in a governmentally established system of registration and does not employ one or more persons to work as an employee with a formal job.

39.32 The ***household own-use production and community sector*** comprises ~~economic units that are not formally recognized as producers of goods and services for the consumption of others,~~either: households whose production (excluding housing services of owner occupiers) is~~ either:~~ mainly for the household's own final use or for the use of other households, without the purpose of generating income and profit for the producing household or households; or non-~~market production by the members of a non-~~formal non-profit ~~organization~~organizations (i.e. ~~an~~ informal and temporary NPISH), ~~which~~serving households. These units are characterized by not being formally recognized as distinct producers of goods or services and undertaking production that is mainly intended for the own final use ~~by households.~~of households or for the use of other households without the purpose of generating an income or profit. The production boundary for the household own-use production and community sector extends the SNA production boundary in that the sector includes (and the SNA production boundary excludes) most services produced for own use by households (see SNA paragraphs 7.28–7.32).

39.33 Table 39.1 illustrates the classification of economic units in the formal sector, the informal sector and the household own-use production and community sector, adding detail on the different forms of informal paid and unpaid work that may be used as input to their formal or informal production.

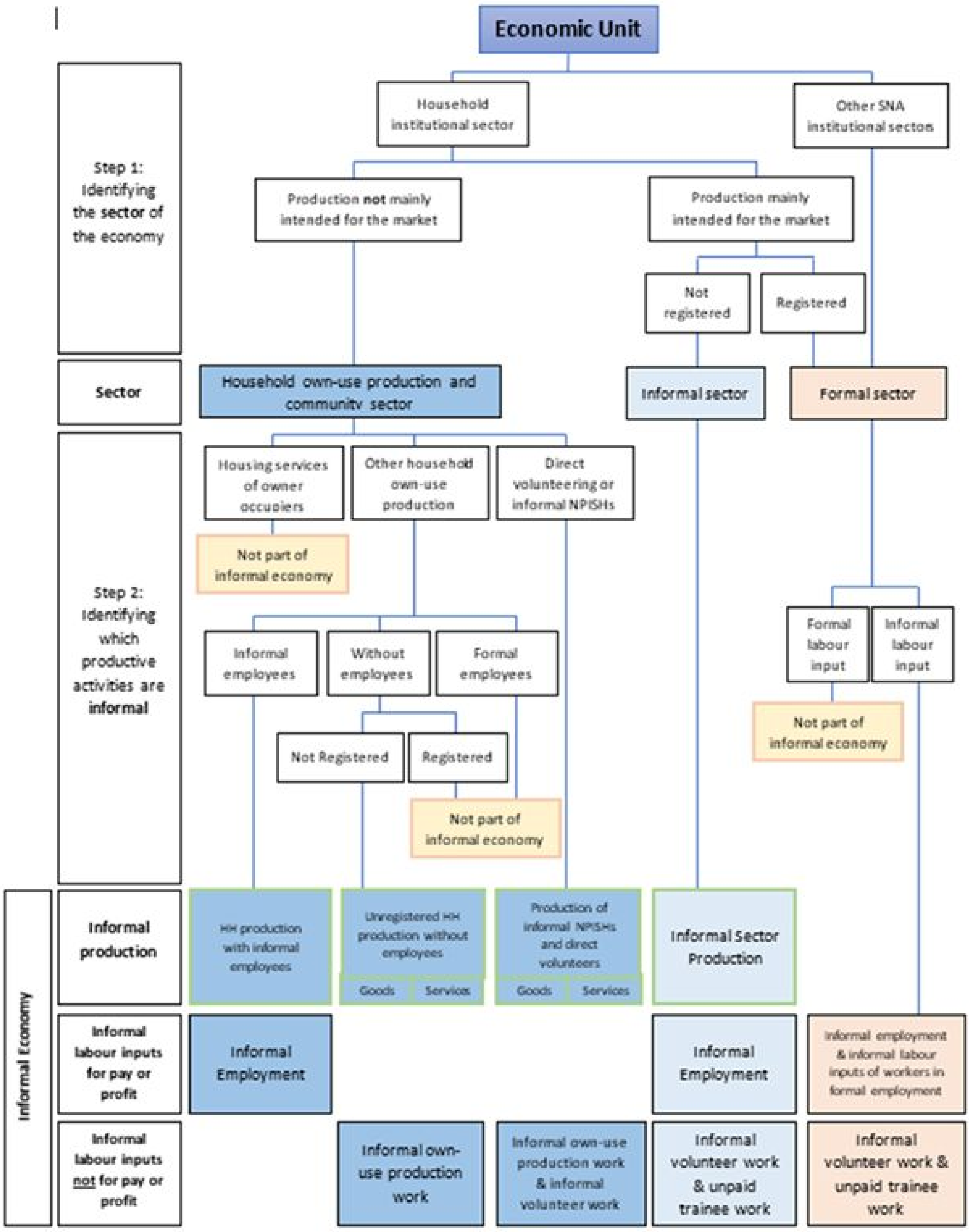
**Table 39.1: Informal productive activities in the informal economy**

<table>
<tr><td colspan="2">Sector</td><td>Formal sector</td><td>Informal sector*</td><td colspan="3">Household own-use production and community sector</td></tr>
<tr><td colspan="2">Informal productive activities</td><td>Production in the formal sector is never informal<br><br>All informal labour inputs of workers engaged by:<br>formal household unincorporated market enterprises,<br>formal NPISHs,<br>corporations,<br>and general government</td><td>All production by informal household unincorporated market enterprises<br><br>All labour inputs used to undertake this production</td><td>Production by household engaging informal employees<br><br>All labour inputs used to undertake this production</td><td colspan="2">Informal household own-use production including non-formal non-profit organizations and direct volunteers<br><br>All labour inputs used to undertake this production</td></tr>
<tr><td rowspan="4">Type of informal labour inputs</td><td rowspan="2">For pay or profit</td><td>Informal employment*</td><td>Informal employment*</td><td>Informal employment*</td><td colspan="2"></td></tr>
<tr><td>Partly informal labour inputs of persons in formal employment*</td><td></td><td>Partly informal labour inputs of persons in formal employment*</td><td colspan="2"></td></tr>
<tr><td rowspan="2">Not for pay or profit</td><td>Informal unpaid trainee work</td><td>Informal unpaid trainee work</td><td></td><td colspan="2">Informal volunteer work</td></tr>
<tr><td>Informal volunteer work</td><td>Informal volunteer work</td><td></td><td colspan="2">Own-use production work</td></tr>
<tr><td colspan="2" rowspan="3">Relation to SNA production boundary:</td><td colspan="3">Goods and Services</td><td>Goods</td><td rowspan="2">Services</td></tr>
<tr><td colspan="4">SNA production boundary**</td></tr>
<tr><td colspan="5">General production boundary</td></tr>
</table>

*_ Components of the informal market economy
** The SNA production boundaries also includes illegal activities that are out of scope in the informal economy framework.

39.34 The 21st ICLS *Resolution Concerning Statistics on the Informal Economy* includes a set of operational definitions used to clearly identify the economic units belonging to each of the three sectors. Figure 39.1 illustrates how the framework identifies informal productive activities of economic units. The links between the three sectors (i.e., the formal sector, the informal sector, and the household own-use production and community sector) and the institutional sectors of the SNA are shown in Table 39.2.

**Figure 39.1: Decision tree to identify informal productive activities of economic units**




Note: The measure of production used in this decision tree is based on the general production boundary.

**Table 39.2: The formal sector, informal sector and household own use production and community sector and its relation to the SNA institutional sectors**

| | **SNA institutional sectors** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **a) Non-financial corporations and b) Financial corporations** | | **c) General government** | **d) NPISHs** | **e) Households** | | | | | |
| **Type of SNA institutional unit** | Corporations | Quasi-corporations | Government units | NPISH | Households (excluding institutional HH and HH as consumers): Unincorporated household market enterprises | | | | | |
| **Main type of production** | Market production | Market production | Non-market production | Non-market production | Market production | Market production | Own-use production: Housing services of owner-occupiers | Own-use production: Production by households for own use with employees | Own-use production: Production by households for own use without employees. Including non-formal non-profit organizations and direct volunteers. | |
| **Operational definition as part of identifying the formal status** | Incorporated enterprise | Have a complete set of ~~account for tax purposes~~accounts; registered for tax or similar purposes | Always formally recognized | Registration | Registered or engages formal employees. | Not registered and does not engage formal employees. | Never informal | Production is informal if employees are informal employees | Direct volunteers and non-formal non-profit organizations are always informal; other HH production for own use without employees is informal unless production is registered. | |
| **Within SNA production boundary** | **Yes** | | | | | | | | Goods **Yes** | Services **No** |
| **Sector of the economy** | **Formal** | | | | | **Informal Sector** | **Household own-use production and community sector** | | | |
| **Productive activities are part of informal economy** | **Only informal labour inputs** | | | | | **Yes, both production and labour inputs** | **No** | **Yes, both production and labour inputs if employees are informal.** | **Yes, both production and labour inputs unless production is registered** | |

## C. Informal work

39.35 This section defines and classifies informal work in the 21st ICLS resolution, points to the alignment of these concepts with international standards such as the International Classification of Status in Employment, presents the informal productive activities of persons in relation to the sectors in the 21st ICLS resolution, and defines and presents informal and formal employment in relation to those same sectors.

39.36 The 21st ICLS *Resolution Concerning Statistics on the Informal Econom*y related to measuring informal productive activities of persons provides a set of definitions for distinct subsets of informal work. In the informal economy, the concept of "productive activities of persons" is aligned with the definition of "work" in the international standards of work, employment, and labour underutilization. It includes activities within the SNA production boundary as well as activities outside the SNA production boundary but inside the general production boundary. Work can be subdivided into five distinct forms:

a. own-use production work;

b. employment work;

c. unpaid trainee work;

d. volunteer work;

e. other work activities.

39.37 Informal work consists of productive activities performed by persons, as defined by the latest standards on work and employment, that are – in law or in practice – not covered by formal arrangements such as, regulations and provisions that promote or facilitate the work and protect and regulate the actions and functions of the worker. It comprises:

a. productive activities carried out by persons in employment that are, in law or in practice, not covered by formal arrangements such as regulations and laws that stipulate the rights and responsibilities, obligations and protection of the economic units and the workers; and

b. productive activities carried out in relation to:

i. own-use production work;

ii. volunteer work;

iii. unpaid trainee work; and

iv. other work activities.

39.38 Persons carrying out informal productive activities in the informal economy may carry out this work for economic units categorized in the formal sector, informal sector or household own-use production and community sector (see table 39.3).

**Table 39.3: Informal productive activities by persons in the informal economy**

| Persons | Informal work | | | |
|---|---|---|---|---|
| Main intention of the productive activities | For pay or profit | | Not mainly intended to generate pay or profit | |
| | Informal productive activities in relation to employment | | Informal productive activities in relation to forms of work other than employment | |
| Informal productive activities by persons | Formal employment with partly informal activities * | Informal employment * | Informal unpaid trainee work<br>Informal organization-based volunteer work<br>Informal other work activities | Informal own-use production work<br>Direct volunteer work |
| Sector of the economic unit for which the work is provided | Formal sector | Formal sector | Formal sector | |
| | | Informal sector * | Informal sector * | |
| | Household own-use production and community sector | Household own-use production and community sector | Household own-use production and community sector | Household own-use production and community sector |

* Components of the informal market economy.

## 1. Informal and formal employment

39.39 Statistics on informal employment aim at:

a. establishing whether the productive activities defined as employment are, in law and in practice, covered by formal arrangements and the formal status of the economic unit for which this work is carried out; and

b. describing the structure and extent of informal employment, identifying groups of persons in employment most represented and at risk of informality, and providing information on exposure to economic and personal risks, decent work deficits and working conditions.

39.40 ***Informal employment*** is defined as any activity of persons to produce goods or provide services for pay or profit that is - in law or in practice - not covered by formal arrangements such as commercial laws, procedures to report economic activities, income taxation, labour legislation and social security laws and regulations providing protection against economic and personal risks associated with carrying out the activities. Informal employment comprises activities carried out in relation to informal jobs held by:

a. independent workers who operate and own or co-own an informal household unincorporated market enterprise;

b. dependent contractors who do not have a formal status in relation to the legal administrative framework or whose activities are not effectively covered by formal arrangements;

c. employees, if their employment relationship is not, in practice, formally recognized by the employer in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements; and

d. contributing family workers whose work relationships are not formally recognized in relation to the legal administrative framework of the country or not associated with effective access to formal arrangements.

39.41 All tasks and duties carried out in relation to an informal job are considered to be informal productive activities. Informal productive activities performed by persons may also be carried out in relation to formal jobs if a subset of the tasks and duties carried out are not effectively covered by formal arrangements.

39.42 (*) Persons may have one or several formal or informal jobs, or both, during a given reference period.

Dependent workers have an informal or formal job for each economic unit on which the worker is dependent. Independent workers have an informal or formal job for each informal or formal economic unit they operate and own or co-own. (Independent and dependent workers are discussed in SNA paragraph 16.41.) Employed persons with an informal main job comprise all employed persons with an informal main job where the main job is the job with the longest hours usually worked as defined in the latest international statistical standards on working time. In the absence of information regarding hours usually worked, other information such as income from each job could be used to identify the main job. Employed persons with an informal secondary job comprise all employed persons with an informal second job or additional jobs.

39.43 (*) The International Classification of Status in Employment (ICSE-18) classifies jobs held by persons according to type of authority. There are two broad categories: independent workers and dependent workers, where the former includes owner-operators of corporations and independent workers in household unincorporated market enterprises, and the latter includes dependent contractors, employees and contributing family workers.

a. Independent workers own the economic unit for which they work and control its activities.

b. Dependent workers are workers who do not have complete authority or control over the economic unit for which they work.

39.44 (*) Persons holding informal jobs may be categorized in the informal sector, formal sector or household own-use production and community sector, depending on the sector of the economic unit for which the work is carried out or, in the case of dependent contractors, on their formal status in relation to the legal administrative framework of the country.

39.45 **(*) *Formal employment*** is defined as any activity of persons to produce goods or provide services for pay or profit in relation to a formal job, where the activities are effectively covered by formal arrangements. Formal employment comprises productive activities carried out in relation to formal jobs held by:

a. independent workers in employment who operate and own or co-own a formal economic unit;

b. dependent contractors who have a formal status in relation to the legal administrative framework of the economy and whose activities are associated with effective access to formal arrangements;

c. employees, if their employment relationship is, in practice, formally recognized by the employer in relation to the legal administrative framework of the economy and associated with effective access to formal arrangements; and

d. contributing family workers carrying out work for a formal economic unit and whose work relationships are formally recognized in relation to the legal administrative framework of the economy and associated with effective access to formal arrangements. Registration of the job held by the contributing family worker and contribution to a job-related statutory social insurance scheme implies that the worker is employed formally in that job.

39.46 (*) Persons holding formal jobs may be categorized in the formal sector or household own-use production and community sector depending on the sector of the economic unit for which the work is carried out or, in the case of dependent contractors, on their formal status in relation to the legal administrative framework of the economy.

39.47 (*) Table 39.4 shows informal and formal jobs for five types of status in employment—owner-operators of corporations, independent workers in household unincorporated market enterprises, dependent contractors, employees, and contributing family workers. The cells numbered 1 through 8 represent various types of informal jobs. The cells shaded in light blue refer to formal jobs, and cells shaded dark blue are jobs which, by definition, do not exist in the economic units in that sector. The 21st ICLS *Resolution Concerning Statistics on the Informal Economy* elaborates the definitions used to clearly identify the five types of status in employment.

**Table 39.4: Informal and formal jobs by status in employment and sector (*)**

| Sector of the economic unit for which the work is carried out | Independent workers[1] | | | Dependent workers | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Owner-operators of corporations[2] | Independent workers in household (unincorporated) market enterprises[3] | | Dependent contractors[4] | | Employees | | Contributing family workers | |
| | Formal | Informal | Formal | Informal | Formal | Informal | Formal | Informal | Formal[5] |
| Formal sector | | | | 1 | | 2 | | 3 | |
| Informal sector | | 4 | | 5 | | 6 | | 7 | |
| Household own-use production and community sector | | | | | | 8 | | | |

Note: Cells shaded in dark blue refer to jobs, which, by definition, do not exist in economic units located in the specific sector. Cells shaded in light blue refer to formal jobs. Informal employment consists of the informal jobs in cells 1–8.

[1] Including employers and independent workers without employees (before ICSE-18 labelled Own-account workers).

[2] Including the ICSE-18-A categories 11 and 21.

[3] Including the ICSE-18-A categories 12 and 22.

[4] The sector of dependent contractors does not reflect the sector of the economic unit on which they depend but their formal status in relation to the legal administrative framework of the country.

[5] The existence of formal jobs among contributing family workers carrying out work for an economic unit in the formal sector depends on the national context (see paragraph 39.45d).

39.48 Depending on the national context and need, countries may identify persons with formal jobs carrying out partly informal productive activities and report the number of such persons, the hours spent on informal activities, or the earnings received from paid informal activities in relation to formal jobs.

### 2. (*) Informal work other than employment

39.49 Informal work other than employment comprises informal productive activities in relation to own-use production work, volunteer work, unpaid trainee work and other work activities where the unpaid work is not covered by formal arrangements such as regulations and provisions that promote or facilitate the work and protect and regulate the actions and functions of the worker. Measuring the informal or formal nature of work other than employment supports the recognition and valuation of all forms of work, essential for achieving development goals such as attaining gender equality, social inclusion and social protection and reducing poverty. Informal work other than employment is not included in Table 39.4. Detailed definitions of informal work other than employment are provided in the 21st ICLS *Resolution Concerning Statistics on the Informal Economy*.

## D. Digitalization and informal cross-border flows

39.50 The conceptual framework, definitions and classifications that underlie the statistics on the informal economy and their relation to the System of National Accounts were presented in sections B and C. In practice, compilers will be confronted with many practical issues in collecting data and deriving estimates for informal activities. This section focuses on two issues that are of particular interest to national accounts and balance of payments statistics – digitalization and informal cross-border flows.

### 1. Digitalization

39.51 Digitalization penetrates many aspects of economic activity which leads to concerns about the possible mismeasurement of economic activity. New types of economic activities often make use of digital technologies and create new types of jobs, including jobs that are considered informal. Many of these jobs facilitated by digitalization are ~~as~~in the role of dependent contractors as described in Section C of this chapter.

39.52 Most of the new forms of dependent contractors facilitated by digitalization are dependent on large formal enterprises that provide a digital intermediation service. Examples include households that provide transport or accommodation services. The formal or informal status of dependent contractors would vary based on the legal administrative framework of an economy, which regulates the ties between dependent contractors and formal economic units. For example, if dependent contractors are registered, participate in social insurance schemes or are regulated by the government in ways that facilitate their work or protect them as workers, they are classified as formal workers. If the government does not require the formal economic units to register or provide formal regulations or protections to the dependent contractors with whom they work, then the dependent contractors will be informal workers.

39.53 Digitalization facilitates household participation in production activities that can be informal, such as through digital marketplaces. Digitalization also provides opportunities for households to deliver interactive services such as online learning and entertainment channels where income is earned by the household through advertising or from viewer subscriptions. Households that receive monetary remuneration for uploaded content can be considered unincorporated household enterprises. If the household is not recognized by government authorities as a distinct market producer and thus is not covered by formal arrangements, then it is regarded as an informal enterprise. For multinational enterprise groups that operate digital platforms in a number of countries, the formal/informal status of the dependent contractors may vary from country to country depending on the legal arrangements in each country.

39.54 Additional general information on the role of digitalization and how it should be accounted for is provided in chapter [22 (SNA)/16 (BPM7)].

## 2. Informal cross-border flows [This will be a headline section in *BPM7*]

39.55 Informal cross-border flows pose challenges to data collection and estimation because they represent transactions undertaken by small units and households that may not be covered by the regular data collection programmes used for external sector statistics.

39.56 The framework for the informal economy presented in this chapter relates to the production of goods and services in the domestic economy. It is possible to extend the framework to account for external transactions related to activities of informal workers and informal economic units. These transactions would be recorded primarily in the current account and include the following:

a. Trade in goods conducted by informal workers and informal economic units;

b. Trade in services by informal economic units (exports and imports);

c. Informal employment of non-resident workers;

d. Remittances related to the informal economy.

39.57 Trade in goods conducted informally includes small scale but frequent movement of goods between neighboring countries by informal units or workers, shuttle trade (see BPM x.xx), fish catch traded between vessels at sea where the vessel of the compiling economy is operated by informal units, and smuggling of otherwise legal goods by informal units or workers.

39.58 If an informal worker carries goods over the border for a formal enterprise, then the change of ownership is between a formal unit and a non-resident. In this case, only the work done by the carrier of the goods would be part of the informal economy (either a service by an unincorporated market enterprise or work by an informal employee). The payment from the formal unit to the carrier of the goods could be either an international or a domestic transaction depending on the residency of the parties.

39.59 The carriage of goods by informal workers and informal economic units across country frontiers is an important component of the informal economy, particularly in developing countries. Compilers of trade in goods are encouraged to collect data on the value of goods traded by informal units and workers and to gather information on the persons conducting informal trade when these activities are significant. One approach that has been used is to conduct routine surveys at border stations where imports and exports of goods that are carried over the border by informal units or informal workers can be recorded or observed.

39.60 Trade in services by informal units includes services such as ~~room~~:

a. Room rental, ride services or informal restaurant and bar services that are provided by informal units to travelers who are temporarily present in the reporting economy; ~~exports~~

b. Exports and imports of services such as hairdressing, housekeeping and caring for persons, or construction provided by self-employed persons that move across borders but are not registered in a governmentally established system of registration in either their economy of residence or the economy of activity (see paragraph[(BPM) 4.116-4.119] for a discussion of residency); and ~~cross~~

~~a.~~c. Cross-border services that are delivered online such as tutoring, wellbeing and other income generating online services where the service-provider is working informally and has not registered in a governmentally established system of registration.

~~39.60~~39.61 Undeclared and underdeclared trade in goods or services by formal units is not part of the informal economy but may be accounted for as non-observed international trade – see section F of this chapter.

~~39.61~~39.62 Some trade that is part of the informal economy in one economy may not be considered informal in the counterpart economy. This would occur, for instance, if a fishing vessel operated by an informal unit traded with a fishing vessel operated by a formal unit from another economy. Another example would be for accommodation services provided by informal units to non-residents; this would be considered part of the informal economy in the economy of the service provider, but for the economy of the traveler this would not generally be recorded in the statistics on the informal economy.

~~39.62~~39.63 Some nonresidents such as seasonal workers and nonresident students may engage in informal employment because they do not have the appropriate employment permits to engage in formal employment. Volunteer work by nonresidents may also be considered informal depending on whether the work satisfies the criteria discussed in paragraph 39.49 and the 21st ICLS *Resolution Concerning Statistics on the Informal Economy*.

~~39.63~~39.64 The 21st ICLS resolution does not discuss remittances. However, as migrant workers and non-national residents are often at risk of informality, it may be informative to provide information on remuneration of employees and personal transfers that relate to informal workers and informal economic units.

~~39.64~~39.65 Remittance outflows related to the informal economy include personal transfers of income earned from informal employment by residents and personal transfers from income earned by resident persons belonging to an informal economic unit, as well as remuneration of employees less transport and travel of border, seasonal and other short-term nonresident workers such as unregistered nonresident domestic workers employed by households. The counterpart country would record these data as remittance inflows, but the information may not inform the same policy needs as other data on the informal economy.

~~39.65~~39.66 As explained in paragraphs 39.26–39.27, trade in goods and services that are forbidden by law are excluded from the statistics on the informal economy. However, the balance of payments statistics include all trade in illegal goods and services, so care should be taken in reconciling the balance of payment statistics with external transactions from statistics on the informal economy to account for the difference in treatment.

## E. Data sources and presentation of indicators

~~39.66~~39.67 The standards for statistics on the informal economy described in sections B and C provide the conceptual basis for statistics to be compiled in a harmonious and comparable manner from different data sources. The sources and data collection methods will depend on statistical capacity, national priorities, measurement objectives and the relevant reference unit.

### 1. Criteria for selecting data sources (*)

~~39.67~~39.68 (*) Complete coverage of the desired elements might require the use of multiple sources. A close collaboration between different national institutions, including the main users of the data, national statistical offices and other national data producers is important to ensure harmonization across sources and institutions.

~~39.68~~39.69 (*) Different data sources each have their own strengths and limitations and can be viewed as complementary to provide data on different aspects of the informal economy. The ILO provides methodological guidance that can facilitate international comparability for data on the informal economy.

~~39.69~~39.70 (*) For any data source the quality of the data generated will be determined by the combination of methodologies used and concepts applied. Differences in survey sample sizes, population coverage, unit of observation, ability to apply definitions comprehensively and range of data generated, among others, will have implications in respect of precision, bias and comparability across sources. When planning the system of statistics on informality, close attention should be paid to the methodologies used to ensure that estimates generated are as representative as possible of the target population, that the coverage of indicators produced is in line with objectives, and that samples are adequate to achieve desired levels of precision.

~~39.70~~39.71 (*) To enable clear and appropriate interpretation of the statistics it is crucial that data quality is assessed and reported on transparently. Metadata describing the source, the concepts, the methodologies, and the results generated should be published alongside any published data.

### 2. Data collection (*) note that Section E will not have any subsections in BPM7

~~39.71~~39.72 (*) In general, household-based surveys, particularly labour force surveys, are important data sources for producing statistics with persons and jobs as reference units. Labour force surveys, generally characterized by detailed sequences of questions on the characteristics of jobs, are typically the recommended source of statistics for monitoring the extent of informal and formal jobs, assessing levels of informality and formality and levels of protection and vulnerability, identifying persons most exposed to and most represented among informal jobs, and assessing the working conditions of persons in formal and informal jobs. They are also a useful source to identify drivers of informality associated with the structure of the labour market. A combined household-establishment survey may be able to meet the same objectives.

~~39.72~~39.73 (*) Other household surveys, such as surveys on poverty and living standards, or household income and expenditure surveys, generally include less detailed sequences of questions on labour and may be designed with smaller sample sizes than a typical labour force survey. When such surveys include questions to identify persons having informal and formal jobs, they can be particularly suited to the production of data to analyse the relationship between informality and the main topics covered by the survey such as poverty, the level and composition of income and expenditure, and access to social protection beyond job-related contributory social security.

~~39.73~~39.74 (*) Other specialized household surveys, such as time-use surveys and household-based surveys on agriculture, education and training, or specialized surveys on digital platform employment and labour migration, may be better suited for the measurement of specific working activities, or for focusing on specific subgroups of the population. Time-use surveys can be an important source for the production of statistics on participation and time spent in informal unpaid work such as the own-use provision of services (in particular informal unpaid domestic work and care work). Surveys targeting specific subgroups of the population might be more appropriate for groups whose total number might be small in labour force survey samples, limiting the possibility to produce reliable statistics. It should be taken into account that the constraints of sample surveys often mean that certain groups at greater risk of informality, such as persons with a disability, migrant workers or digital platform workers, are also those likely to be under-represented in the sample.

~~39.74~~39.75 (*) National population censuses are an important source of statistics on employment and often provide the basis for designing survey samples, integrating national data sources, and producing small area estimates. Including questions to classify those employed according to the formal or informal nature of their job can allow the generation of estimates of informality for small geographical areas as well as for small population groups.

~~39.75~~39.76 (*) Economic censuses, enterprise-based surveys and mixed surveys are the main data sources for the analysis of informal sector and formal sector economic units, their production and contribution to GDP, and their characteristics. In general, due attention should be paid to ensuring that the scope of activities and type of economic units covered (in terms of size, place of work, economic activity and institutional sector) do not imply an exclusion of economic units likely to be informal (for example, independent workers without employees, units under a certain size threshold, units carrying out agricultural activities, units with non-fixed premises or home-based activities). To achieve comprehensive coverage of informal sector units, special attention should be paid to the sampling methods and frame used. The use of area-based sampling frames can be a useful method to establish an exhaustive list of units covering household-based activities and activities taking place in non-fixed locations.

~~39.76~~39.77 (*) Mixed surveys, that is, combined multi-stage household and establishment surveys, are specifically designed to identify and target economic units in the informal sector. Deriving their sample from a representative household survey, such as the labour force survey, ensures the inclusion of all types of activities within the informal sector, home-based activities, activities carried out from fixed locations as well as non-fixed locations. This requires an identification of economic units in the informal sector, through their owner(s), in the first phase. Care should be taken to ensure a sufficient sized representative sample of economic units in the informal sector.

~~39.77~~39.78 (*) Administrative records can be used as part of an indirect estimation of informal employment and of the informal sector because they provide information on formal employment and the formal sector. The number of persons covered by formal arrangements can, for example, be estimated in taxation systems, employment services and social security schemes. The size of the formal sector could be estimated by the use of business registers, tax registers and the like. The possibilities to do so depend on the structure and content of the country-specific administrative sources. Priority should, however, in general be given to direct methods based on household surveys and enterprise-based surveys or mixed surveys for more accurate estimations of the total informal employment and the informal sector. Administrative information such as legal identity of the economic unit, taxation, declared earnings or income and contributions to social insurance in relation to a specific job can also be used as relevant auxiliary information in surveys to further support the identification of formal jobs and formal economic units. This requires that a direct linkage at the level of persons and jobs or economic units is feasible in the country.

[The following paragraphs will replace the above in *BPM7*. The '(x)' denotes *BPM7*-only paragraphs that will not be in SNA.]

~~39.78~~39.79 (x) Compilers can use a range of statistical approaches including a combination of direct and indirect sources to estimate the size of the activities of the informal economy. These methods would be determined by the features of the informal economy in the compiling country as well as availability of source data and statistical capacity. The exchange of experiences and knowledge between national accounts and balance of payments compilers, and, also, between regulatory and policy agencies and statistics-producing agencies can be used to develop, for example, statistical models to estimate informal activities. National compilers are also encouraged to use innovative data sources, such as those provided by financial intelligence units and law enforcement agencies to develop estimates. In general, coverage of the informal economy, in both the national accounts and external sector statistics, requires additional source data, including through surveys.

~~39.79~~39.80 (x) Details of sources and survey methods for collecting data on the informal activities in the economy are presented in 2025 SNA chapter 39 – Informal economy which is a joint or companion chapter to this current chapter. The methods described in the SNA chapter can be applied to gather data on the informal economic units and persons who trade informally, particularly for trade in services.

~~39.80~~39.81 (x) If trade in goods and services is compiled separately from the national accounts, or if more than one agency is involved, compilers can cooperate to provide coherent statistics on the informal economy and to avoid duplication of work.

~~39.81~~39.82 (x) Compilers may wish to identify trade that is estimated using these approaches as an "of which" sub-item of ~~general merchandise~~trade in goods and trade in services. Compilers may also choose to present data in a standalone publication with information, for example, on the extent of informal trade, the products being traded, the gender and nationalities of the persons involved in trading, and the modes of transport being used.

### 3. (*) Presenting indicators on the informal economy [This section is excluded from *BPM7*]

~~39.82~~39.83 To support the development of national policies and interventions for addressing the consequences of informality and facilitating transitions to formality based on evidence, a set of indicators should be selected reflecting the national context, priorities and objectives. The indicators to be produced will depend on the specific component of the informal economy under scrutiny, data sources and national policy goals. The information relating to activities undertaken informally extends, in terms of the SNA, only as far as the production account and the generation of earned income account.

~~39.83~~39.84 The indicators linked to the different components of the informal economy could be structured to provide information on six dimensions of informality:

a. the extent of informality – the prevalence of informality across jobs, economic units and activities;

b. the composition of informality – the distribution of informal and formal jobs and economic units by socio-demographic, employment-related characteristics and characteristics of the economic units and socio-demographic characteristics of the owner or owners;

c. the exposure to informality – the percentage of persons with informal main jobs and of economic units in the informal sector by socio-demographic, employment-related characteristics and characteristics of the economic units and socio-demographic characteristics of the owner or owners;

d. working conditions and levels of protection for those in informal and formal employment, productivity and factors constraining or enhancing the development and sustainability of informal economic units and formal ones;

e. contextual vulnerabilities – including poverty, inequalities, discrimination and other conditions such as limited or no access to land and natural resources; and with regard to all income sources and social protection from all household members, as well as the composition of households; and

f. other structural factors.

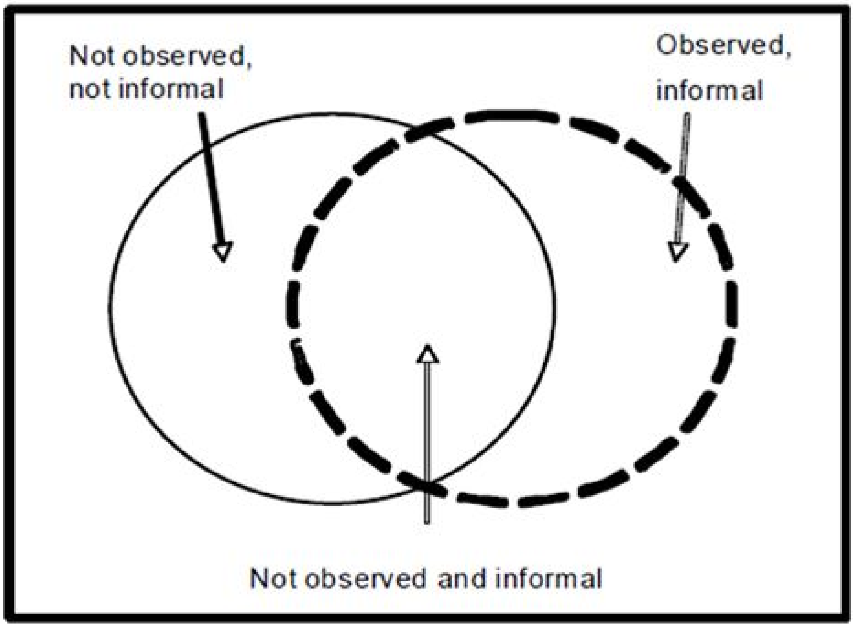
The 21st ICLS *Resolution Concerning Statistics on the Informal Economy* elaborates on the various possible indicators covering these six elements. A wider set of indicators to further support the national production of informality statistics can also be found in the ILO Informal Economy Indicator Framework available at: [insert link to Framework].

## F. The non-observed economy [adjusted in BPM7 to discuss non-observed trade]

~~39.84~~39.85 The part of the economic activity difficult to measure has become known as the Non-Observed Economy (NOE) and several publications have been dedicated to measuring it, notably the handbook Measuring the Non-Observed Economy (Organisation for Economic Co-operation and Development, International Monetary Fund, International Labour Organization and CIS STAT (2002)). As the techniques in the handbook make clear, a specific measure of the non-observed economy is not important in itself. Attention focuses on ensuring that the measurement of total production is complete or “exhaustive”. The term non-observed economy is used in the context of achieving exhaustiveness of national accounts statistics, focusing on GDP in the context of production. In the same way, non-observed trade is used to describe cross border trade that is difficult to measure in the context of exhaustiveness.

~~39.85~~39.86 There is a large overlap between the non-observed [economy/trade] and the informal [sector/trade]. (We focus here on the informal sector rather than the informal economy because the activities of the informal sector are entirely within the SNA production boundary and can thus be compared to the non-observed economy.) However, while the non-observed [economy/trade] and the informal [sector/trade] overlap, neither is a complete subset of the other. This can be seen in figure 39.2. The solid circle represents the non-observed [economy/trade] and the dotted circle the informal [sector/trade]. Thus, the overlap consists of [activities/trade] that are not observed and undertaken informally but there are some [activities/trade] that are not observed but are not undertaken informally and some that are undertaken informally but are observed. The relative size of the three segments in figure 39.2 will vary from country to country.

**Figure 39.2: The non-observed economy and the informal sector [with similar diagram replacing trade for economy in *BPM7*]**




~~39.86~~39.87 Efforts to cover the non-observed [economy/trade] ensure that all enterprises are covered in statistical estimates even if not covered by statistical enquiries. Some of the supplementary estimates may well relate to those activities of household unincorporated enterprises considered to be informal, but some will relate to large enterprises, not regarded as informal. In addition, the non-observed [economy/trade] aims to cover misreporting in large enterprises, whether this is inadvertent or deliberate.

~~39.87~~39.88 Within the informal sector, some information may be captured statistically. Consider a household that lets rooms to visitors for one or several nights. The activity cannot be treated as a quasi-corporation because it is impossible to make a clear separation of costs from regular household costs and to partition that fraction of the house treated as an asset associated with the letting of rooms from its main function as a family home. However, the value of the letting activity may be captured in a survey directed at tourism activities, for example.

~~39.88~~39.89 Other examples might be considered. [Street traders/Individual cross-border traders] or taxi drivers may be both not observed and informal. A small food producer may be formal but [too small to be covered by statistical enquiries/may trade at below threshold values] and therefore not observed. Teaching assistants may be informal but observed. The situation is complicated by the fact that street traders, taxi drivers, small food producers and teaching assistants may be formal in some countries and informal in others, just as they may be observed in some and not in others.

~~39.89~~39.90 It should be noted that all economies have both non-observed parts of their economies and informal enterprises, though the scale of each and the policy interest in identifying them may vary. More detailed information about the scope and measurement of the non-observed economy is available in publications such as the one mentioned in paragraph 39.84.

## G. Guidelines and handbooks on the informal economy and the non-observed economy

~~39.90~~39.91 Significant advances in methodology have taken place in fields related to the informal economy. Also, countries have gained extensive experience in collecting and working with data on the informal sector. These developments are highlighted in various guidelines and handbooks on statistics on the informal economy as well as handbooks on the measurement of the non-observed economy in the SNA.

- As discussed in this chapter, the *Resolution Concerning Statistics on the Informal Economy* adopted at the 21st International Conference of Labour Statisticians, (International Labour Office, 2023) provides the standards for statistics on informality.
- The International Labour Organization also prepared a manual in 2013 for preparing estimates of the informal sector and informal employment, *Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment* (International Labour Office, 2013). Although this manual pre-dates the latest standard presented in the 2023 ILO *Resolution*, it nevertheless provides useful guidance on practical aspects of collecting and compiling informality statistics.
- A wider set of indicators to further support the national production of informality statistics can also be found in the ILO Statistics on the Informal Economy page available at: https://ilostat.ilo.org/topics/informality/.
- Chapter 6 of the Eurostat manual, *Essential SNA: Building the Basics* (European Union, 2014) provides a practical overview of how to address exhaustiveness, the non-observed economy, and statistics on informality. Eurostat has also developed a "Tabular Approach to Exhaustiveness" which is used to help ensure comparability.
- Research on statistical methods for improving the exhaustiveness of measures of economic production led to the preparation of the handbook, *Measuring the Non-Observed Economy - a Handbook* by the Organisation for Economic Co-operation and Development, International Monetary Fund, International Labour Organization and CIS STAT (2002).
- The UNECE published ~~a~~ *Non-Observed Economy in National Accounts: Survey of Country Practices* (United Nations Economic Commission for Europe, 2008) which summarizes practices as of that date in measuring non-observed economic activities to ensure the exhaustiveness of their national accounts.
- Eurostat published *Handbook on the Compilation of Statistics on Illegal Economic Activities in National Accounts and Balance of Payments* (Publications Office of the European Union, 2018) which provides guidance on the concepts and definitions of illegal activities, recommended methodological frameworks for compiling data, and data sources and statistical techniques for recording illegal economic activities.