



**United Nations Economic Commission for Europe
Statistical Division**

Review of Statistical Units Used in National Accounts

Presentation by UNECE

Units Workshop, Geneva 10 November

Outline of the presentation

- ❖ Review of statistical units in SNA in the light of changes in economic environment and data collection (based on OECD paper to the AEG)
 - Establishment in supply and use tables
 - Institutional units in institutional sector accounts
- ❖ AEG decisions for further work on statistical units
- ❖ Findings of the TF on Global Production: factoryless goods production



Establishment

An establishment is an enterprise, or part of an enterprise, that is situated in a single location and in which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added. Establishments are sometimes referred to as local KAUs.

Establishment

SNA 2008, para. A4.21: *“At the present there are two reasons to have the concept of establishment within the SNA. The first of these is to provide a **link to source information** when this is collected on an establishment basis. In cases where basic information is collected on an enterprise basis, this reason disappears. The second reason is for use in input-output tables. Historically, the rationale was to have a unit that related as far as possible to only one activity in only one location so that the **link to the physical processes of production** was as clear as possible. With the change of emphasis from the physical view of input-output to an economic view, and from product-by-product matrices to industry-by-industry ones, it is less clear that it is essential to retain the concept of establishment in the SNA”.*

Establishment

Changes in economic environment:

- ❖ Outsourcing (inside and outside an enterprise) and changing organisational structures
 - ❖ International fragmentation of production processes
 - ❖ New types of producers
 - ❖ Increasing role of Intellectual Property Products
- ⇒ Underlying assumption of homogeneity less apparent
- ⇒ Establishments require more and more imputations of central services and services related to IPPs

Establishment

Changes in collection of source data:

- ❖ Pressure to decrease respondent burden
- ❖ More and more use of administrative data

Need to combine the analysis of production process with:

- ❖ Income and finance (recent financial crisis)
- ❖ International trade (e.g. Trade in Value Added)

Policy questions require increased flexibility, micro-macro linking

⇒ More emphasis on “economic” view, instead of “physical” production processes

⇒ Move away from establishments, towards enterprises

Institutional units

An institutional unit is an economic entity capable, in its own right, of owning assets, incurring liabilities, engaging in economic activities and in transactions with other entities. Main attributes:

- a. ...entitled to own goods or assets in its own right; able to exchange the ownership of goods or assets with other institutional units;
- b. able to take economic decisions and engage in economic activities for which it is held to be directly responsible and accountable;
- c. ..able to incur liabilities on its own behalf, to take on other obligations or future commitments and to enter into contracts;
- d. A complete set of accounts, including a balance sheet, exists for the unit, or it would be possible and meaningful to compile it

Institutional units

Special Purpose Entities: captive financial institutions, artificial subsidiaries, etc.

In general, these corporations do not satisfy the SNA definition of an institutional unit because they lack the ability to act independently from their parent and may be subject to restrictions on their ability to hold or transact assets. Their level of output and the price they receive for it are determined by the parent that is their sole client. They are thus not treated as separate institutional units in the SNA but are treated as an integral part of the parent and their accounts are consolidated with those of the parent..... unless they are resident in an economy different from that where the parent is resident.

⇒ Growing in importance in recent years

Institutional units

- ❖ Legally independent holding of assets and liabilities and autonomous behaviour do not always coincide.
 - ❖ Apparent differences in interpretation of present guidelines, sometimes related to availability of source data, but also for other reasons
 - Captive units, SPEs as passive holders of IPPs
 - Differences in delineation of institutional sectors: quasi corporations
 - Differences in country data: consolidation
- ⇒ International comparability issues: need to reconsider the criteria applied for recognitions of institutional units



Task Force on Statistical Units

The 9th AEG meeting agreed there is a need of TF to:

- ❖ Assess the 2008 SNA recommendations on statistical units and to identify whether adjustments are needed.
- ❖ Take stock of current country practices and provide a clear view of what needs to be measured in the economy
- ❖ Regional accounts and productivity measurement need to be considered
- ❖ Broader community of experts, including BR experts, survey specialists and classification experts should be involved

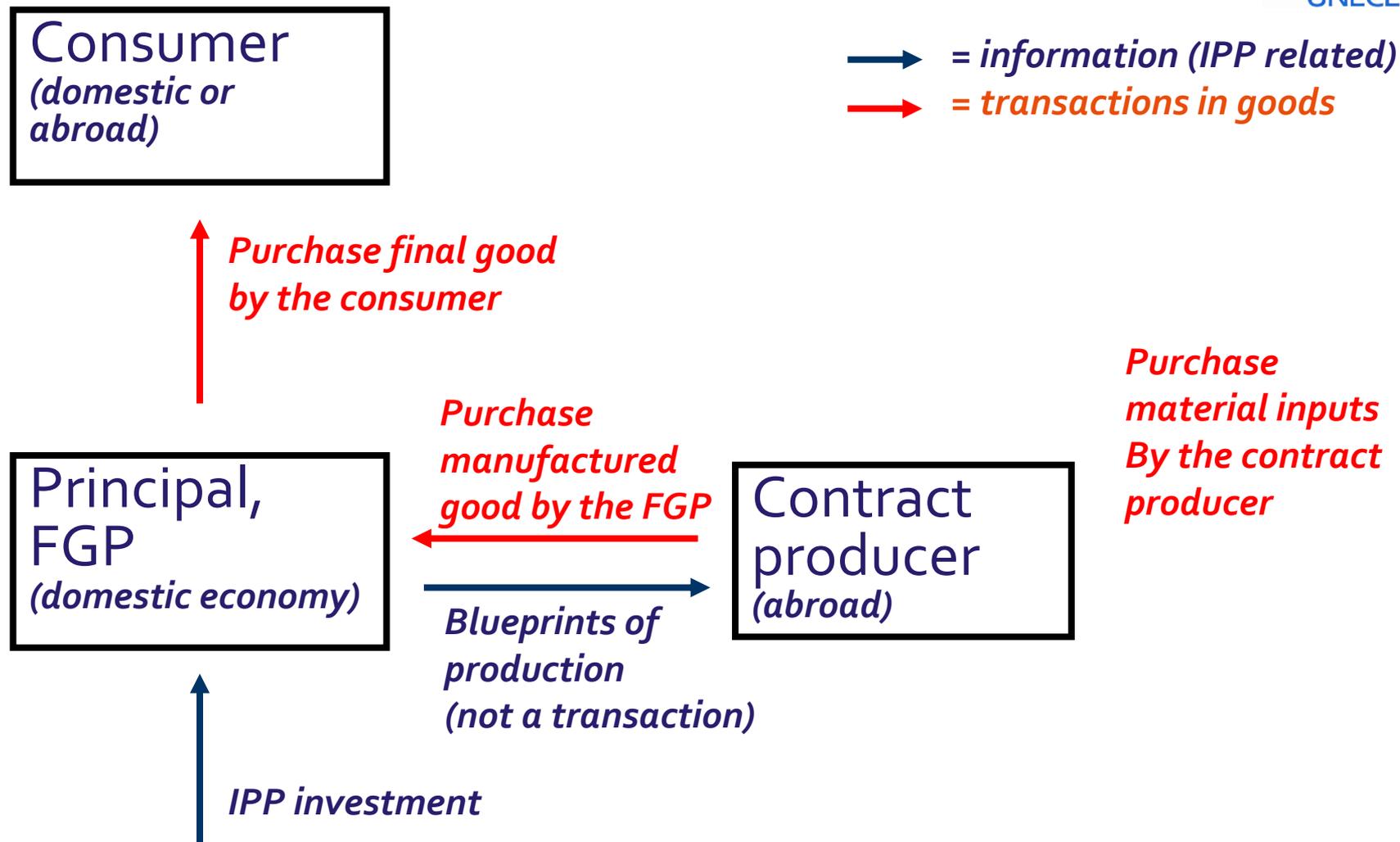
ISWGNA asked OECD to take lead in drafting the ToR

Link to existing work at Eurostat, UNECE, UNSD

Task Force on Global Production

- ❖ Develops a Guide to Measuring Global Production to support the further harmonisation of country accounting practices in the domain of global production arrangements
- ❖ Typology of global production arrangements to determine
 - roles of the units in a global value chains (GVC)
 - economic owners of input, outputs and assets along the chain
 - determine the nature of transactions taking place inside GVC
- ❖ Called for reconsideration of the industrial classification of factoryless goods producers

Factoryless goods producers





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Factoryless goods producers

- ❖ Principal (FGP) develops and supplies intellectual property products (IPP)
- ❖ FGP controls the outcome of the production process and manages the production chain
- ❖ FGP engages a contract processor (CME) to transform the material inputs
 - CME purchases material inputs (different from processing)
 - FGP specifies the inputs and monitors the quality of these inputs
 - CME manages the transformation subject to the technical specifications provided by the principal
- ❖ FGP controls access and delivery of final outputs to customers

Factoryless Goods Production

- ❖ Similar to Goods for Processing but the **entire** production process is contracted out
- ❖ Final export of goods produced by contractor and sold on to customers by FGP are recorded in the country of FGP
- ❖ What is the criteria to classify an FGP ?
- ❖ Accurate and consistent classification of FGPs is important in light of growing use of factoryless arrangements

Factoryless Goods Production

- ❖ ISIC 4 Guidelines for Complete Outsourcing of Processing
 - Provision of material inputs is sole criterion for determining the industrial classification of FGP
 - The FGP that does not supply any material inputs is classified to distribution or trade
 - No consideration given to supply of IPPs or control over the outcome of the production process

Factoryless Goods Production

- ❖ No recognition of the role of IPP in the production process
- ❖ Returns earned by FGP exceed returns earned by distributors
- ❖ FGPs differ from pure distributors that play a more passive role in production (but recognized also differ from traditional manufacturers)
- ❖ Value-added of the CME does not reflect the full value of the final output based on limited risks assumed by the contractor
- ❖ Inconsistent classification between industry sectors
 - No requirement for material inputs to be supplied by FGPs in other industries e.g. Construction



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Factoryless Goods Production

Recommendations of the TFGP on industrial classification of FGP

- ❖ FGPs - supplying IP capital and marketing services, and controlling the production process while using contract manufacturers to produce goods, are goods producers, and should not be classified as traders;
- ❖ FGPs should be identified in ISIC subclasses separate from 'regular' manufacturers;
- ❖ Boundary between FGPs and traders depends on IPP inputs and other 'FGP specific' inputs (e.g. innovation, supply chain management, marketing)

Supported by the 8th meeting of AEG



Factoryless Goods Producers

October 2014 meeting of the Technical Subgroup on ISIC

- ❖ TFGP members were invited to discuss the FGP issues paper
- ❖ Conclusions from the meeting are not yet available but..
 - TSG will continue examining the issue before making any recommendation to change ISIC
 - It is recommended to flag FGPs to help better track and analyze these companies
 - The TSG will develop further guidelines for detection of FGPs and will consult with TFGP

Factoryless Goods Production

- ❖ TFGP developed recommendations on recording of the transactions and delineation of FGPs (if classified in Manufacturing)
- ❖ These recommendations were discussed at various international, including the AEG, BoPCOM and OECD WPNA
 - Recognized the difficulties in identifying the correct recording of the transactions between FGPs and the contractors;
 - Need to collect more practical experience for in-depth analysis of this issue
 - Encouraged TFGP to continue its work on this issue.

Factoryless Goods Producers

What next

- ❖ Research on FGP will continue but Guide has to be finalized
- ❖ Global production arrangements will be presented in line with current standards: FGP are (special case) of distributors
- ❖ The alternative treatment (as manufacturers) is included in a separate section as an issue for future research
- ❖ Global consultation of the Guide in spring 2015: more information on priorities and paths for further work
- ❖ Global Production Meeting 7-8 July 2015: way forward