9.1 Introduction to the Classification of the Functions of Government (COFOG)

ECLAC/UNSD Regional Workshop on International Statistical Classifications
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Pedro Farinas
United Nations Statistics Division

Overview of Presentation

- **Introduction to COFOG**

- **Task Team on COFOG**
  - Formation/Background
  - Initial Meetings
  - Collection of Proposals

- **21 'Issue Categories'**

- **Global Consultation**

- **Working Groups**

- **Next Steps**

Introduction to COFOG

Classification of the Functions of Government

Part of the set of **Classifications of Expenditure According to Purpose**, which also includes:

➢ Classification of Individual Consumption by Purpose (COICOP)

➢ Classification of the Purposes of Non-Profit Institutions Serving Households (COPNI)

➢ Classification of the Outlays of Producers by Purpose (COPP)

Approved by the UN Statistical Commission in 1999 ([E/CN.3/1999/29](E/CN.3/1999/29))

Currently undergoing a revision process

Governments classify their public expenditure using COFOG, an international standard classification that organizes public government expenditure into functional categories of interest to policymakers
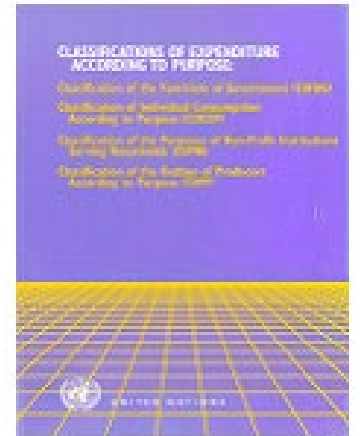
Introduction to COFOG

Main Uses of COFOG

- Developed to understand the structure of government expenditures, to support the System of National Accounts (SNA) and Government Finance Statistics (GFS)

- Provide wide range of statistics pertaining to expenditures by governments, which permits trends in government outlays on particular functions or purposes to be examined over time

- Provide users with means to recast key aggregates of system for particular kinds of analysis on government expenditure

- Allow intercountry comparison of the extent to which governments are involved in economic, social and environmental functions

Task Team on COFOG

Main drivers for the revision based on initial discussions

- **Meet emerging data needs for policy making**
  - Environmental expenditures, climate change and biodiversity
  - Digitalization
  - Education
  - Official alternative structures along thematic areas

- **Generate granular data for deeper analysis**

- **Ensure that it is in line with the updates of related frameworks and classifications**

- **Provide more detailed compilation guidance**
  - Address specific compilation issues (e.g. classification of R&D, assigning legal aid, etc.)
  - Classification of spending with multiple purposes
  - Cross-classification of COFOG with economic classifications

- **Discussion on secondary purpose expenditure**

Task Team on COFOG

Task Team Formation/Background

March 2022 – UN Statistical Commission (E/CN.3/2022/41)

> "**Recommended the revision** of the Classification of the Functions of Government and an assessment of **whether changes are required in the other classifications of expenditure** according to purpose…"

March 2024 – UN Statistical Commission (E/CN.3/2023/37)

> "**Approved the terms of reference** of the task team on the revision of the Classification of the Functions of Government…"

Task Team on COFOG

Task Team Formation/Background

Chaired by Tom Orford, HM Treasury, United Kingdom

Experts and representatives from various communities

- Classification
- Government finance
- Environment
- Subject matter experts

15 countries & 7 international/regional organizations

Contact UNSD (CHL@un.org) for more information or interested in joining

Task Team on COFOG

Initial Meetings

Five initial Task Team (TT-COFOG) meetings held April 2024 - April 2025

- Collected proposed revision issues from Task Team members from April - September 2024

- Developed revision issue category list and questionnaire for global consultation

- Circulated global consultation in November 2024, received responses through January 2025

- Reviewed results of consultation, providing feedback

- Final list of issues to be confirmed

- Formed Working Groups and currently identifying Chairs/Issue Leads

21 Issue Categories

Collected proposals were organized into 21 "issue categories"

Individual proposals may conflict since they come from different respondents, i.e. for:

Research & Development
- Add more detailed breakdown, or do not
- Group all R&D into single Division, or stay aligned with respective Division

21 Issue Categories

A. Current COFOG Divisions, Cross-cutting issues, and Other Thematic Issues

Current COFOG Divisions

A01. General public services

A02. Defence

A03. Public order and safety

A04. Economic affairs

A05. Environmental protection

(includes alignment with CEP, SEEA and other environmental classifications/frameworks)

A06. Housing and community amenities

A07. Health (includes alignment with SHA)

A09. Education (includes alignment with ISCED)

A10. Social protection

A11. Cross-cutting issues

A12. R&D (includes alignment with NABS)

A13. Digitalization

A14. Gender

A15. Indigenous peoples

Other Thematic Issues

21 Issue Categories

**B. Structural, Alignment and Other Issues**

B1. COFOG structure/classification principles

B2. Primary/secondary purpose

B3. Additional uses of COFOG

B4. Compilation issues

B5. Individual/collective expenditure

B6. Internal consistency with other classifications of expenditure according to purpose:
     COICOP/COPP/COPNI

B7. Alignment with other classifications/frameworks

Task Team on COFOG

Collection of Proposals
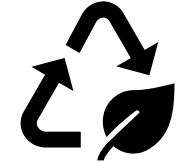
Example: Proposals under Issue category A05. Environment Protection

- Review the scope of the division, including 05.1 (Waste management), 05.4 (Protection of biodiversity and landscape), resource management activities and disaster risk and emergency relief
- Improve alignment with CEP, SEEA and other environmental classifications/frameworks
- Identify activities potentially under 05.4 (Protection of Biodiversity and Landscape) that support forest related intervention and realign them under 04.2.2 (Forestry)
- Include a breakdown of renewable/non-renewable energy in 05.3 (Pollution abatement)
- Clarify the classification of water-related expenditure, which is split between Division 06 (water supply), and Division 05 (wastewater management)
- Account for expenditure on climate change mitigation and adaption, by evaluating the option to introduce further breakdowns at the level of COFOG classes in this or other relevant divisions or to create a standalone COFOG division on climate change expenditure

Task Team on COFOG

Collection of Proposals
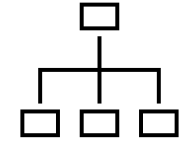
Proposals under Issue category B1. COFOG Structure/Classification Principles

The revision of COFOG provides an opportunity to review the underlying scope, principles, concepts and the underlying structure of the classification and to strengthen the alignment with international reporting for relevant statistics and indicators. The revision process would benefit from a clear elaboration on what are the main COFOG classification principles, including but not limited to the following issues:

- Consistency with national accounts framework
- Units of classification
- Principles of mutually exclusive classes and primary purpose
- Balance in size of main divisions
- Level of hierarchical classification
- Applicability for state and local government sectors in addition to the central government sector
- Treatment of preventative expenditure
- Development of official alternative aggregates or indicators along cross-cutting themes
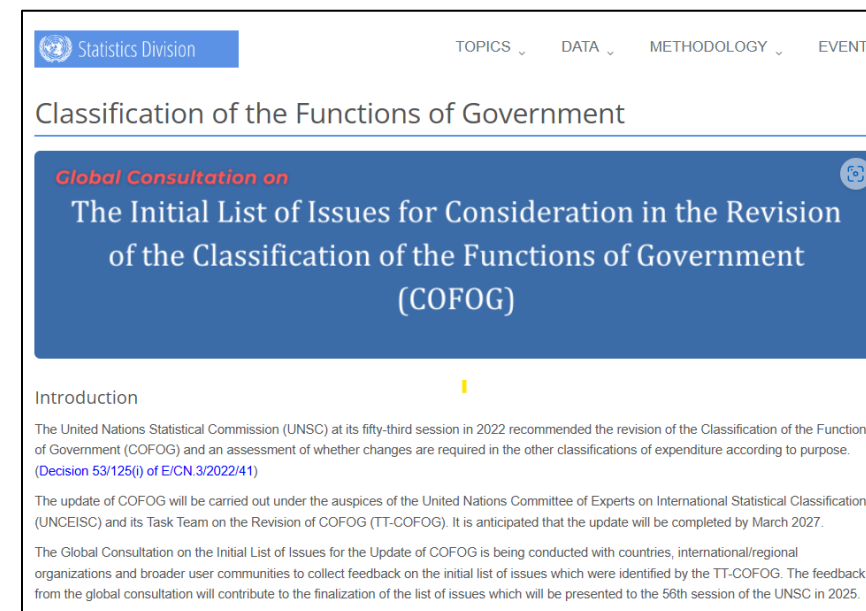
Global Consultation

Global consultation launched in November 2024, closed in January 2025

➢ **Responses will be used to finalize initial list of issues for consideration in the revision of COFOG**

Report document will be available at:
https://unstats.un.org/unsd/classifications/cofog/revision

Global Consultation

- Some questions aimed at COFOG data <u>providers/compilers</u>, others at <u>users</u> of COFOG

- **21 Issue categories**

  Respondents asked to identify which:
  - <u>Should be considered</u> during the revision process
  - How they should be <u>prioritized</u>
  - The perceived level of <u>difficulty in implementing</u> the proposals

- **Additional questions included**

  - Information about respondent and organization
  - Primary and secondary expenditure/budget tagging
  - Individual and collective expenditure
  - Types of expenditure & institutional sectors covered
  - Perceived current quality of data sources and compilation practices

Global Consultation

Main Findings

- **105 responses** were received from 74 countries and 8 organizations

- For **19 of the 21** proposed issue categories, a majority of respondents said that issue category **should be considered** during the revision process. Most likely to be selected were Environmental Protection, Economic Affairs, General Public Services & Health

- **All 21** issue categories were **deemed to be either high or medium priority** among a majority of respondents. The issue categories most likely to be considered high or medium priority were: Environmental Protection, COFOG Structure/Classification Principles, Health, Compilation Issues & Internal Consistency w/other Classifications of Expenditure According to purpose

- Wide-ranging interest in participating in the **Working Groups**, with between 19-33 individuals/organizations volunteering thus far for each group

Global Consultation

Main Findings

Bar chart showing percentages: Compile government expenditure accounts based on COFOG 63%; Provide data for compilation of government expenditure accounts based on COFOG 27%; Use government expenditure accounts based on COFOG 48%; Do not utilize COFOG, but the framework is relevant to their work 13%.
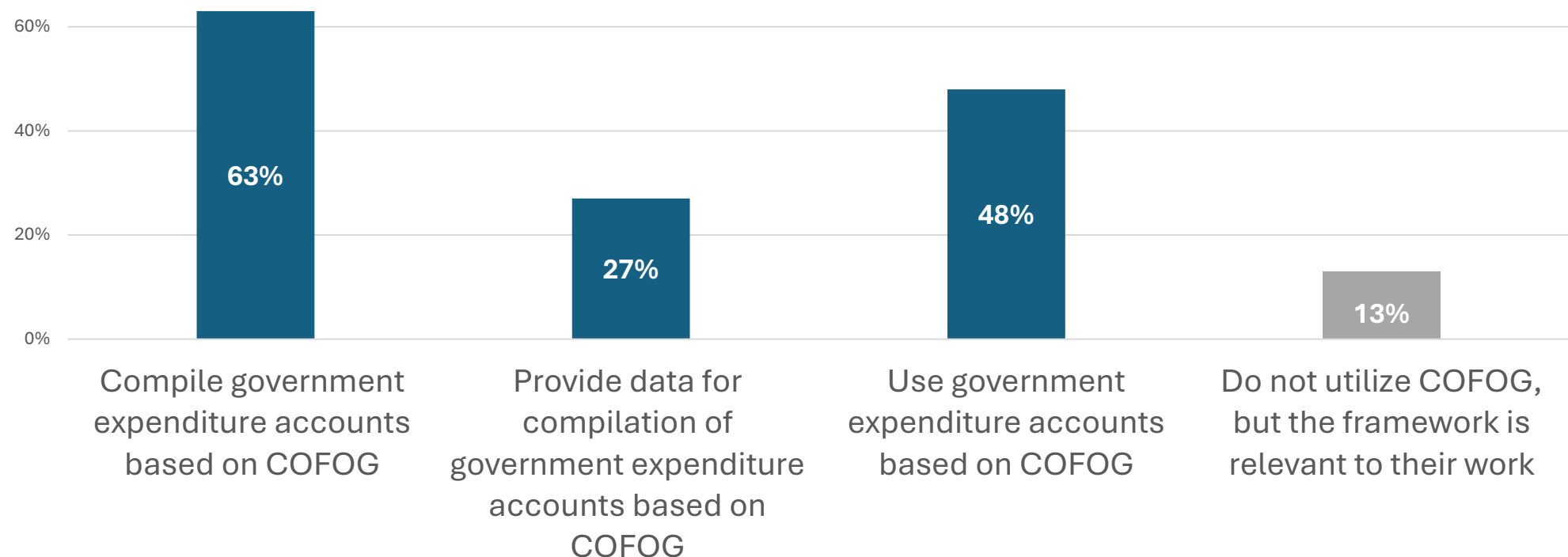
Global Consultation
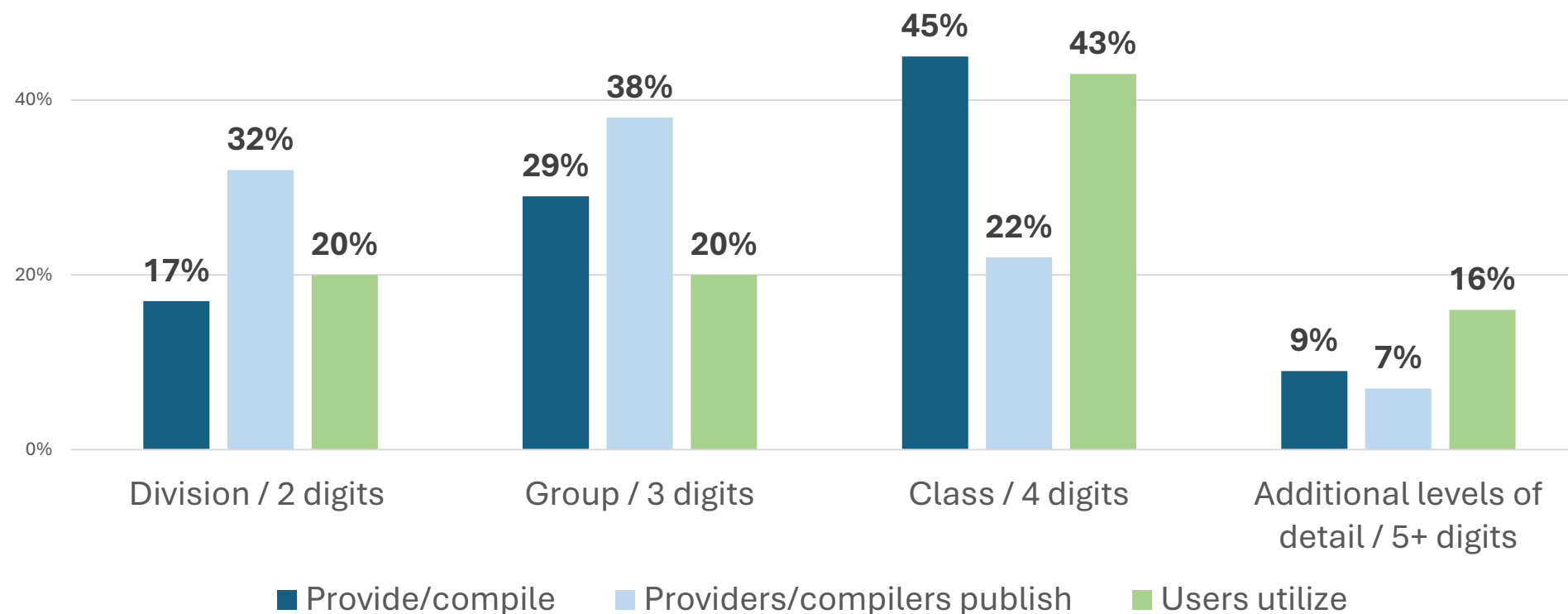
Level of Use

Global Consultation

Level of Use

- Results indicate that while the **majority of responding compilers release data at a more aggregated level** (2 or 3 digits), COFOG data was **compiled at a more granular level** (4 or 5 digits) by over half of respondents

- In addition, **users of COFOG wish to utilize it at a more detailed level than generally published by providers & compilers**

- These results would serve as the input for discussion on revision **issue B1** on whether the current three-level structure is adequate, and on whether an additional level or extension is required to improve the granularity of the classification

Global Consultation

Sectoral Coverage

Chart showing Sectoral Coverage percentages for Compilers/Providers and Users:

Category	Compilers/Providers	Users
General government	75%	74%
Central government	85%	72%
% of which: budgetary central…	53%	
% of which: non-budgetary…	32%	
State government	29%	38%
Local government	64%	56%
Social security funds	63%	40%
State-owned enterprises/public…	11%	14%

■ Compilers/Providers ■ Users
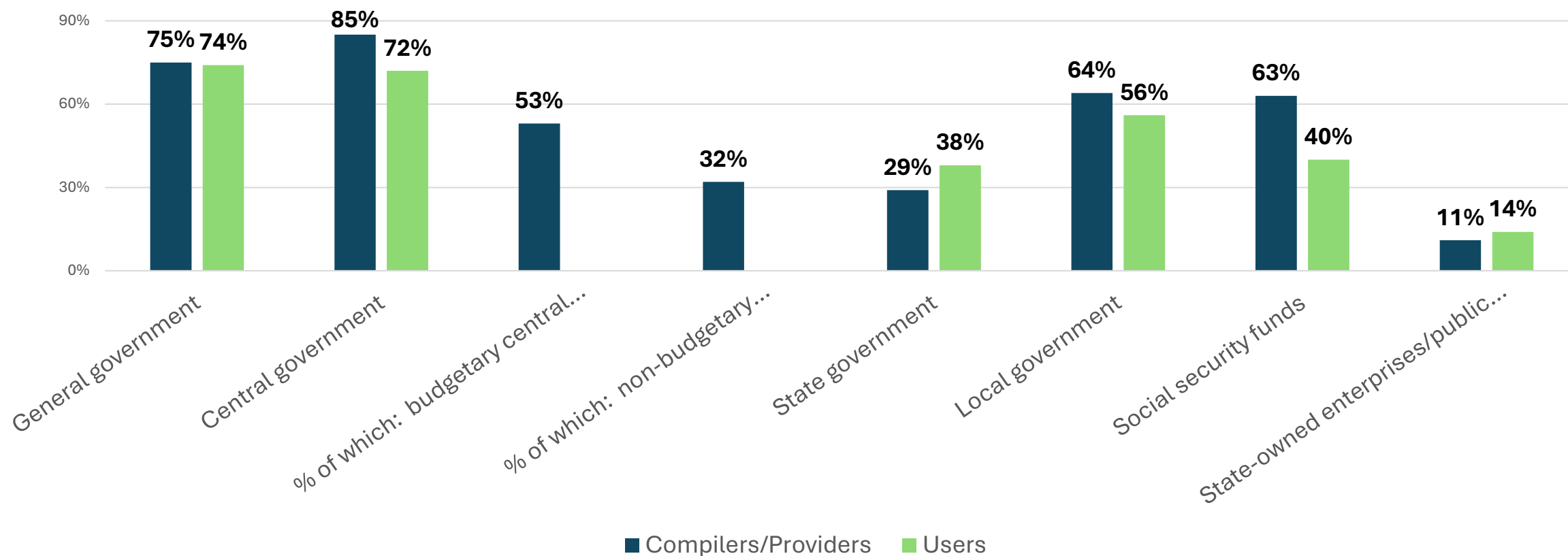
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Sectoral Coverage

The results noted cases where COFOG is utilized beyond the general government sectors, and would serve as the input for discussion on revision **issue B1** on the classification unit and on the applicability of state and local government and social security funds and state-owned enterprises/public corporation sectors in addition to the central government sector in COFOG

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Primary/Secondary Expenditure

Does your institution use budget tagging to identify primary expenditures in your data system?

- Yes
- No

31%
69%
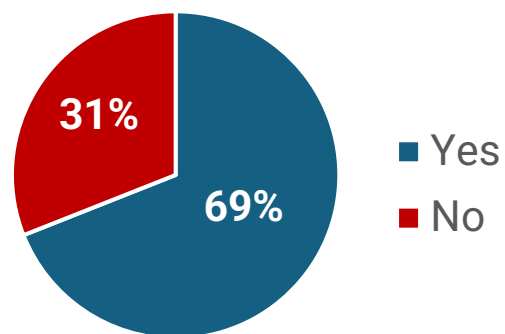
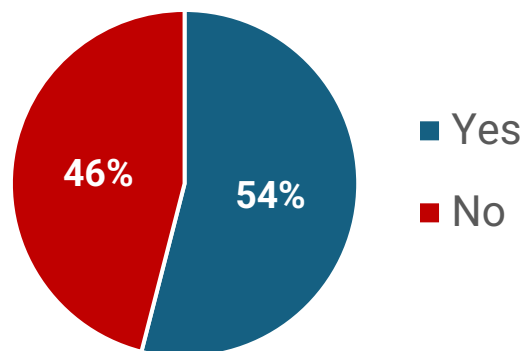**Does your country identify secondary expenditures in the same way as primary purposes of expenditure?**

- Yes
- No, institution uses alternative methods to identify secondary exp.
- No, institution does not identify secondary expenditure

29%
15%
56%

Global Consultation

Primary/Secondary Expenditure

In the compilation or provision of COFOG data, do you ensure consistency (or aim to) with other related data, such as non-financial data for government statistics and other domains (e.g., employment, energy, etc)?

Are COFOG statistics complied ex post or ex ante in the budgeting process?

- Yes
- No

46% No
54% Yes

22% | 19% | 58%

- Ex post (at the end of the budget cycle)
- Ex ante (at the beginning of the budget cycle)
- Not sure/not applicable
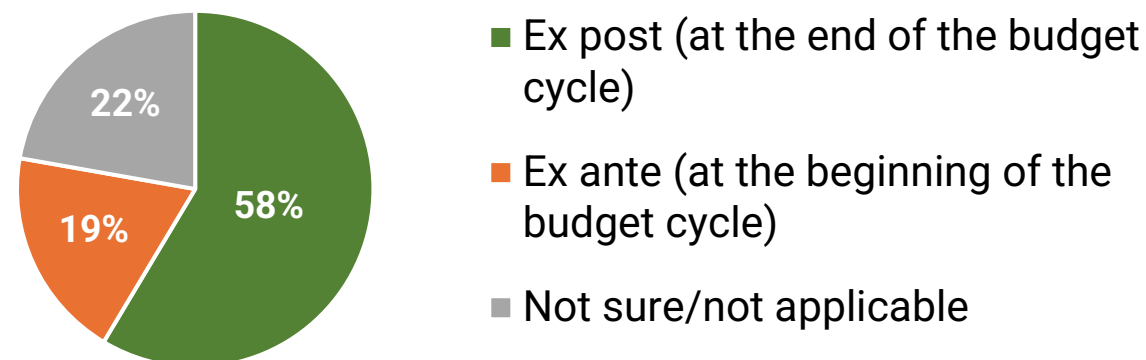
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Primary/Secondary Expenditure

- These questions shed light on the current practice by countries on the identification of primary and secondary purpose expenditure

- The practice of budget tagging is widely used but consistency with other official statistics sources is an issue to be addressed

- Results would serve as the input for discussion for **revision issues B2** on classification criteria related to primary and secondary purpose and **B4** on compilation issues

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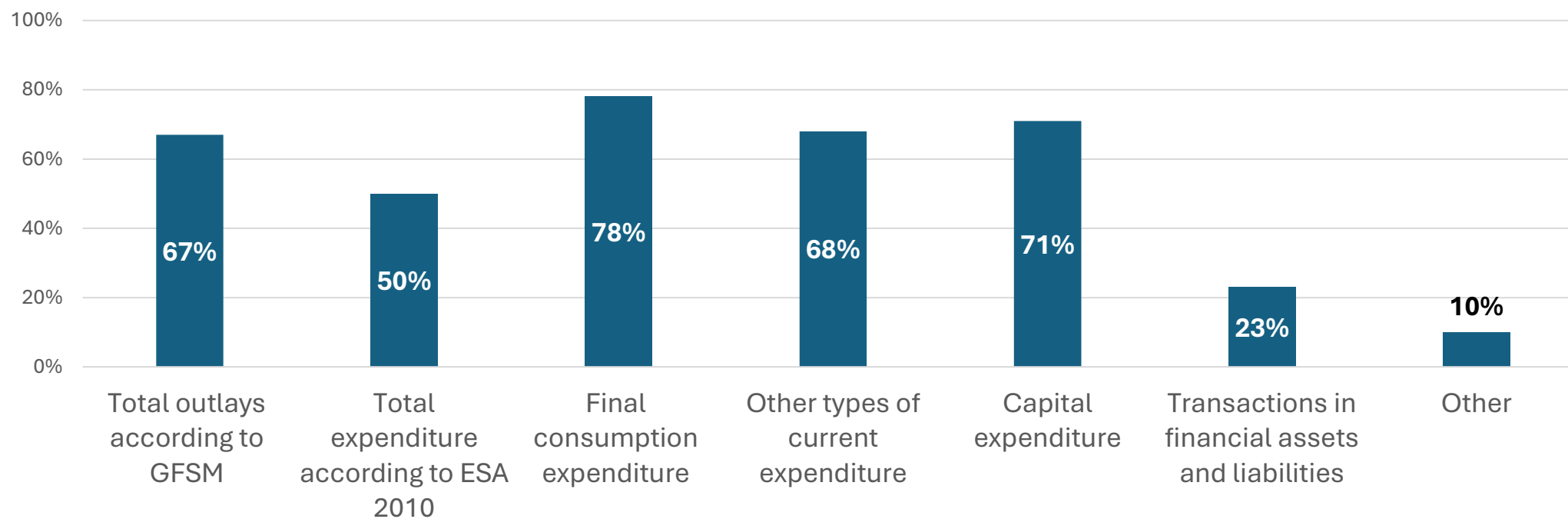
Expenditure Types

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Expenditure Types

- Results show that COFOG is used to classify expenditure by a majority of respondents for all categories apart from transactions in financial assets and liabilities, and by over two-third of the respondents for all the global categories

- This will serve as input for discussion on various revision issues, such as **B1, B3 and B4** in terms of the use of COFOG for wider expenditure categories. It will also feed into **A05** Environmental protection, and **A10** Social protection in terms of whether climate subsidies and social protection transfers fall within the scope of COFOG and how such expenditures are to be classified in COFOG

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Individual/Collective Expenditure

Does your institution use COFOG in national accounts to identify individual and collective consumption exp. for goods and services provided by government?

- Yes — 62%
- No — 19%
- Not sure/not applicable — 19%
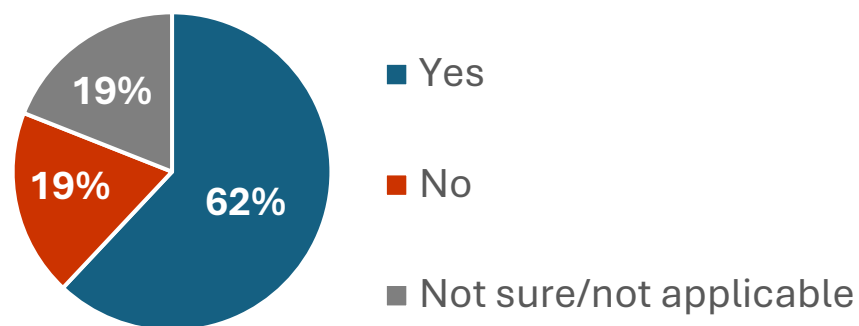
If yes, how does your institution use COFOG to identify individual and collective consumption exp. for goods and services provided by government?

- Precise mapping of COFOG to collect. & indiv. goods & services as defined in SNA — 58%
- Local adaptation — 11%
- Not sure/not applicable — 31%
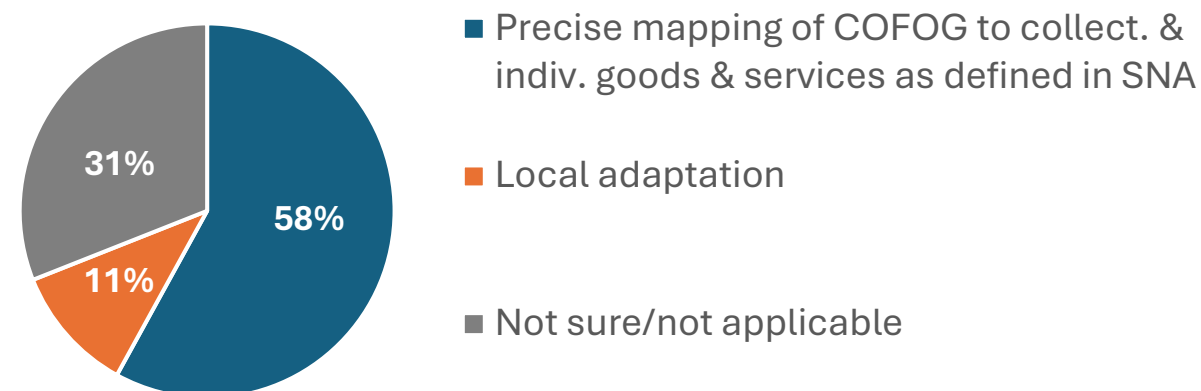
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Individual/Collective Expenditure

- These questions assess the use of COFOG to identify individual and collective expenditure in national accounts

- Most respondents indicated such use, either through the precise mapping as defined in SNA or local adaptation

- The results would serve as the input for discussion on revision issue B5 on the mapping of the COFOG to individual and collective services

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Programme Budgeting

"Programme budgeting" is a type of performance budgeting that allocates funds based on "programmes" trying to identify clear outputs and outcomes with clear objectives, this helps budget offices to improve expenditure prioritization. This approach requires a national "functional" programming classification structure

Does your institution implement some form of programme budgeting?

- Yes
- No
- Not sure/not applicable

29% — 38% — 33%
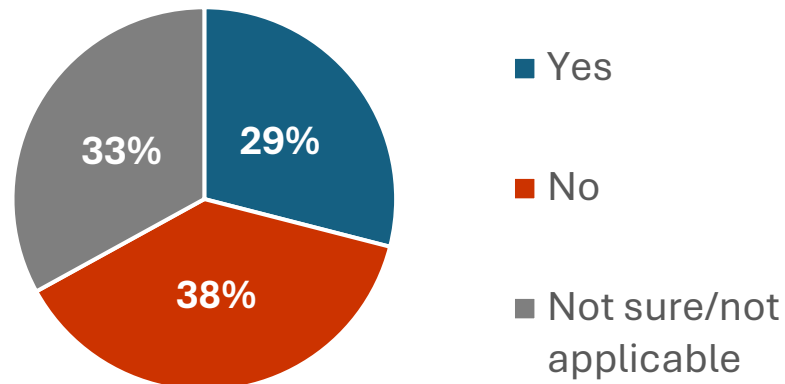
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21 Issue Categories
Should the issue category be considered during the revision process?

	%Y
A05. Environmental protection	80%
A04. Economic affairs	71%
A01. General public services	69%
A07. Health	67%
B4. Compilation issues	65%
A09. Education	64%
B5. Individual/collective expenditure	64%
A06. Housing and community amenities	63%
A10. Social protection	63%
B7. Alignment w/ other classifications/ frameworks	63%
A12. R&D	62%

	%Y
A11. Cross-cutting issues	60%
B6. Internal consistency w/ other classifications of expenditure according to purpose	60%
B1. COFOG structure/classification principles	59%
A03. Public order and safety	56%
B3. Additional uses of COFOG	56%
A13. Digitalization	54%
A02. Defence	53%
B2. Primary/secondary purpose	51%
A14. Gender	40%
A15. Indigenous peoples	33%

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21 Issue Categories
Whether you consider issue category to be high, medium or low priority

Highest Priority	%H/M
A05. Environmental protection	94%
B1. COFOG structure/classification principles	94%
A07. Health	88%
B4. Compilation issues	88%
B6. Internal consistency w/ other classifications of expenditure according to purpose	88%
B2. Primary/secondary purpose	88%

Lowest Priority	%H/M
A02. Defence	69%
A14. Gender	63%
A15. Indigenous peoples	51%

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21 Issue Categories

Whether you consider implementing a revision of COFOG stemming from this issue category to be easy, moderate or difficult

Most Difficult	% Difficult
A13. Digitalization	70%
A14. Gender	70%
A15. Indigenous peoples	69%
A11. Cross-cutting issues	67%

Least Difficult	% Easy
A06. Housing and community amenities	35%
A01. General public services	31%
A03. Public order and safety	28%

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21 Issue Categories
Additional Comments

Respondents were invited to provide additional comment on each issue category

In the report (pages 18 to 37):

- The original proposals for the issue category are presented in text boxes
- Summary of additional proposals related to the issue category
- Summary of concerns with or objections to the original proposals

Global Consultation

21 Issue Categories
Additional Comments

<u>A02. Defense</u>

Original proposal:

> ➢ Add breakdowns to 02.1.0 (Military defense) to cover at least the operation of land, air and sea forces individually; and possibly for nuclear, cyber and space

Additional proposals:
- Clarify provision of temporary housing for war evacuees
- Suggest instead expenditure by branch

Concerns/objections:
- Several respondents noted that the proposal may raise confidentiality and data limitation issues
- Problem with classification of missiles and other ammunition with high expenses
- Hospitals located on military bases are excluded and yet in times of emergency, they primarily take care of the injured and the army
- This [proposal] seems a very particular need which could be provided casually, instead of increasing compiler's workload.
- Six-way breakdown risks mixing where military activity happens, what that activity is, and who does it / how to draw the boundaries. E.g. Navy aircraft, where does this fit in?
- Nuclear category would require sub-class of land, sea and air to be done accurately.
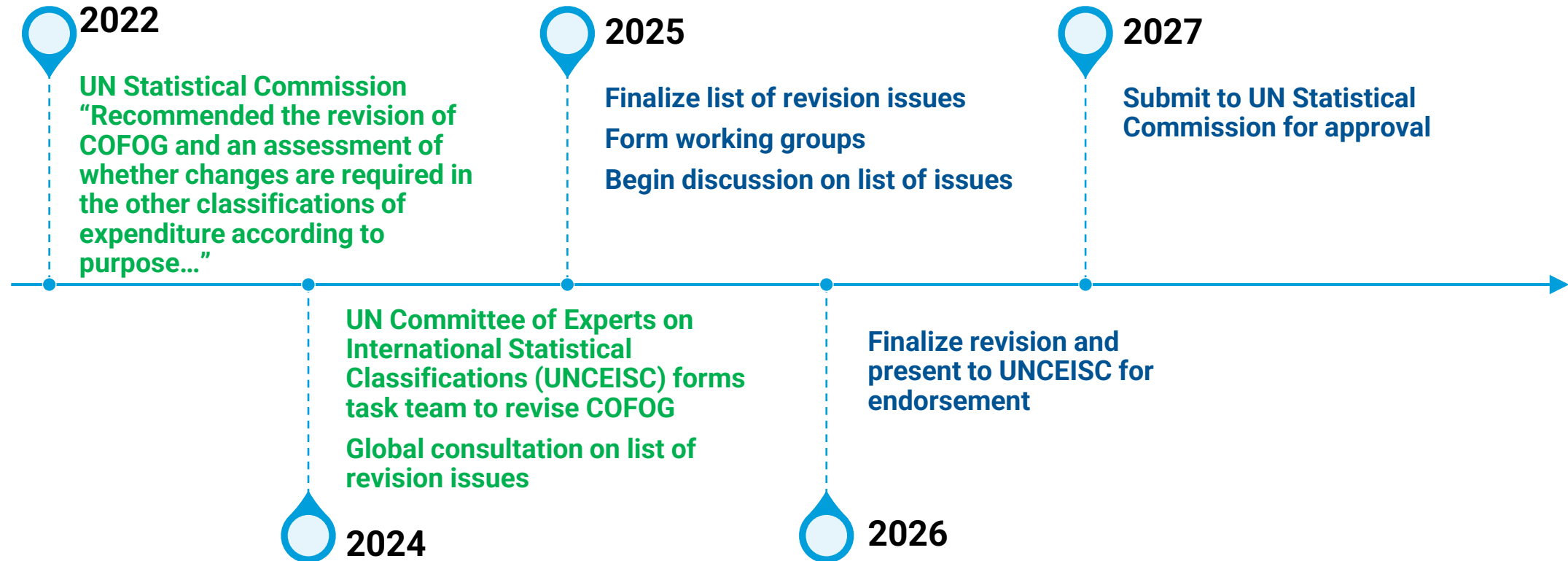
Working Groups

A. Economic and public affairs	B. Environment	C. Social and demographics	D. Cross-cutting issues	E. Classifications issues
A01. General public services	A05. Environmental protection	A06. Housing and community amenities	A11. Cross-cutting issues	B1. COFOG structure/classification principles
A02. Defence	B7. Alignment with CEP, SEEA and other environmental classifications/frame works	A07. Health (includes alignment with SHA)	A12. Research and Development	B2. Primary/secondary purpose
A03. Public order and safety		A09 Education (includes alignment with ISCED)	A13. Digitalization	B3. Additional uses of COFOG
A04. Economic affairs		A10. Social protection	A14. Gender	B4. Compilation issues
			A15. Indigenous	B5. Individual/collective expenditure
				B6. International consistency with other expenditure classification

Next Steps

2022

UN Statistical Commission "Recommended the revision of COFOG and an assessment of whether changes are required in the other classifications of expenditure according to purpose..."

2024

UN Committee of Experts on International Statistical Classifications (UNCEISC) forms task team to revise COFOG

Global consultation on list of revision issues

2025

Finalize list of revision issues

Form working groups

Begin discussion on list of issues

2026

Finalize revision and present to UNCEISC for endorsement

2027

Submit to UN Statistical Commission for approval

Thank you!

United Nations