The methodological Application Project
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Introduction

- Review the main changes from 2008 SNA
- Select the priority topics for implementation
- Review outstanding 1993 SNA implementation subjects
- Develop national methodology, correspondence tables and approximation, develop national methodology for the selected topics
- Review of data sources to the concepts of SNA
- Refer topics to institutional groups, in case the topics require access to data sources
Major changes

Changes from 1993 SNA may be grouped

1. Further specifications of statistical units and revisions in institutional sectoring
2. Further specifications of scope of transactions including the production boundary
3. Extension and further specification of concept of assets, capital formation and CFC
4. Refinement of treatment and definition of financial instruments and assets
5. Scope of transactions concerning govt. and public sector
6. Harmonization with BPM6
Review of Main changes

Graph 2: Review of main Changes

1993 SNA

PRIORITY ISSUES

Non Financial Assets

Financial sectors

Public sector issues

Rest of the world

Main changes 2008 SNA

CORE SET OF ACCOUNTS

Supply Use

National Accounts

Financial accounts

Institutional sectors

Balance sheets

Input-Output

Financial Institutions

Public Finances Governments

Administrative data

International Trade Statistics

Statistical Infrastructure

Business register, statistical units, survey design, administrative data, classifications

BASIC ECONOMIC STATISTICS

Agricultural Statistics

Household Surveys-Censuses, CRVS

Prices Indices

Financial Statements
The 2008 SNA Implementation Project

According to this profound changes:

- The project is not an adjustment of some concepts in an existing series of accounts, this affects classification, accounting rules, asset boundaries, production boundaries etc…

- The best way to claim a proper implementation for African countries is to compile a new series of accounts- typically every five years - with a new base year with the concepts of 2008 SNA

- During an interim period of 5 years, use both 1993 SNA and 2008 SNA
Main Changes

- **Non financial Assets (NFA):** Land, water, mineral exploration, capital services, military assets, research and development (R&D), originals and copies, goodwill, data bases, mineral exploration and evaluation and costs of ownership transfer (COT).

- **Globalization & harmonization with the BP 6:** subjects of predominant residence, good send abroad for processing, internationally mobile individuals, holding companies and special purpose entities (SPE) and multi-territory enterprises.

- **Financial assets:** FISIM, pension schemes, guarantees, repurchase agreements, arrears, nonperforming loans and index-linked instruments.
Changes from 1993 SNA

- ISWGNA identified 44 issues for review

- UNSC emphasized:
  - Need for the broadest possible involvement of the global statistical community in the update project
  - Transparent management process

- In line with this emphasis, the Advisory Expert Group (AEG), comprising 20 country experts from all regions of the world, was established to take a key role in the revision

Specifications of statistical units and revisions in the sectoring

Producer unit undertaking ancillary activities to be recognized as a separate establishment in certain cases

- Unit undertaking purely ancillary to be recognised as separate establishment if:
  - Statistically observable, in that separate accounts for the production it undertakes are readily available, or
  - if it is located in a geographically different location from the establishments it serves;

- The ancillary establishment classified according to its own principal activity.

- The value of output should be derived on a sum of costs basis, including the costs of the capital used by the unit.

*The 1993 SNA treated a producer unit undertaking purely ancillary activities always as an integral part of the establishment it served.*
Scope of transactions including the production boundary

Output of central bank clarified

- Services produced by the central bank are identified in three broad groups,
  - financial intermediation,
  - monetary policy services and
  - supervisory services - overseeing financial corporations.

- Separate establishments should be identified for units of the CB undertaking production of these services

- Financial intermediation services represent market production,

- Monetary policy services represent non-market production and

- Borderline cases, such as supervisory services may be treated as market or non-market services depending on whether explicit fees are charged that are sufficient to cover the costs of providing such services.
Recoding of output of Non-life insurance services improved

- Catastrophic events generate massive claims on non-life insurance companies

- In such cases the output of the insurance activity estimated using the basic algorithm of the 1993 SNA anchored on the *balance of premiums and claims* could be extremely volatile (even negative).

- The 2008 SNA, therefore recommends that the output of the non-life insurance activity should be calculated using the *adjusted claims and adjusted premiums supplements*.

  - Output = Actual premiums earned + Adjusted premium supplements - Adjusted claims incurred.
Scope of transactions including the production boundary

Valuation of output for own final use by households and corporations to include a return to capital

- Return to capital to be included as part of the sum of costs for valuation of the output of goods and services produced for own final use by households and corporations.

- The 1993 SNA was not explicit in including the return to capital in estimating the output of goods and services produced for own final use by households and corporations.
Further specification of concept of asset

Change of economic ownership introduced

- 2008 SNA gives guidance to distinguish between legal ownership and economic ownership

- The unit assuming the risk of the asset in case of damage, destruction and theft etc is the economic owner.

- 2008 SNA recommends that assets be recorded on the balance sheets of the economic rather than the legal owner.
Extension of asset boundary

Asset boundary extended to include R&D

- The output of the R&D is capitalized as “intellectual property products”
  - except in cases where it is clear that the activity does not entail any economic benefit to its producer (and hence owner) in which case it is treated as intermediate consumption.

- patented entities, of the 1993 SNA asset category is no longer separately identified and is subsumed into R&D assets

- Treatment of R&D giving rise to produced assets has removed the 1993 SNA inconsistency of treating the patented entities as non-produced asset giving rise to property income
Extension of asset boundary

Extension of the assets boundary and government GCF to include expenditure on weapon systems

- Military weapon systems are seen to be used continuously in the production of defence services, even if their peacetime use is simply to provide deterrence.

- The 2008 SNA, therefore, recommends that military weapon systems should be classified as fixed assets
  - Single-use items, such as ammunition, missiles, rockets, bombs, etc., delivered by weapons or weapons systems are treated as military inventories

- The 1993 SNA treated as gross fixed capital formation all expenditures by the military on fixed assets of a kind that could be used for civilian purposes of production.
  - military weapons, and vehicles and equipment whose sole purpose was to launch or deliver such weapons, were not treated as gross fixed capital formation but as intermediate consumption.
Revised classification of assets introduced

Produced assets

- Within buildings and structures, a category has been added for land improvements. This replaces the 1993 SNA term "major improvements to non-produced non-financial assets". The costs of ownership transfer on all land are to be included with land improvements.
- The information, computer and telecommunications (ICT) equipment has been included as a new category under machinery and equipment,
- Weapon systems are recognized as produced assts and classified separately,
- The term "intangible fixed assets" has been renamed as "intellectual property products". The word "products" is included to make clear that it does not include third party rights which are non-produced assets in the SNA,
- R&D products are included within intellectual property products.
- The item "mineral exploration" has been renamed to "mineral exploration and evaluation" to emphasise that the coverage conforms to the international accounting standards,
- Computer software has been modified to include databases
- The term "other intellectual property products" replaces "other intangible fixed assets"
- The only change to inventories is to show military inventories separately
Revised classification of assets introduced

Non-Produced assets

- The "tangible non-produced assets" of the 1993 SNA are renamed as "natural resources",
- Other natural resources such as the radio spectrum has been added, and
- The "intangible non-produced assets" has been split into two sub-categories, namely, "contracts, leases and licences" and "goodwill and marketing assets",
- Contracts, leases and licences has been split into four sub-categories;
  - marketable operating leases,
  - permissions to use natural resources,
  - permissions to undertake specific activities, and
  - entitlement to future goods and services on an exclusive basis.
Further specification of capital formation

Treatment of cost of ownership transfer elaborated

- Like the 1993 SNA, the 2008 SNA continues to treat the costs of ownership transfer (COT) as fixed capital formation.

- COT on acquisition of an asset should be written off over the period the asset is expected to be held by the purchaser
  - 1993 SNA recommended to write off COT over the whole life of the asset

- COT on the disposal of an asset should also be written off over the period the asset is held but recorded when they are actually incurred.

- Recognising the difficulty in implementation of this recommendation for lack of adequate data, the 2008 SNA recommends that these costs should still be recorded as gross fixed capital formation but written off as CFC in the year of acquisition.
Further specification of capital formation

Mineral exploration and evaluation

- The 2008 SNA maintains the distinction between the act of exploring for mineral resources (treated as a produced asset) and the mineral resources themselves (treated as non-produced assets).

- The term “mineral exploration” has been renamed as “mineral exploration and evaluation” to match the term used in the International Accounting Standards.

- The 2008 SNA gives guidance that
  - mineral exploration and evaluation should be valued at market prices if purchased or
  - at the sum of costs plus an appropriate mark-up if undertaken on own account
Further specification of capital formation

**Land improvements**

- Land improvements continue to be treated as gross fixed capital formation.

- The 2008 SNA recommends treating land improvements as a category of fixed assets distinct from the non-produced land asset as it existed before improvement.

- In cases where it is not possible to separate the value of the land before improvement and the value of those improvements, the land should be allocated to the category that represents the greater part of the value.

- The costs of ownership transfer on all land are to be included in the land improvements.

- *The 1993 SNA recorded improvements to land as gross fixed capital formation, but in the balance sheet such improvements were included with land itself.*
Major changes

**public sector:** public enterprises
dividends, taxes on an accrual basis,
privatization, sector delineation, public-private partnerships, and restructuring agencies.

**Financial services** and **insurance** at
both current and constant prices, non-life insurance.
Criteria for selection of Topics

- Focus to the topics affecting GDP, (Similar to 68 SNA and 1993 SNA)
- Availability of data sources and statistical capabilities of the country,
- Availability of practical methods to approximate the SNA concepts
1968 to 1993 SNA- Elements affecting the level of Gross Domestic Product (GDP)

1. Is government defence expenditure on fixed assets that can be used for civilian purposes included in GCF?

2. Is consumption of fixed capital included on all government fixed assets (airfields, roads, hospitals, docks, dams and breakwaters and other forms of construction)?

3. Is all successful mineral exploration capitalised?

4. Is all unsuccessful mineral exploration capitalised?

5. Are purchases of computer software included in GCF?

6. Is expenditure on software development on own account and for sale included in GCF and output?

7. Is expenditure on entertainment, literary or artistic originals included in GCF and on their development included in output?

8. Is expenditure on valuables included in GCF?

9. Is the natural growth of cultivated forests included in output and GCF?

10. Is financial intermediation services indirectly measured (FISIM) allocated to users?

11. 1993 SNA extends the production boundary of households to include goods that are not made from primary goods – are these goods included in output?

12. 1993 SNA extends the production boundary of households to include all goods that are produced by households whether for sale or not – are these goods included in output?
Elements affecting GDP in the 2008 SNA

- The changes under non-financial assets (NFA) and the capitalizations of defense weapons systems will have considerable implications on GDP,

- The priority topics focus on capitalization: of research and development (R&D), military weapons system, mineral exploration, software originals and copies, data bases, cost of ownership transfers (COT), land and water.
Elements affecting GDP in the 2008 SNA

- Allocation of new FISIM by sector
- Output of Central bank.
- Globalizations, harmonization of SNA and BP6: -Centre of predominant centre of interest- Good send abroad for processing
Elements affecting GDP in the 2008 SNA

- Capitalization of Research and Development.
- Valuation of output for own final use by households and corporations to include a return to capital.
- Capitalization of expenditure on weapon systems.
- Refined Method for Calculating Financial Intermediation Services Indirectly (FISIM).
- Changes in recording of pension entitlements.
- Treatment of employee stock options.
SNA Recommendation

R&D should be recognized as capital formation, with the inclusion of R&D expenditure as capital expenditure, patented entities no longer feature as assets in the SNA (10.104-5 SNA) The R&D consists of value of expenditure on creative work undertaken on a systematic basis in order to increase knowledge and the use of knowledge to devise new applications. The SNA recognize the difficulties in the valuation of the GFCF in R&D and even recommend that the issues related to derive measures of R&D, prices indices and services lives should be provided in specific guidelines, handbook methodology and practice. (10.104 SNA)
R&D

- **Capitalization of R&D**
  - The activity of R&D is no longer treated as ancillary.
  - Expenditure on R&D is treated as capital formation (except those made available free).

- **Impacts**
  - Move R&D from intermediate consumption to gross capital formation. This changes GDP by the same amount.
  - Require adding consumption of R&D fixed capital stock to non-market output: increase GDP.
R &D Methods

OECD manuals

FM: Frascati Manuals

See the following presentation
Military Weapons System (MWS)

- MWS include vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile carriers and launchers. Military fixed assets meet the criteria of fixed assets because they continuously provide defense services to the nation, protecting their liberty and property, or service of deterrence. The notable difference between 1993 SNA is that GFCF of military expenditure is limited to civilian uses and purposes in the 1993 SNA. Repeated or continuous use of MWS are treated
MWS

- **Military Expenditure**
  - Fixed assets (Transports and weapons delivery systems, intercontinental missiles, etc.).
  - Change in inventories (bullets, bombs, etc.)

- **Impacts**
  - Move expenditure on military equipments from final consumption to gross capital formation: This does not change GDP
  - Require adding consumption of military fixed capital stock to government output: increase GDP
  - Need to separate:
    - Military GCF
    - Non-military GCF (only this will affect economic growth)
New FISIM

Definition of financial services enlarged

- 1993 SNA recognised only financial intermediation services
- 2008 SNA enlarges definition of financial services to give due weight to the increase in financial services other than the financial intermediation, specifically financial risk management and liquidity transformation.
- Financial services of money lenders recognised
New FISIM

- **Measurement**
  - Measurement relies only on interest receivable on loans and interest payable on deposits, ignoring all other investment incomes.
  - Own funds are also treated as generating output.

- **Impacts**
  - Depends on the structure of financial instruments, but tends to increase output of FISIM.
  - For example, loans of own funds and other forms of equity will only generate high output as interest payable is nil.
  - Money lenders output recognized
Output for own final use by households and corporations is valued with a return to capital

- Valuation of market producers only.
- Not applicable to non-market producers like government and NPISH.

**Impacts**
- Output valued by cost increases by an imputed value of return to capital (Need total stock of assets for the calculation of return to capital).
- GDP increases by the same amount of imputed value.
Outstanding 1993 SNA elements

- Informal sectors
- Agriculture and Orchard Growth
- Imputed Rents

Each of these subjects (93&08) require a specific national methodology, with detailed approximation and data sources.
Questionnaire to countries

- Do we agree that elements affecting GDP the main priority? The list is exclusive or should narrowed down?
- Existence or Planned activities to develop national methodology on these topics?
- Adjustment/reclassification of existing correspondence tables?
- Data sources: available or redesign existing questionnaire for R&D? Confidentiality of data on MWS?....
- Which countries expect to rebasing its NA to introduce the 2008 SNA as Framework? country practices in benchmarking each 5 years or suggest that country rebase their SNA every 5 years, which countries have firm intention to rebase (at the earliest) with the introduction of the 2008 SNA?
Additional info? see annex 3 of the SNA

Thank you