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Delimitation of the Public Sector in CCAM Countries

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Table of Contents

Acronyms and Abbreviations

BA	Budgetary organizations
BMP6	Balance of Payments and International Investment Position Manual 6th edition
CG	Central government
EAs	Extra-budgetary units
ESS	External Sector Statistics
FAD	Fiscal Affairs Department of the IMF
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM 2014	Government Finance Statistics Manual 2014
GFSY	GFS Yearbook database
GG	General Government
IMF	International Monetary Fund
ISS	International Statistical Standards
JSC	Joint Stock Company
LG	Local government
MCD	Middle East and Central Asia Department of the IMF
MFS	Monetary Financial Statistics
MoF	Ministry of Finance
MOU	Memorandum of Understanding
NA	National Accounts
NCB	National Central Bank
NCO	Non-commercial organizations
NLB	Net lending/net borrowing
NPI	Non-profit institutions
NSA	National Statistical Agency
NW	Net worth
OBAs	Off-budget accounts

PFM	Public Financial Management
PSDS	Public Sector Debt Statistics
PSDS 2011	Public Sector Debt Statistics Guide 2011
PSIT	Public Sector Institutional Table
SG	State (Regional) Government
SNA 2008	System of National Accounts 2008
SOEs	State-owned Enterprises
SSF	Social Security Fund
STA	Statistics Department of the IMF
TA	Technical Assistance
WB	World Bank

Introduction

This regional note focuses on the general aspects of the practice applied by Caucasus, Central Asia, and Mongolia (CCAM) countries regarding the sector delimitation of public entities and systemizes lessons learned from capacity building activities on Government Finance Statistics (GFS) and Public Sector Debt Statistics (PSDS). The aim of the note is to:

(i) describe the main concepts of sectorization based on the international statistical standards (ISS);
(ii) analyze the current sector coverage of the GFS reporting by CCAM countries;
(iii) highlight the gaps in the sector coverage based on the lessons learned during the TA missions and other interactions with the countries;
(iv) identify the potentials of CCAM countries to expand the sector coverage of GFS reporting in order to cover the impact of all non-market entities in fiscal statistics; and
(v) suggest a way forward and indicate priorities based on international experience.

This regional note is a topical follow up of the CCAMTAC regional note published in 2022[1].

[1] CCAMTAC_Regional Note_GFS_PSDS.pdf (imf.org)

Section 1. Introduction to the Concept of Sectorization

The GFS framework is designed to generate data that allows policymakers to plan, monitor, and evaluate fiscal policy, therefore it must cover all entities involved in the execution of the policy. Sectorization of public entities is the first step in compiling fiscal statistics. To calculate the debt or deficit of the general government or public sector, it is essential to identify which entities belong to the related sub-sectors and to be covered in fiscal statistics. Sector delimitation has critical implications for the level of countries' fiscal aggregates. It is therefore important to understand the principles and practical issues of sectorization based on international statistical standards (ISS) elaborated in the *Government Finance Statistics Manual 2014 (GFSM 2014)*[2] *and Public Sector Debt Statistics Guide 2011 (PSDS 2011)*[3], which are aligned with the *2008 System of National Accounts (2008 SNA)*[4].

A. DEFINITIONS AND PRINCIPLES

Public Sector

Conceptually, the public sector consists of all resident institutional units that are deemed to be controlled by the government. The public sector includes all general government units such as ministries, departments, agencies, and nonprofit institutions (NPI) controlled by the government, as well as corporations operating in the financial and nonfinancial sectors of the economy and controlled by the government or by other public units.

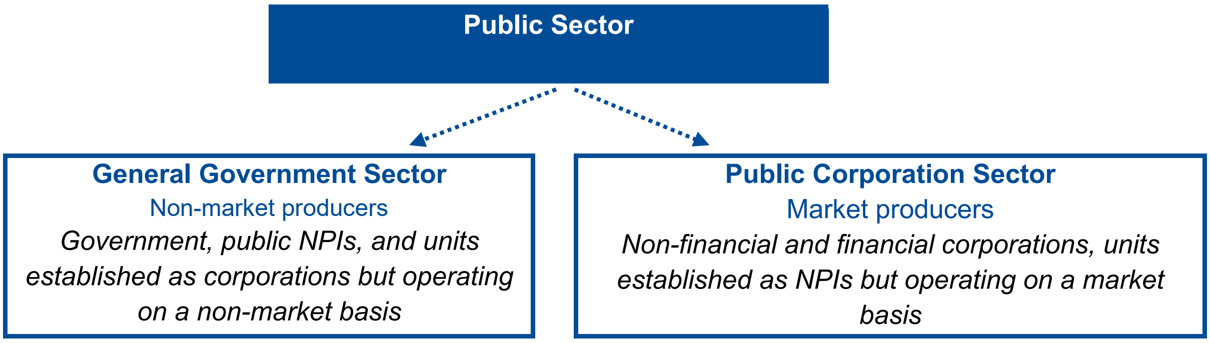
Control of a corporation is established when the general corporate policy is determined by the government. For example, an enterprise should be classified in the public sector when government and/or other public units own more than half of its equity and thus are able to control its policy and operations by outvoting all other shareholders. In exceptional cases, government does not own more than half of the shares but owns a "golden share" or has a right of veto and thus is able to control the entity. In addition, the control by government could also be executed via the ability to appoint or remove a majority of the board, other governing bodies, or key personnel; set out tight regulations; control by a dominant public sector customer; or via control attached to borrowing from the government. Regarding NPI, the government control could be performed via its right to appoint officers and/or regulate key aspects of entities' activities, and / or when the NPI is mainly financed by the government, or when government is exposed to the financial risk associated with the NPIs activities.

One of the most challenging issues in the sectorization of public sector entities is to differentiate between the units which should be classified in the general government and the public corporation sector. Following the *GFSM 2014* criteria, distinguishing between the general government and the public corporation sector depends on whether the unit operates on a market or non-market basis. These criteria are based on the analysis of whether the entities provide all or most of their output at economically significant prices or not. Those units that operate as market producers should be

[2] https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf
[3] https://www.imf.org/en/Publications/Manuals-Guides/Issues/2016/12/31/Public-Sector-Debt-Statistics-Guide-for-Compilers-and-Users-Guide-for-Compilers-and-Users-24905
[4] https://unstats.un.org/unsd/nationalaccount/sna2008.asp

classified in the public corporation sector, and those units that operate on a non-market basis should be included in the general government sector.

Figure 1. Public Sector - Classification of Market and Non-market Producers



Distinguishing the General Government and Public Corporation Sector

The general government sector consists of non-market producers under government control whose output is intended for individual and collective consumption and who are financed primarily by taxes or other compulsory payments. In addition to ‘ordinary’ (budgetary) government entities established through a legal process to have judicial, legislative, or executive authority and their subordinated organizations, the sector of general government should also include extra-budgetary units (EAs). EAs are composed of: (i) NPI - legally independent nonmarket producers controlled by government, and (ii) non-market public enterprises established as commercial entities when their output is mainly non-market and they depend on the government financing.

One of the basic principles of ISS is that the economic substance prevails over the legal form. This principle should be applied to all elements of the GFS framework, including the sectorization of entities. Due to different reasons, some public entities are legally constituted under national legislation as corporations (e.g., joint stock company, limited liability company, state enterprise, etc.) or as financial intermediaries (e.g., bank, pension fund, or insurance company), or even as private companies, but in essence, they are pure government units or producers providing goods and services on a non-market basis under government control. Such units should be classified in the general government sector irrespective of their legal form. Also, if a public entity is established by government as a separate legal entity but it does not operate as an independent institutional unit as it excessively depends on the government decisions, it should be classified with its parent unit in the general government sector.

To determine the market or non-market nature of a public unit, a set of criteria needs to be scrutinized:

- examining if the entity is an institutional unit or not;
- assessing qualitative criteria to evaluate if the unit undertakes its activities on a commercial basis;
- examining if the unit provides its goods and services at economically significant prices (quantitative market/non-market test); and
- examining if the unit excessively depends on a regular financial support from the government.

Does the entity meet the criteria of institutional units?

An institutional unit is an economic entity that is capable, in its own right, of owning assets, incurring liabilities, and in engaging in economic activities and in transactions with other entities. Another attribute of an institutional unit is that it either has a complete set of accounts, or it would be feasible and meaningful, from an economic viewpoint, to compile a complete set of accounts.

If the entity is not an institutional unit, it is integrated with the institutional unit that controls it. For example, different ministries of an administration are generally part of the same institutional unit. Importantly, even if a government-controlled entity, such as a State-Owned Enterprise (SOE) keeps a complete set of accounts, but it does not operate as an independent unit because it has no autonomy of decision to exercise its principal functions, it should be consolidated with the government unit which established the entity. A typical example of such unit is a special purpose entity established by the government to borrow funds for financing some public policy operations on behalf of the government (e.g., cleaning balance sheets of banks in financial distress).

Does the entity meet the qualitative criteria of market producers?

The following qualitative criteria ought to be examined to determine whether public units undertake their activities on a market basis or they operate as non-market producers:

- If the unit is a dedicated provider of ancillary services to enable the government to carry out its activities (e.g., accounting, data processing, transportation, maintenance, cleaning, or security services).
- If the unit sells most of its output to government, or if it is the only supplier to government, and it does not go through an open competition (e.g., through tender procedures).

In principle, these sorts of entities do not satisfy the definition of an institutional unit because they lack the ability to act independently from their parent corporation and may be subject to restrictions on their capacity to hold or transact their assets. Their level of output and the price they receive are not determined by the market, but by the government (or possibly by other public entity) that is their sole client (e.g., a 'bank' serving only to government employees). These entities are not treated as separate institutional units but as an integral part of the government.

Does the entity charge economically significant prices?

The units which passed the above tests should always be checked if they provide goods and services at economically significant prices by examining the so-called quantitative (market/non-market) test. Although there is no precise numerical formula for determining whether prices are 'economically significant' or not, *GFSM 2014* proposes that a unit be classified as a market producer if the value of its sales averages at least half of the production costs over a multi-year period. The revenue from sales should exclude both taxes and subsidies not directly linked to the volume or value of the output. The production costs are broadly defined as the sum of the compensation of employees, use of goods and services, consumption of fixed capital, and a return on capital.

Does the entity depend on a regular financial assistance by government?

In some cases, a unit can pass the quantitative (market/non-market) test, but it is not able to operate without a regular financial support from the government. Therefore, a more comprehensive and complex analysis should be done to examine whether the entity receives substantial government financial support on a regular basis. The support could be granted via subsidies or other transfers, capital injections (not providing a market rate of return /dividends), and concessional or non-recoverable lending. It could also benefit from other risk-reducing support, such as extensive government guarantees payments, debt cancellations, and debt assumptions. It should also be examined if the entity has large accumulated losses, arrears and/or large overdue debt to government. Such entities are likely non-market producers.

B. IMPORTANCE OF THE SECTOR COVERAGE FOR FISCAL TRANSPARENCY

Fiscal transparency is a critical element of effective fiscal management. To measure the fiscal transparency in individual countries, the IMF issued a Fiscal Transparency Code (FTC)[5] that is the international standard for disclosure of information about public finances. The FTC comprises a set of

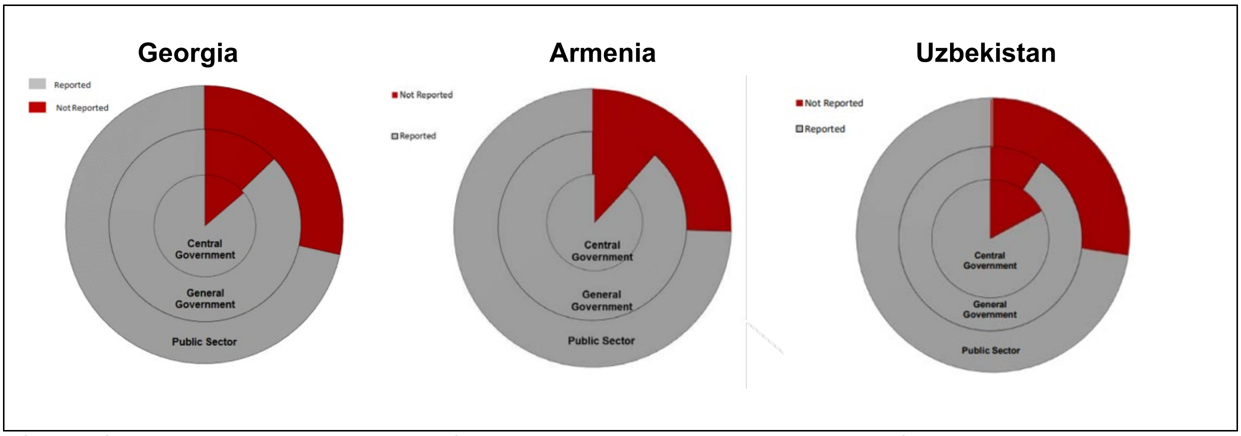
[5] See https://www.imf.org/external/np/fad/trans/Code2019.pdf and 2018 Fiscal Transparency Handbook (imf.org)

principles built around four pillars[6]. Fiscal reporting, that is the first FTC's pillar, is the foundation of a good fiscal management.

Quality of fiscal reports is essential to ensure that the government's fiscal decisions are based on the most complete, up-to-date, and accurate understanding of its financial position. Comprehensive fiscal reporting is necessary for governments, legislators, citizens, and markets to have a complete understanding of a country's fiscal position and a full account of the use of public resources. One of the important indicators of the pillar I on Fiscal Reporting refers to the scope of fiscal reporting which should cover not only the central and subnational governments but also other non-commercial (government) entities and commercial government-controlled entities (corporations) that are part of the wider public sector.

To assess the level of fiscal transparency and reporting practice in the IMF's Member Countries, the Fund performs the so-called Fiscal Transparency Evaluation missions (FTEs). So far, FTEs took place in 39 countries, including in four CCAM countries: Georgia (2016), Armenia (2018), Uzbekistan (2018), and Kazakhstan (2023). An update of FTE was conducted in Uzbekistan (2019) and Georgia (2023)[7] and will take place in Armenia during 2023.

Figure 2. Coverage of Public Sector Institutions in Fiscal Reports
(Percent of expenditure at each level)



Source: Georgia FTE 2016 and authors; data for 2015; Armenia FTE 2018 and authors; data for 2016; Uzbekistan, FTE 2018 and authors; data for 2016.
Note: "Not Reported" refers to expenditures of units not consolidated in summary fiscal reports.

Based on the FTEs' findings, some gaps remain in the sector coverage of the fiscal reporting in the related CCAM countries. As shown in Figure 2., illustrating the share of non-reported expenditure at the level of individual subsectors, each country omitted some government entities in its fiscal reporting and thus understated the level of general government and public sector expenditure. According to the FTE results, expanding the sector coverage would increase the government and public sector expenditure by 4.2 percent of GDP and 7.4 percent of GDP respectively in Georgia (2015), by 3.5 percent of GDP and 9.2 percent of GDP in Armenia (2016), and by 3 percent of GDP and 8.6 percent of GDP in Uzbekistan (2016) (see also section 2.B and 2.C).

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[6] The four FTC pillars: Pillar I Fiscal Reporting, Pillar II Fiscal Forecasting and Budgeting, Pillar III Fiscal Risk Analysis and Management, Pillar IV Resource Revenue Management.
[7] This Regional Note does not present the results of FTE to Kazakhstan (January 2023) and of FTE update to Georgia (May 2023) as these were not yet finalized and publicly available when the Note was drafted.

Section 2. Current Situation in CCAM Countries

As defined by the FTC, fiscal reporting refers to retrospective reports on fiscal developments, including the in-year and year-end budget outturn/execution reports, financial statements compiled by public sector units, and fiscal statistics. This note deals primarily with the GFS reporting that is the fiscal statistics based on ISS such as *GFSM 2014, PSDS 2011, and SNA 2008*. In general, GFS is compiled using input data from the budget outturn/execution reports, financial statements, and other analytical data on the fiscal performance.

A. SECTOR COVERAGE OF THE GFS REPORTING

Overview on the Current GFS Reporting by CCAM Countries

All CCAM countries, except Tajikistan and Turkmenistan, contribute regularly to the publicly available IMF's GFS Yearbook database[8] (GFSY). The GFS data are reported on an annual basis by means of a uniform, *GFSM 2014*-based questionnaire, composed of a statement of operations, balance sheet, and other detailed tables. Though the countries are not yet in a position to provide all details required by the GFSY questionnaire, they report data on the main fiscal indicators such as net lending/net borrowing, net financing, the stock of debt, and also provide detailed data on revenues, expenses, and transactions in assets and liabilities. In addition, Georgia, Kyrgyz Republic, and Mongolia disseminate comprehensive balance sheet data, while the scope of stocks reported by Armenia, Azerbaijan, and Kazakhstan is limited in terms of the coverage of units or the coverage of non-financial assets. Alongside to the GFS data, countries disseminate metadata[9] including an Institutional Table, describing the units classified in the GG sector and its subsectors, and indicating the coverage in the current GFS reporting.

Table 1. Coverage of General Government Units in the Annual GFS Reporting

`	Central Government		SSF	Subnational Governments	
	BA	EA		BA	EA
Armenia	x	x	x	x	No info
Azerbaijan	x	x	x	x	No info
Georgia	x	x	x*	x	No info
Kazakhstan	x	x	x*	x	No info
Kyrgyz Republic	x	x*	x	x	No info
Mongolia	x	x	x	x	No info
Tajikistan	GFS data not reported				
Turkmenistan	GFS data not reported				
Uzbekistan	x	x	x	x	No info

Source: GFSY database, country metadata (as of April 30, 2023).
Notes: BA – budgetary organizations, EA – extra-budgetary units, SSF – social security funds; *the units are included in the Central Government's BA.

[8] Government Finance Statistics - At a Glance - IMF Data
[9] https://data.imf.org/regular.aspx?key=60950584

According to the metadata annexed to the GFSY questionnaire, all CCAM countries disseminate GFS for the entire GG sector, composed of the central government (CG), subnational governments comprising state/regional (SG) and local governments (LG), and social security funds (SSFs). Depending on the countries' administrative arrangements, SSFs are in some countries covered within the budgetary central government (Armenia). As illustrated in Table 1. which is based on metadata provided by the authorities, all countries report data on the central and subnational budgetary organizations (BA), and extra-budgetary units (EAs) at the central level (see Appendix A), though EAs at the subnational level do not exist (NP), or there is no related information available. However, as described in subsequent sections of this note, the FTEs and technical assistance (TA) missions conducted in CCAM countries pointed on some important gaps in the sector coverage of GFS currently disseminated by these countries. An overview on the institutional coverage of the high-frequency GFS and PSDS reporting is presented in Appendix B.

Technical Assistance Provided to CCAM Countries

CCAM countries have benefited in recent years from extensive Technical Assistance (TA) provided by the IMF that were funded from various sources, including the donor funding provided to CCAMTAC, Data for Decision Trust Fund, and other sources. In February 2022, a virtual regional workshop took place to familiarize the participants from CCAM countries with the methodology and the process of decision on the sector classification of public sector units. The bilateral TAs dealing with the delimitation of public sector and expanding the institutional coverage of fiscal reporting were conducted to Armenia (January and October 2021), Azerbaijan (August 2021 and November 2022), Georgia[10] (November 2019, May 2021, January 2022, and January 2023), Kazakhstan (January and November 2021, and October 2022), Tajikistan (September 2020 and March 2022), and Uzbekistan (October 2018, March and July 2019). The TAs provided to other countries focused primarily on other GFS compilation and methodological issues.

The most intensive technical support to improve the coverage of fiscal reporting was provided to Armenia, Georgia, and Uzbekistan. The TA missions to Armenia assisted the Ministry of Finance to compile an exhaustive Public Sector Institutional Table (PSIT) and to distinguish between the entities operating on a non-market and market basis to be classified within the GG or the public corporation sector, respectively. A focused TA was conducted to Georgia to identify the non-market SOEs and other public entities to be consolidated within the GG sector. The follow-up TAs assisted the Georgian authorities to compile GFS for the non-market SOEs that served as an important input for the fiscal risks analysis. Following the FTE mission to Uzbekistan which highlighted some important areas for further development, further TA missions took place focusing on the inclusion of off-budget accounts (OBAs) and EAs into the budget reporting, compilation of a list of public enterprises and sectorization of these enterprises into the sector of GG and public corporations. Regarding Kazakhstan and Tajikistan, the discussions focused on the conceptual and technical issues related to developing comprehensive PSIT and the sectorization of (i) selected large SOEs (Tajikistan) and (ii) the Problem Loans Fund imposing high fiscal risks and other budget-reliant quasi-government entities (Kazakhstan).

[10] TA missions conducted in 2019 and 2021 took place under the umbrella of IMF FAD work on PFM issues, including compilation of the Public Sector Balance Sheet.

B. COUNTRY SECTORIZATION PRACTICES

Institutional Responsibilities

Compilation of GFS and related methodological and technical issues are in all CCAM countries assigned to different functional departments within the national MoFs. A separate unit dedicated only to GFS does not exist in any country. In all cases, the GFS compilers are, alongside to the GFS issues, in charge of numerous other tasks under the responsibility of the functional departments. Therefore, the capacities available for such challenging work like the sectorization of public sector entities are very limited in all countries.

The compilation of a common list of public sector units should be a joint responsibility of all institutions and agencies compiling macro-economic statistics based on the ISS to ensure data consistency. Existence of a unique, comprehensive, and up-to-date list of public sector units split by subsectors is of extreme importance not only for the MoFs responsible for the GFS based on the *GFSM 2014,* but also for the national statistical agencies (NSAs) compiling national accounts according to the *System of National Accounts* (*SNA 2008),* and the national central banks (NCBs) compiling monetary financial statistics (MFS) and external sector statistics (ESS) in line with the *MFS Manual and Compilation Guide 2016,* and the *Balance of Payments and International Investment Position Manual, 6th edition (BPM6)*.

Currently, some countries have taken steps to intensify the inter-agency cooperation. For example, the authorities of Uzbekistan adopted a Memorandum of Understanding (MoU) establishing a formal basis of the statistical cooperation and data exchange between the MoF, NCB, and NSA. Armenia, Azerbaijan, and Kyrgyz Republic are also considering to put in place a MoU and/or establish thematic working groups.

Achievements in Expanding the Institutional Coverage of Fiscal Reporting

A complete Institutional Table comprising all public sector units sectorized into the general government and public corporation sector does not exist in any CCAM country yet. While all countries maintain a list of GG units included in the GFS reporting, the list is not comprehensive as it does not cover all EAs (including non-market SOEs) and public corporations. Nevertheless, Armenia, Georgia, and Uzbekistan have recently achieved substantial progress towards defining and expanding the institutional coverage of fiscal reporting. With the support of TAs provided by the IMF, these countries assessed the sectorization of public enterprises based on their financial data, using the combination of the quantitative (market/non-market test) and qualitative criteria. The NSA in Kazakhstan has initiated a pilot exercise to sectorize selected public units.

Georgia has been the first country in the region completing an exhaustive sectorization of public enterprises. The work was initiated and conducted by the fiscal risks team at the MoF to enhance the fiscal analysis and management and obtain an input for the SOEs' reform. The initial assessment supported by the IMF, aiming to examine whether individual SOEs operate as commercial units/public corporations, or rather as non-market producers/government, took place in 2019. The MoF has recently continued the work to further expand the list of enterprises by adding those under the control of local governments, and reexamined the sector classification of all SOEs included in the list based on the updated financial results. In total, 376 SOEs were assessed, of which 325 units were classified in the GG sector because they either act as government agents rather than independent institutional units, or do not provide goods and services at economically significant prices, and/or depend on a regular financial assistance from the government. The register of non-market SOEs was adopted in February 2023 by the Order of the Minister of Finance of Georgia. In addition, the 2023 Budget Code established a legal basis for the collection of data for non-market enterprises and for their transfer to the Single Treasury Account at a later stage. Moreover, the MoF has revised time series for 2004-

2021 to include EAs controlled by the central government (Legal Entities of Public Law and Deposit Guarantee Fund) in the GFS reporting. The inclusion of EAs improved the GG fiscal balance by 0.1 percent of GDP in 2019 that was mainly due to their own revenues. Importantly, the revised data now reflect the real structure of government spending performed via EAs that had previously been classified as transfers (2,5 percent of GDP that is 8 percent of total GG expenditures in 2019).

Uzbekistan has also been taking gradual steps during 2018-2022 to enhance the institutional coverage of fiscal reporting. The improvements were supported by the Action Plan for the Implementation of the 2020-2024 Public Financial Management (PFM) Reform Strategy. Recently, all EAs and most off-budget accounts (OBAs) of budgetary organizations were included in the budget reporting. Regarding public enterprises, a Resolution of the Cabinet of Ministers on the Introduction of a Modern System of National Accounts was adopted, requiring to complete the sectorization of public entities and include the non-market producers in the GFS reporting. The MoF compiled a list of enterprises composed of 2,900 entities and identified 160 non-market entities of which 150 unitary enterprises operating like government ancillary units, and 10 enterprises which do not operate like market producers based on the quantitative market/non-market test. The list of public enterprises and their sectorization was agreed with the NSA and NCB. Public units involved in financial activities (i.e. banks) have not been analyzed yet thoroughly. The MoF also drafted an inter-agency Decree committing all public enterprises to report to the MoF comprehensive data on a regular basis. However, due to administrative constraints, the Decree has not been approved yet. Despite of the important achievements in the area of expanded budget reporting, the improvements have not been reflected yet in the GFS because of capacity issues.

The **Armenia** MoF initiated the work on sectorization of public entities with the assistance of the IMF in 2019. According to the latest available results (2021), the list of public units comprises 3,456 entities including joint stock companies (JSCs), state and local non-commercial organizations (NCOs), public foundations and public financial corporations. Based on the preliminary assessment, the authorities identified 3,214 non-market units (of which 3,009 NCOs and 151 JSCs) and 129 public corporations. The sector classification of the remaining 113 public entities (mainly foundations) is under consideration, though they would likely fall in the GG sector considering their non-commercial nature. The work on improving the list of public units and their sector classification is still ongoing in Armenia.

In **Kazakhstan**, the national definition of the Consolidated Budget has been extended to include the Victim Compensation Fund, the Education Infrastructure Support Fund, the State Social Insurance Fund, and the Social Health Insurance Fund. In addition, the Bureau of National Statistics adopted a Classification of sectors of the national economy following the *SNA 2008* principles. The classification provides definitions of all sectors including the public sector and contains methodological explanations on the criteria for assigning institutional units to market or nonmarket producers. The coding attributed in line with the Classification of sectors should be applied in the statistical register of all national entities. Currently, the National Bureau of Statistics has been working on setting out an algorithm to distinguish between the market and non-market producers and classifying the quasi-government entities into the GG and public corporations sector.

Table 3. presents an overview of the number of entities included in the public sector and its subsectors in Armenia, Georgia, and Uzbekistan. It is based on the FTE findings which were updated and supplemented by the available information learned during the recent TA missions and other bilateral consultations with the countries.

Table 3. Number of Public Sector Units

	Armenia	Georgia	Uzbekistan
Public Sector	**4,024**	**4.086**	**3,229**
General government	**3,895**	**4.032**	**477**
Central government	**2,178**	**2,777**	**267**
Budgetary Central government	66	168	88
Extra-budgetary units	2,112	2,609	179
State Targeted and other Funds			19
State Non-Commercial Organizations	1,829		
Legal Entities under Public Law		2,415	
Non-market SOEs	283	194	160
Social Security Funds	NP	NP	**2**
Local governments	**1,717**	**1,255**	**208**
Budgetary Local government	502	110	208
Extra-budgetary units	1,215	1,145	0
Municipal Non-Commercial Organizations	1,180		
Legal Entities under Public Law		987	
Non-market SOEs	35	158	
Public Corporations	**129**	**54**	**2,752**
Nonfinancial public corporations	**108**	**52**	**2,740**
Financial public corporations, incl. NCB	**21**	**2**	**12**

Source: FTE reports, country metadata, and TA missions. NP- not applicable.

C. REMAINING OMISSIONS IN THE INSTITUIONAL COVERAGE OF GG

All CCAM countries reflect the large majority of "ordinary" general government units in their GFS reporting. The remaining gaps in the institutional coverage of GFS refer mainly to the non-market enterprises which have not been consolidated yet in the official GFS reporting by any country, but also to some uncovered "ordinary" general government entities and/or funds.

Uncovered Non-Market Enterprises

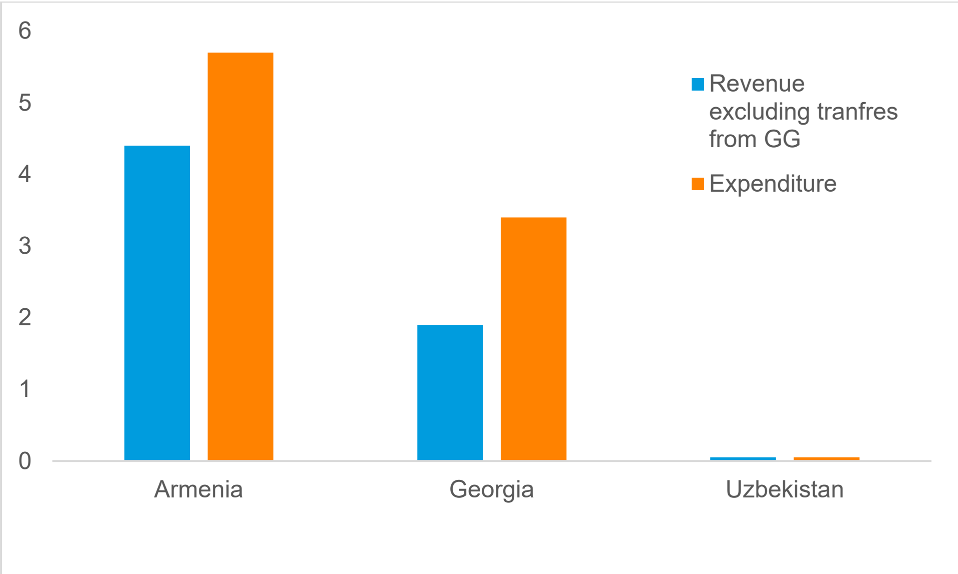
The inclusion of non-market SOEs would have a material impact on fiscal aggregates and balances.

- Based on the pilot GFS compilations for non-market SOEs in **Georgia** performed during the 2023 TA[11], revenues and expenditures of non-market SOEs amounted to 3.5 percent of GDP and 3.4 percent of GDP respectively resulting in a surplus of 0.1 percent of GDP in 2021. However, a large portion of revenues was financed by the government grants (1.6 percent of GDP). Excluding the government financial support, the SOEs would end up with a deficit of 1.5 percent of GDP.
- As for **Armenia**, the latest estimates of non-covered non-market SOEs are based on the 2018 FTE considering financial results of loss-making enterprises. According to the staff estimates, revenues and expenditures of loss-making enterprises amounted to 1.8 percent of GDP and 3.7 percent of GDP respectively, resulting in the deficit of 1.9 percent of GDP in 2016.
- Based on the 2021 estimates made by the MoF in **Uzbekistan**, impact of the 160 non-market SOEs classified by the authorities as non-market producers would be rather small. According to

[11] The GFS compilations were based on the financial statements of 17 large non-market SOEs covering around 90 percent of all non-market SOEs in terms of the annual turnover.

their calculations, the level of both, revenues and expenses was 0.05 percent of GDP in 2021. However, adding the investments in non-financial assets that were not considered in the compilations would likely lead to a deficit. In addition, the sector classification of the “state unitary enterprises” (around 1,500 entities in Uzbekistan) may need to be reassessed more thoroughly. State unitary enterprises are by definition fully owned by the state and are commonly created as a special entity for managing state-owned property. Legally, state unitary enterprises do not own this property and there are uncertainties regarding their autonomy of decision. Accordingly, the concept of institutional units would need to be reexamined in order to decide on their sector classification.

Figure 3. Revenue and Expenditure of Non-Market SOEs
(In percent of GDP)



Source: Armenia: estimates of the 2018 FTE (data for 2016); Georgia: estimates of the 2023 TA mission (data for 2021); Uzbekistan: MoF estimates 2021.

Omitted Ordinary General Government Entities and/or Funds

In addition to the uncovered non-market enterprises, the recent TAs identified some gaps in the coverage of “ordinary” GG entities and/or funds in several countries. It concerns, for example, the omitted off-budget accounts/funds of BAs and operations conducted through direct payments by the creditors to the suppliers of goods and services to the government (Armenia, Georgia, Uzbekistan, and presumably other countries). It also concerns some non-commercial quasi-government entities such as schools, kindergartens, universities, theaters, and health service providers that are covered in the budget only by means of transfers to finance their operations (Armenia, Georgia, Kazakhstan). Such units should be treated as EAs and fully incorporated in the fiscal reporting, including their own revenues and expenditures by appropriate economic categories. Inclusion of the latter would have a minimal impact on the fiscal balances because such units are mainly financed by the GG transfers. Nevertheless, their inclusion will provide a better picture on the structure of government spending by appropriate economic categories, hence will improve fiscal transparency.

In most cases, gaps in the GFS reporting mirror the gaps in the nationally based budget reporting that is very common in many countries across the world. The institutional coverage of fiscal reporting, as defined in the national legislation in CCAM countries, is usually limited to the central and subnational BAs, and some EAs, excluding other public funds, non-commercial entities, and non-market enterprises. Since the budget reporting is usually the main data source for the GFS compilation, the sector coverage of GFS is also incomplete even though some countries supplement the GFS by adding certain entities. In addition, some countries are reluctant to include certain units in the GFS reporting as it is not explicitly foreseen by the national legislation. Therefore, it would be very beneficial for the countries if the implementation of ISS would be supported, in parallel, by the improvements to enhance the coverage of the nationally based budget reporting within the PFM reforms. Uzbekistan presents one of the examples of good practice where, with the support of TAs conducted by the Fiscal Affairs Department of the IMF in close cooperation with the Statistics Department, the PFM actions were to align requirements for the budget reporting with the *GFSM 2014* principles, including the revision of the Budget Code and Budget Act.

Section 3. Way Forward to Improvement

CCAM countries recognize the need to improve the quality and comprehensiveness of the fiscal reporting that would contribute to better policy decisions. Most of them have high potential to make further progress in the delimitation of the general government and public sector and expanding the fiscal reporting accordingly.

From the strategic point of view, the process would highly benefit from reinforcement of the political support, enhancing fiscal transparency, and actions towards aligning the nationally-based budget reporting with the ISS in close coordination with the Public Financial Management (PFM) activities. The main actions that would contribute to the potential progress in the region include: (i) enhancing capacities dedicated to GFS supported by establishing appropriate institutional arrangements (ii) intensifying intra and inter-agency coordination and cooperation, (iii) establishing transparent processes and maintaining related documentation, and (iv) implementing a materiality (cost-benefit) approach. The Box in the Appendix C illustrates the best practice applied by the Canadian Statistical Agency with respect to the coverage and sectorization of the public sector.

Enhancing Capacities devoted to GFS. Increasing human resources assigned to the compilation of GFS and debt statistics would significantly speed up the implementation of government ambitions to implement the ISS. Based on the practice in other countries, the number of staff involved in the compilation of GFS and debt statistics, alongside with the implementation of ISS including the sectorization of public sector, is typically higher than currently assigned in CCAM countries. In particular, the practice in CCAM region shows a high staff turnover and that the current employees are, in addition to their main mandate, involved in numerous other projects running in parallel. This does not enable the authorities to ensure sufficient quality and reliability of statistical reporting. Based on the best practice, a special unit/division should be devoted exclusively to the GFS compilation[12]. In addition, as prescribed by the IMF's 2018 Fiscal Transparency Handbook[13], a clear delineation between the producers of source data, statistical data compilers and the users of the data would provide some operational independence for the compilers of fiscal statistics and encourage the introduction of policies conducive to statistical integrity and professional independence. It would also promote a more independent analysis of the quality of source data and compilation procedures, mitigating the risk of political interference in the production of statistics. One of the important tasks of the GFS unit is to cooperate closely with the internal and external users to ensure that the statistical output facilitates the fiscal policy and analytical needs. The unit should also have ability and motivation to attend the GFS related seminars, workshops, and trainings organized by the IMF, including those in person and online[14], to increase the methodological knowledge and technical skills.

Coordinating with the PFM activities. Improving the budget comprehensiveness in line with the sectorization criteria set up in the ISS would contribute significantly to enhancing the institutional coverage of GFS. In practice, this may involve integrating to the budget and treasury all off-budget accounts of budgetary organizations and extra-budgetary units including non-market enterprises and

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[12] The number of staff to be involved in GFS depends on the national administrative arrangements (e.g., access to the source data, completeness of the source data) and the GFS implementation phase. Obviously, more capacities are needed when the source data are not centralized, there are gaps in institutional arrangements, and the methodology has not been developed yet.

[13] https://www.elibrary.imf.org/display/book/9781484331859/9781484331859.xml

[14] ICDTC (imf.org)

aligning the format and content of the nationally based fiscal reporting with the *GFSM 2014*-based presentation.

Intensifying intra and inter-agency cooperation.

- The authorities should establish efficient data collection arrangements which cover all GG units (including non-market enterprises) and public corporations. The responsibilities for collection, processing, and quality checks of the reporting by public enterprises and other, currently non-covered entities, should be assigned to an appropriate unit within the MoF or another national agency. The most suitable would be to allocate this task to a unit / department dealing with the accounting and data processing (e.g., State Treasury) to ensure the accuracy and consistency of the collected data with results based on the accounting records of individual units.
- The cooperation between the MoF, NSA, and NCB should be formalized, ideally by signing an MoU by all three institutions. The MoU may cover the main three areas of: (i) exchange of relevant data; (ii) sectorization of entities; and (iii) methodological issues. The cooperation would also be reinforced by creation of thematic inter-agency technical working groups dedicated to specific issues such as sectorization of entities and other methodological and technical issues.

Establishing transparent processes and documentation is an important element of the statistical work. In the area of sectorization, a comprehensive and up-to-date PSIT agreed by all three institutions compiling macroeconomic statistics (MoF, NSA, and NCB) should be publicly available[15]. All public sector entities' classification decisions should be documented. Ideally, a standardized template should be used internally to maintain the list of units classified to appropriate sub-sectors, including some financial data explaining the rationale for a sector classification decision, records on the dissolved, newly constituted, and restructured units, and other technical details. Considering the high staff rotations in the region, such documentation would contribute to the efficient hand-over of related knowledge.

Implementing a materiality approach. Considering the current capacity constraints in all CCAM countries, it is crucial to apply a materiality (cost-benefit) approach in their statistical work. According to the best practice, when expanding the coverage of GFS, the priority should be given to the public corporations and other public entities that are large in relation to the economy, create fiscal risks, are not profitable, are unstable financially, or are heavily dependent on government subsidies, capital injections or guarantees. While in many countries, a large number of small, non-profit entities is missing in their fiscal reporting, their inclusion into the GFS reporting should be the second priority as their impact on the main fiscal indicators might be minimal. Such an approach would better facilitate the needs of fiscal surveillance.

Other actions. Among other actions which may potentially improve comprehensiveness and quality of fiscal reporting are FTEs. Countries may voluntarily require the IMF to conduct an FTE which would identify the main gaps, specify the main areas of improvements, and set up priorities. This could be a very efficient trigger for further progress, like was the case in Uzbekistan and Georgia. The FTE updates identified in both countries a number of important improvements which had been initiated by the findings and recommendations of the original FTEs.

[15] For illustration, the public sector registers published by Ireland (Public Sector - CSO - Central Statistics Office) and Canada (Public Sector Universe (statcan.gc.ca))

Appendices

APPENDIX A. SECTOR COVERAGE OF THE ANNUAL GFS IN CCAM COUNTRIES

Armenia, Rep. of (911)

Information Last Updated	2015
Units of General Government	
1. Budgetary Central Government	1.1 Legislative, Judiciary, and Executive bodies including ministries/departments. 1.2 Other agencies or funds: Not applicable.
2. Extrabudgetary Central Government	Various government nonprofit institutions, including hospitals, schools, and universities.
3. Social Security Funds	Social security fund.
4. State Government	Not applicable.
5. Local Government	5.1 Budgetary local government units/entities: More than 900 marzes or communities. 5.2 Extrabudgetary local government units: No information available.

Azerbaijan, Rep. of (912)

Information Last Updated	2015
Units of General Government	
1. Budgetary Central Government	1.1 Legislative, Judiciary, and Executive bodies including ministries/departments. 1.2 Other agencies or funds: 20 state committees, State Environmental Protection Fund, Fund for Securing Loans Acquired Under State Guarantees(Guarantee Fund), National Entrepreneur Assistance Fund, etc.
2. Extrabudgetary Central Government	State oil fund.
3. Social Security Funds	State Social Protection Fund.
4. State Government	4.1 Budgetary state government units/entities: Nakhichevan Autonomous Republic. 4.2 Extrabudgetary state government units: No information available.
5. Local Government	5.1 Budgetary local government units/entities: 51 districts (rayons) consisting of 5 cities and 1494 municipalities; the city of Baku, which consists of 52 municipalities; 171 Nakhichevan Autonomous Republic municipalities grouped into 7 districts and the city of Nakhichevan. 5.2 Extrabudgetary local government units: No information available.

Georgia (915)

Information Last Updated	2021
Units of General Government	
1. Budgetary Central Government	Covered. 1.1 Legislative, Judiciary, and Executive bodies including ministries/departments. 1.2 Other agencies or funds: Not applicable.
2. Extrabudgetary Central Government	Covered. 2.1 The Legal Entities of Public Law and the Nonprofit (Non commercial) Legal Entities controlled by the central Government.
3. Social Security Funds	Not applicable.
4. State Government	Not applicable.
5. Local Government	Covered. 5.1 Budgetary local government units/entities: 64 units reported. Adjaria Autonomous Republic, Abkhazia Autonomous Republic, and 62 administrative districts, towns, and cities. 5.2 Extrabudgetary local government units: The Legal Entities of Public Law and the Nonprofit (Non commercial) Legal Entities controlled by the local Governments. No information available.

Kazakhstan, Rep. of (916)

Information Last Updated	2022
Units of General Government	
1. Budgetary Central Government	Covered. 1631 units/entities reported. 2.1.1 Legislative, Judiciary, and Executive bodies including ministries (34/34), agencies (6/6). 2.1.2 Other agencies or funds: Budgetary central government units (1591/1591).
2. Extrabudgetary Central Government	Covered. 3 units/entities reported.National Fund of the Republic of Kazakhstan, Victim Compensation Fund, Problem Loan Fund
3. Social Security Funds	Covered. 2 units reported State Social Insurance Fund Social Health Insurance Fund
4. State Government	Not applicable. 2.4.1 Budgetary state government units/entities: Not Applicable
5. Local Government	Covered. 2.5.1 Budgetary local government units/entities: 11754 units reported. 3 cities (Astana, Almaty, and Shymkent), 17 oblast bodies, 11734 budgetary local government units. 2.5.2 Extrabudgetary local government units: Not Applicable.

Kyrgyz Rep. (917)

Information Last Updated	2020
Units of General Government	
1. Budgetary Central Government	Covered. 1.1 Legislative, Judiciary, and Executive bodies including ministries/departments. 1.2 Other agencies or funds: 17 state agencies, Central Commission for Elections and Referendums, Constitutional Court, Financial Market Supervision and Regulation Service, International University, National Statistics Committee, Ombudsman, Public Unions and Organizations, Issyk-Kul Oblast Development Fund, Naryn Oblast Development Fund, Reserve Fund (Kyrgyz Republic Development Fund).
2. Extrabudgetary Central Government	Not covered.(part of BCG)
3. Social Security Funds	Covered. Kyrgyz Republic Social Fund, Mandatory Health Insurance Fund with the Government of the Kyrgyz Republic.
4. State Government	Not applicable.
5. Local Government	Covered. 5.1 Budgetary local government units/entities: 2 cities under republican jurisdiction (Bishkek and Osh), 4 districts (rayons) under City of Bishkek, 12 cities under provincial (oblast) jurisdiction, 11 cities under district (rayon) jurisdiction, 469 rural settlements - aiyl okmotu. 5.2 Extrabudgetary local government units: No information available.

Mongolia (948)

Information Last Updated	2015
Units of General Government	
1. Budgetary Central Government	1.1 Legislative, Judiciary, and Executive bodies including ministries/departments. 1.2 Other agencies or funds: Culture and Art Fund, Employment and Promotion Fund, Environment Fund, Government agencies (except self-financed), Road Department, and State Property Committee (before 2002 and from 2004 onward).
2. Extrabudgetary Central Government	Assistance of Disabled Citizens Fund, Construction Department, Foreign Citizens and Citizenship Issues Department, Fuel and Energy Authority, Intellectual Rights Department, Departments Development Fund, Environment Protection Fund, Grains Fund, Herd Protection Fund, KR-1 Fund, KR-2 Fund, Oil and Gas agency, Travel Fund, Service of Diplomatic Missions Department, State Center of Standardization and Metrology, State Citizens' Registration and Information Center, State Property Committee (2002 and 2003), Telecommunications Department, Ukraine Fund, USA1 Fund, USA2 Fund, Road Fund, and Wild Goats Fund.
3. Social Security Funds	Health Insurance Fund, Industrial Accidents and Occupational Disease Insurance Fund, Pension Insurance Fund, Social Benefits Insurance Fund, and Unemployment Insurance Fund.
4. State Government	Not applicable.
5. Local Government	5.1 Budgetary local government units/entities: 9 districts (Ulaanbaatar), 21 provinces (aimags), and 331 districts (soums). 5.2 Extrabudgetary local government units: No information available.

Uzbekistan, Rep. of (927)

Information Last Updated	2022
Units of General Government	
1. Budgetary Central Government	Covered. 1.1 Legislative, Judiciary, and Executive bodies including ministries/departments: 1.2 Other agencies or funds: State committees, agencies and other government establishments.
2. Extrabudgetary Central Government	Covered. Fund for the Reconstruction and Development of Uzbekistan (FRD), Fund for the Reconstruction , Repair, and Equipping of Educational and Medical Establishments, Fund for the Reclamation of Irrigated Land, Republican Road Fund, Special Account of the State Committee for Competition, Fund for Children's Sports,
3. Social Security Funds	Covered. Pension Fund of Uzbekistan, Employment Promotion Fund.
4. State Government	Covered. Autonomous Republic of Karakalpakstan, 12 provinces and Tashkent City.
5. Local Government	Covered. 5.1 Budgetary local government units/entities: 194 districts and towns which are considered dependent agencies of the central or regional governments when compiling government finance statistics because they do not have sufficient financial independence to be considered as a separate level of the general government sector. 5.2 Extrabudgetary local government units: Not applicable.

Source: Country authorities, metadata to the GFSY

APPENDIX B. COVERAGE OF THE HIGH-FREQUENCY GFS AND PSDS IN CCAM COUNTRIES

	High-Frequency GFS	Quarterly PSDS
Armenia	CG	CG + PFC
Azerbaijan	no data	no data
Georgia	GG	PS
Kazakhstan	GG	CG + PC
Kyrgyz Republic	BCG	GG
Mongolia	no data	CG
Tajikistan	no data	CG
Turkmenistan	no data	no data
Uzbekistan	GG	no data

Source: IMF's International Financial Statistics database and the joint WB/IMF PSDS database as of April 30, 2023 (countries' metadata)

APPENDIX C. CANADA: COVERAGE AND SECTORIZATION OF THE PUBLIC SECTOR

Summary of Best Practices in Canada: Coverage and Sectorization of the Public Sector

Institutional arrangements and legal framework

- GFS compilation is covered and supported by the *Statistics Act*
- PSSD is the central compiler of GFS
- GFS compilation is integrated with the other macroeconomic statistical systems (CSMA)
- Close collaboration among the GFS, SNA, BOP, and MFS compilers

Resources and operations

- Team of experts dedicated to the classification and sectorization of public sector entities
- All public sector entities reviewed through a systematic classification process harmonized with the *2008 SNA/GFSM 2014* (residence, institutional unit, control, market vs nonmarket producer)
- All classifications decisions documented in a standardized template
- One list of public sector entities (PSU) maintained by PSSD and used for all statistical programs
- PSU and BRS integrated as one centralized common frame for surveys and administrative data

Dissemination and other

- PSU released to the general public and updated annually
- Advanced release of the PSU to the main GFS stakeholders
- Classification and sectorization principles and metholodology available in metadata
- Collaboration and consultation with the international community of GFS compilers/users

Source: GFS Advisory Committee 2019, Canadian presentation[16]
Note: PSSD – Public Sector Statistic Division at the Canadian Statistical Bureau.

[16] https://www.imf.org/en/News/Seminars/Conferences/2019/08/28/2019-government-finance-statistics-advisory-committee-meeting

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REGIONAL NOTES

NOTE YYYY/##