

The Implementation of ISIC and CPC Classification Systems in Zambia

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Introduction

The Central Statistical Office (CSO) is a department under the Ministry of Finance and National Planning responsible for the production of official statistics. It is also a custodian of several economic and social classifications. Under the Economic Statistics Division, and the Social Statistics Division, which are two of the four divisions of the CSO¹, the economic and social classifications used include the following:

- Industries are classified according to the International Standard Industrial Classification for all Economic Activities (ISIC). An industry is defined as a group of establishments engaged in the same, or similar, kinds of activity. The ISIC is used in the national accounts, industrial production, labour statistics and household surveys with an employment or economic activity component. The concept of establishment in all these various statistics is the same. However, as is explained below, the implementation of the ISIC is at different stages in the different statistical units that use it.
- For external trade statistics, the classification systems used are the third revision of Standard International Trade Classification (SITC, rev. 3), the Harmonized Commodity Description and Coding System (HS07) and by Broad Economic Categories (BEC).
- The Classification of Functions of Government (COFOG) is used in the government finance statistics to classify expense transactions and transactions in nonfinancial assets. This classification is used to distinguish between expenditure by government on individual and collective services.
- A new CPI basket of goods and services based on the household budget module of the 2002/2003 Living Conditions Monitoring Survey (LCMS) has been developed with the number of products increasing from 357 to 441. The new basket of goods and services has been classified according to the Classification of Individual Consumption by Purpose (COICOP). This has resulted in the increase in the number of sub-groups from 49 to 68 and the number of major groups (divisions) has increased from 8 to 12. The implementation of COICOP is also part of the harmonisation project of Consumer Price Indices in the Southern African Development Community (SADC) region.
- Occupations in labour statistics and the LCMS are classified according to the International Standard Classification of Occupations (ISCO-88).
- Employment status in labour statistics and the LCMS is classified according to the International Classification by Status in Employment (ICSE-93).

¹ The four divisions of the CSO are i) Economic statistics, ii) Social statistics, iii) Agriculture and environment statistics; and iv) Information, research and dissemination.

Industry Classification - ISIC

The CSO hosts a Business Register (BR) of establishments, classified according to the third revision of ISIC. The BR is used, among other things, as a sampling frame for establishment surveys. The national accounts unit and Industrial Production unit are two of the major users of the BR, which is housed in the Labour and Employment unit, under the Social Statistics Division.

However, the second revision of ISIC (ISIC Rev. 2) is used to classify establishments in national accounts and Industrial Production. The ISIC is used in the international format and no local adaptation is used. There are 11 major groups covered. These are:

- 1) Agriculture, Forestry and Fishing;
- 2) Mining and Quarrying;
- 3) Manufacturing;
- 4) Electricity, Gas and Water;
- 5) Construction;
- 6) Wholesale and Retail Trade;
- 7) Restaurants, Bars and Hotels;
- 8) Financial Institutions and Insurance;
- 9) Transport, Storage and Communications;
- 10) Real Estate and Business Services; and
- 11) Community, Social and Personal Services.

In 2007, the CSO conducted an economic census whose main purpose is to comprehensively rebase the national accounts to 2006 from 1994. The CSO used this opportunity to implement a draft version of the fourth revision of the ISIC (ISIC, rev. 4). The economic census will provide a new BR and will be based on the ISIC rev. 4 at 4-digit level. With the publication of the final version of ISIC rev. 4, the challenge is to ensure that we shift from the draft version to the final version. Since there are no major shifts between the draft and the final versions, the final version will be easily implemented. Currently, the CSO has just completed data entry for the listing phase of the economic census required to set up a new BR.

The Zambia Revenue Authority (tax authority) has a register of establishments' turnovers for the purposes of paying Value Added Tax (VAT). The VAT register is also used as a sampling frame for conducting establishment surveys because it contains turnover data, which is an alternative stratification variable to employment used in the current BR. Since the tax authority uses a different classification system, the establishments are re-classified when CSO intends to use the register as a sampling frame. Several meetings have been held between the CSO and the tax authority to harmonise the classification of establishments. They have since implemented the ISIC, albeit at one digit level.

The CSO in conjunction with the Ministry of Labour and Social Security plans to conduct the Labour Force Survey (LFS) before the end of 2008 to monitor key indicators of the Labour Market. The industry classification to be used is the ISIC Rev. 4. The last LFS conducted in 2005 was based on ISIC Rev. 3.

All other upcoming surveys and censuses will be using ISIC Rev. 4.

Product Classification - CPC

Product classifications such as the Harmonised System (HS) in the external trade statistics are used in the Zambian statistical system. Though product information is available for the Industrial Production Index, in which the index is calculated at product level, CPC is not explicitly used. With product information to be obtained from the economic census, the CSO intends to introduce the CPC classification system, at least in the industrial production sector.

Classification Challenges

In classifying establishments and enterprises, there are several challenges that are encountered. These include misclassification of establishments, limited product/activity detail and how to deal with multiple-activities establishments.

A lot of time is spent in correctly classifying business activities as these are often misclassified. Changes in business activity also poses a special challenge.

During business surveys, respondents are asked to give detailed descriptions of their activities in order for the CSO to classify their activity at least up to 4 digit level. However, when an establishment simply answers that they are in 'Food Manufacturing' for example, only a 2 digit code can be assigned.

In terms of multiple activity establishments, one such challenging establishment in Zambia is a leading manufacturer of detergents, soft drinks, sweets and soya chunks. These products are in different ISIC groupings at more than one digit level. All these products are produced at the same premises. The firm does not provide separate statistical information for these products since the costs of production of each of these products are not separated according to the particular product. Value added can therefore only be calculated at establishment level, not at product level. Since they provide data on sales separately, the principal activity is determined based on the product with the highest sales, which in this case, is the manufacture of washing detergents. However, this accounts for less than half of the total sales!

Conclusion

Over the years, there have been major structural shifts in the economic set up of Zambia. The widening of the scope of the productive activities as defined in the System of National Accounts (SNA) and the introduction of several products and services in the economy calls for the implementation of the latest industry and product classifications. The fourth revision of ISIC has, in effect already been implemented in the Zambian economic statistics system since it was used during the conducting of the economic census. The national accounts will be reported in ISIC rev. 4 in 2009.

The introduction of new sections such as “Information and Communication” and other services makes the new classification more relevant to this and other fast emerging industries in Zambia.

It is planned that the CPC will be implemented gradually, starting with the index of industrial production, which covers mining and quarrying, manufacturing, and electricity, gas and water industries.

This workshop therefore provides a basis upon which the implementation of CPC will begin to be effected.