

## **Annex I**

### **Summary of Proposed Issues**

This annex provides a summary of proposed issues with brief descriptions for the revision of COFOG, noting further details of each proposal will be developed as the revision process advances.

Note that in some cases proposals may conflict with each other, as they were put forward by different organizations. However, the purpose of this global consultation is to simply identify which topics are relevant to the revision of COFOG and should be discussed by the task team during the revision process, regardless of any agreement or disagreement with specific proposals.

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

Most of the proposed issues for consideration in the revision of COFOG relate to the existing Divisions 01 through 10 (including cross-cutting issues that relate to more than one Division), or other thematic issues.

Proposals relating to the current COFOG divisions (A01-A10) include suggestions to modify category titles, add new breakdowns, provide additional clarification, or to move/re-arrange categories within the existing structure for improved structural balance and coherence.

Proposals regarding cross-cutting issues (A11) generally seek clarification on topics that may span more than one division, or on emerging topics whose treatment has not yet been established.

Proposals regarding other thematic issues (namely R&D, digitalization, gender and indigenous peoples) (A12-15) similarly tend to focus on alignment with other classifications/frameworks, proposing additional breakdowns or re-structuring of categories, and seeking improved guidance on specific topics whose treatment has not yet been established.

Listed below are summaries of the specific proposals received relating to issue Group A:

##### **A01. General public services**

- Rename the Division to “General Public Services, Debt, and Transfers”
- Comprehensive reassessment of Division 01 in order to improve structural balance
- Modify the definition of 01.7 (Public debt transactions) to explicitly include expenditure related to a broader range of debt instruments, and/or to rename it “Public debt transactions (mainly interest)”
- Add new breakdowns in 01.8 (Transfers of a general character between different levels of government) to capture upward transfers to national governments, to include sub-categories reflecting reasons for transfers to local government, and to include transfers between other levels of government

- Rename 01.8 “Transfers of a general character between different levels of government (e.g. Intragovernmental transfers not related to a particular function)”
- Restructure 01.8 by moving transfers to other levels of government to its own Division, or by removing 01.8 entirely
- Create a new category for “Tax administration”, removing it from 01.1.2 (Financial and fiscal affairs)
- Provide more guidance on 01.7 and 01.8
- Distinguish climate or environmental-related transfers by creating other sub-categories

## **A02. Defence**

- 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

## **A03. Public order and safety**

- Create a new separate category in Division 03 for “Immigration and citizenship,” removing it from 03.1.0 (Police services)

## **A04. Economic affairs**

- Clarify its organizing principle based on Eurostat COFOG Manual Section 2.8
- Move all construction activity under 04.4.3 (Construction), including construction and maintenance found under 04.5.1-04.5.5 and 04.6.0
- Include a breakdown of renewable/non-renewable energy in 04.4 (Mining, manufacturing and construction)
- Move “Active labour market policy” to 10.5 from 04.1 (General Economic, Commercial and Labour Affairs)
- Explicitly include livestock farming in 04.2.1 (Agriculture)
- Expand activities under 04.2.2 (Forestry) to include Conservation, Development and Regeneration of forests
- Rename 04.2.3 to “Fishing and aquaculture” or “Fishing” to align with ISIC, etc.
- Create a new category for “Marine resource management and conservation” covering fisheries management, marine biodiversity protection, and sustainable fishing practices
- Review 04.7.4 (Multi-purpose development projects)

## **A05. Environmental 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)
- Consider recommendations of Data Gaps Initiative – Third Phase (DGI-3) on addressing statistical areas on climate change and its possible implication to COFOG
- 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, which include the following (currently, few of these items are allocated in division 05):
  - Investment in renewable energy
  - R&D linked to climate change projects
  - Transition assistance for households and businesses in moving towards energy transition, such as subsidies for insulation or heat pumps
  - Electrification of transport vehicles and networks
  - Flood defenses

#### **A06. Housing and community amenities**

- Reconsider the relevance of separately identifying 06.4 (Street lighting)
- Better distinguish expenditure related to “water”, including wastewater management currently under Division 05 (Environmental protection), which could be transferred to the Housing and community amenities category

#### **A07. Health**

- Revise the Division to distinguish between preventing and curative healthcare
- Add new categories for “Disease prevention and control” and “Health promotion activities” and revise the definition of 07.6 (Health n.e.c.) to exclude these
- Improve alignment with the System of Health Accounts (SHA 2011), including to:
  - Add “Rehabilitative care services,” “Long-term care health services” and “Ancillary services”
  - Split 07.4 (Public health services) into “Individual preventive services” and “Collective services”
  - Add a new subcategory for “Immunization services”
  - Reclassify foreign aid to health from 01.2 (Foreign economic aid) to Division 07
  - Revise the definition of 07.1 (Medical products, appliances and equipment)
  - Rename 07.3 (Hospital services) to “Inpatient services”
- Improve alignment with other health related classifications/frameworks including the Classification of Health Care Functions (ICHA-HC)
- Consider potential overlap with A10 (Social protection)

- Treatment of “digital health”

#### **A09. Education**

- Reclassify spending on goods and services for school meal/nutrition programs as transfers to households
- Clarify guidance on cross classification between GFSM and COFOG regarding education allowances and public loans for students
- Include “scholarships, grants, loans and allowances” at the primary education level (09.1) as with other levels
- Improve alignment with UOE [UNESCO-UIS/OECD/Eurostat] and ISCED-2011, including:
  - Inclusion of early childhood educational development in Division 09
  - Coverage of only formal education
  - Clarification on the treatment of government dependent educational institutions
  - Inclusion of public expenditure loans that are treated as financial transactions
  - Clarification of educational expenditure classified as transfers or other payments from governments to households

#### **A10. Social protection**

- Clarify the treatment of expenditure related to migration which may currently be included under 10.7 (Social exclusion n.e.c.), 03.1 (Police services) and 01.2 (Foreign economic aid), or create a new dedicated category
- Clarify that 10.6.0 (Housing) includes cash benefits in addition to benefits in kind, as noted in the exclusion to 06.1.0
- Add a sub-category for support to low-income earners in 10.7 (Social exclusion n.e.c.)
- Clarify the individual/collective breakdown of residual expenditure classified in 10.9 “Social protection n.e.c.” given that 10.1-10.7 are considered for individual expenditure and 10.8-10.9 for collective expenditure
- Add a sub-category for housing aid to be provided after natural disasters

#### **A11. Cross-cutting issues**

- Civil protection in the event of disasters and climate change, land reclamation projects
- Long-term care, between Divisions 07 and 10
- Activities potentially under 05.4 (Protection of Biodiversity and Landscape) that support forest related intervention and realign them under 04.2.2 (Forestry)
- Water-related expenditure, which is split between “housing and community amenities” (water supply), and “environmental protection” (wastewater management)
- Net-zero related spending
- Food security and nutrition

## **A12. Research & Development**

- Whether expenditures related to R&D are better grouped into a single COFOG division or stay aligned within their respective divisions
- Whether to include additional breakdowns on R&D expenditures at the lower group or class level
- Improved alignment with the “Nomenclature for the Analysis and Comparison of Scientific Programmes and Budget” (NABS) that is used for the reporting of Government Budgets for R&D
- Inclusion of R&D from tertiary educational institutions

## **A13. Digitalization**

- Further develop guidance on the treatment of expenditures related to digitalization
- Review priority areas including the digital economy, data, free digital assets and services, and crypto assets
- Explore the feasibility in linking digitalization, which is considered as a tool in providing services to citizens in an efficient way, to the purposes of government expenditure

## **A14. Gender**

- Incorporate a ‘gender’ group within each division
- Consider other dimensions of discrimination such as race and age

## **A15. Indigenous peoples**

- There was a proposal to consider further guidance on treatment of expenditures related to indigenous peoples and local communities

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

A summary of the proposals regarding structural, alignment and other issues under issue Group B is provided below:

### **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 the main COFOG classification principles, including but not limited to the following issues:

- consistency with the national accounts framework
- units of classification
- principles of mutual exclusive classes and primary purpose
- balance in size of main divisions
- level of hierarchical classification
- applicability for state and local government and social security fund sectors in addition to the central government sector
- treatment of preventative expenditure
- development of official alternative aggregates or indicators along cross-cutting themes
- development of guidance
- cross-classification of economic transactions and COFOG groups

## **B2. Primary/secondary purpose**

The classification criteria of COFOG are based on purpose, where the term “purpose” as described in COFOG 1999 conveys the meaning of social-economic objectives that institutional units aim to achieve through various kinds of outlays. COFOG is currently a classification delineating general government expenditure by main purpose and does not consider multiple purposes or impact. The problem in unambiguously assigned government expenditure to a single function in the classification and the treatment of secondary purpose expenditures/functions of government, for example expenditure on environmental protection and resource management, and treatment of ministries and administrative expenditures, are documented in COFOG 1999.

More and more economic decisions nowadays are made with a view to fulfil some secondary goals. By not recognizing secondary purpose (or impacts) of a specific outlay, COFOG seriously limits the information in support of policymakers’ decision making and, above all, impact assessments. This revision issue will explore the feasibility and review various options on addressing expenditure with secondary purposes within the context of the primary purpose criterion, with an objective of finding a solution for the classification of expenditures by secondary purposes in COFOG.

## **B3. Additional uses of COFOG: GFS; national & satellite accounts; government employment and public sector productivity**

These revision issues review uses of COFOG in the statistical and policy domains. COFOG is now considered primarily a classification of government expenditure. Proposals should be evaluated as to where COFOG are appropriately implemented in the government finance statistics, national accounts and the satellite accounts. Initial proposals also suggest that there could be further uses in the domain of government employment and public sector productivity.

## **B4. Compilation issues: improve compilation guidance taking into account diverse and country-specific differences**

This revision issue calls for the strengthening of the compilation taking into account diverse and country-specific differences for the COFOG implementation. The COFOG classification and

datasets produced provide rich and useful information that can be of more value if further guidance is provided for users (and compilers) on how to compile and use the data. However, there is a lack of data for COFOG II level in some countries due to difficulties in methodological interpretation or a lack of detailed source data at this level of classification. Moreover, the analytical usefulness of the COFOG data is severely curtailed if only budgetary units or the central government are captured rather than the whole general government sector. It is therefore important to collect data for the subnational government levels S1312 (for federal countries) and S1313, for S1314 and include extra-budgetary units in the compilation.

Compilation guidance should preferably be built starting from the existing Eurostat COFOG manual. The Manual on sources and methods for the compilation of COFOG statistics 2019 is a comprehensive guide to compiling COFOG statistics, which usefully discusses various methodological issues and EU country practices. A gap for non-EU compilers of COFOG statistics is how to practically compile these data. For example, guidance on incorporating COFOG into budgeting frameworks (which is common practice in the EU), or the best ways to cross-classify expenditure between GFSM/SNA with COFOG. In addition, budget programmes may include spending programmes that have more than one purpose in the sense of COFOG. Guidance on how to classify expenditures from budget programmes that have more than one purpose could be particularly useful. More generally, the COFOG guidance could usefully include more inclusion and exclusion examples across all groups and classes.

#### **B5. Individual/collective expenditure: remain as basis to draw borderline between individual and collective goods and services; retain alignment with SNA**

COFOG is important in national accounts as the basis to draw the borderline between individual and collective goods and services. Expenditures on a wide range of consumption goods and services are incurred by general government, either on collective services or on selected individual goods or services. The final consumption expenditures of general government can be classified according to whether the expenditures are on collective services or individual goods or services, or by functions according to COFOG. In COFOG 1999, all of Divisions 01 to 06 (General public services, defence, public order and safety, economic affairs, environmental protection, housing and community amenities) are collective services, as are Groups 07.5 and 07.6 of health, Groups 08.3 to 08.6 of recreation, culture and religion, Groups 09.7 and 09.8 of education, and Groups 10.8 and 10.9 of social protection. The remaining Groups of health, recreation, culture and religion, education and social protection (which dominate each of the classes) are individual services. This role and consistent integration of COFOG with the SNA is recommended to be maintained. It is important that the revision of COFOG is aware of and takes into account the SNA revisions in a coherent manner. The discussion on various issues may have implication to the precise mapping of the COFOG classification to collective and individual services, and such issues can be examined during the revision process.

## **B6. Internal consistency with the other classifications of expenditure according to purpose**

Consider the alignment/consistency of COFOG with the related classifications of expenditure according to purpose:

- Classification of Individual Consumption by Purpose (COICOP)
- Classification of the Purposes of Non-profit Institutions Serving Households (COPNI)
- Classification of Outlays of Producers by Purpose (COPP)

The original 1999 version of these classifications is available at:

[https://unstats.un.org/unsd/publication/SeriesM/SeriesM\\_84E.pdf](https://unstats.un.org/unsd/publication/SeriesM/SeriesM_84E.pdf)

## **B7. Alignment with other classifications/frameworks**

Consider the alignment of COFOG with any other relevant classifications/frameworks, (e.g. ISIC, SDGs)

Please note that:

- Alignment with the Classification of Environmental Purposes (CEP), System of Environmental-Economic Accounting (SEEA), EU Sustainable Finance Taxonomy and other environmental classifications/frameworks is covered under issue A05 (Environmental protection)
- Alignment with the System of Health Accounts (SHA) is covered under issue A07 (Health)
- Alignment with the International Standard Classification of Education (ISCED) and the joint UNESCO-UIS/OECD/EUROSTAT data collection (UOE) is covered under issue A09 (Education)
- Alignment with the Nomenclature for the Analysis and Comparison of Scientific Programmes and Budget (NABS) is covered under A12 (Research and development)