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TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING

DRAFT AEG PAPER

GOVERNMENT/PUBLIC SECTOR/PRIVATE SECTOR—DELINEATION ISSUES

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ACRONYMS

GBE	Government business enterprise
GFSM	*Government Finance Statistics Manual 2001*
ESA 95	*European System of Accounts 1995*
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standard
NPI	Nonprofit institution
PPP	Public private partnership
PSC	Public Sector Committee
SNA	*System of National Accounts 1993*
SPV	Special purpose vehicle
TFHPSA	Task Force on Harmonization of Public Sector Accounting
WGII	Working Group II, TFHPSA

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Executive Summary

A Introduction

The Task Force on Harmonization of Public Sector Accounting is examining the possibilities of harmonizing the economic and financial accounting approaches to general purpose reports of the economic activities and classification of public sector organizations. One of the critical steps in harmonization is an accurate delineation firstly, of the public and private sectors, and, secondly, of the general government sector and public corporations.

This paper investigates two issues about public sector entities. Do the SNA principles and guidance lead to the correct identification and delineation of public and private sector statistical units and within the public sector, units **engaged** primarily in either commercial or governmental activity?

B The Public Sector

The public sector is defined in *System of National Accounts 1993* (the SNA) as the national, regional, and local governments plus related governmental entities. Problems arise in relation to identification of related governmental entities.

In general, a related governmental entity is included in the public sector if it is controlled by a government, which means it is important to use the same definition of control for economic statistics and financial accounting. The entities under consideration are institutional units in the SNA, **further clarification in the SNA on these units is recommended**. A related governmental entity might be an entity that can be a source of financial gain to the government that controls it because it produces goods and services and sells them at market prices (referred to as corporations in the SNA) or it might be an entity that cannot be a source of financial gain to the government regardless of the prices for which it sells the goods and services it produces (nonprofit institutions). Governments exert control over these two types of entities differently.

Control of corporations

In the SNA, a government controls a corporation if it has the ability to determine the general corporate policy. In the International Public Sector Accounting Standards (IPSASs) issued by the International Federation of Accountants Public Sector Committee, a government controls a corporation if it has the power to govern its financial and operating policies so as to benefit from its activities. The power to receive a benefit from the controlled entity is not part of the SNA definition. **It is recommended that the**

definition of control in the SNA [SNA 4.30] be extended to include the power to receive a benefit. Benefits, in the case of government, do not include the receipt of tax payments. **Development of a decision tree on establishing control of another entity in the SNA is recommended, together with elaborations of the definition similar to those found in the IPSASs.**

The difference in the definitions is relevant to corporations for which the government involvement is as a fiduciary, such as pension funds for government employees.[1] Such units are included in the public sector in the SNA but not in the IPSASs. **The proposed change to the SNA definition of control will result, correctly, in the classification of these units to the private sector.**

The public sector in the SNA includes only resident institutional units. The SNA should recommend the **maintenance of separate records of domestic and foreign subsidiaries so that the correct economic statistics can be derived.**

Special purpose vehicles (SPVs) have become important, particularly for securitization operations, but they can be used for a wide variety of purposes.[2] In addition, it is possible for a government to form a joint venture with a private entity. By definition, control of these ventures is shared so that the units are neither public nor private. **Guidance should be provided in the SNA for identification and treatment SPVs and public-private joint ventures.**

Corporations jointly controlled by several government units or other public corporations, within an economic territory, are public corporations in the SNA, **although more specific guidance should be added to confirm that conclusion.**

Control of nonprofit institutions

It is not clear which nonmarket nonprofit institutions are part of the public sector in economic accounting. Although the criteria for determining control of NPIs is the same as for corporations, such criteria may not be applicable as the methods of controlling NPIs differ to those of corporations. For nonmarket NPIs it is not clear whether the requirement to be mainly financed by government is part of the control definition criteria or an additional requirement. **Further clarification is required in the SNA.**

C General Government Sector

Once the coverage of the public sector is clearly defined and harmonized between economic statistics and financial accounting, **there is a need to classify public sector entities as either engaging in market or nonmarket production, i.e., as being in the public corporations sector or general government sector respectively.** In the SNA, an institutional unit is a market producer if it charges economically significant prices for all or most of its output. The definition of an economically significant price is, however, quite vague and has been the subject of debate ever since the SNA was published. **There is a great need to explain more fully the concept of market/nonmarket production and economically significant prices so that it can be applied in practice more uniformly.**

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[1] An electronic discussion group (EDG), hosted by the International Monetary Fund (IMF) is examining pension schemes, http://www.imf.org/external/np/sta/ueps/index.htm.

[2] Working Group II (WGII) of the TFHPSA has an interest in these units as part of its consideration of privatization.

D Conclusion and Recommendations

In order to harmonize economic and financial reports for the public sector, it is recommended that the SNA definition of control be extended to align with the financial accounting definition of control in the IPSASs.

There are many areas in the SNA where guidance on the identification and treatment of units is absent or insufficient, leading to interpretation and inconsistency of treatments across countries. It is recommended that additional guidance or further elaboration be included in the SNA.

The main recommendations are:

Public sector boundary:

- Change the definition of control in the SNA to include:
  - The power to receive a benefit from the controlled entity
  - Explanation that the power to control must be presently exercisable and that regulatory powers do not imply control
  - Use of a decision tree
- Clarification and elaboration in the SNA of:
  - Definition of an institutional unit
  - Classification of nonprofit institutions
  - Distinction between foreign and domestic operations of public corporations
- Guidance in the SNA on how to evaluate and classify:
  - Special purpose vehicles
  - Public joint ventures
  - Public-private joint ventures

General Government Sector:

- Clarification and elaboration in the SNA of:
  - Concept of market/nonmarket production
  - Economically significant prices

I. Introduction

1. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) is examining the possibilities of harmonizing the economic and financial accounting[3] approaches to general purpose reports of the economic activities and classification of public sector organizations.

[3] "Economic statistics" and "economic accounting" are used here as interchangeable terms for macroeconomic statistics and the methodological foundation underlying them. The principal manual reflecting the goals and methodological standards of macroeconomic statistics is *System of National Accounts 1993*, which will be referred to as "the SNA." The *Government Finance Statistics Manual 2001* (*GFSM*) is identical with the SNA with regard

2. The economic and financial accounting reports produced for the general public summarize the same economic events, but the two types of reports are used for different purposes. Users of the reports are likely, however, to be confused when two reports about the same activities of the same entities are different and not obviously reconcilable. Thus, it is highly desirable to eliminate unnecessary differences and to explain clearly the necessary ones. Moreover, macroeconomic statistics are, for the most part, derived from financial accounting reports. Minimizing methodological differences obviously will facilitate the compilation of economic statistics.

3. Even if all concepts regarding the treatment of economic events and the definition, classification, and valuation of assets and liabilities are identical for economic statistics and financial accounting, the two types of reports will differ if the organizational entities that are the subjects of the reports differ. In addition, governments often play several different economic roles, which suggests that economic and financial reports should be disaggregated to show the results of the separate major activities. Any such disaggregation requires a similar understanding of which entities engage in which types of activities.

4. The scope of economic and financial reports about the public sector is defined in terms of organizational entities. In economic statistics, these entities are referred to as units or statistical units. In financial accounting, they are referred to as reporting entities. The public sector is both the universe of governmental statistical units and the universe of governmental reporting entities. In the SNA, the public sector is defined rather obliquely as the units of the general government, public non-financial corporations, and public financial corporations sectors. [SNA 19.37][4] This definition leaves open any questions or uncertainties about which units are included in each of those sectors. In financial accounting, the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC) states that the public sector "refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises)."[5]

5. This paper investigates two issues about public sector statistical units in economic accounting:

- Does the SNA definition of the public sector and relevant guidance result in the correct identification and classification of public sector entities?

- Is the SNA guidance in identifying units engaged primarily in either commercial or governmental activities adequate?

II. Sectors

6. In the SNA, institutional units are aggregated into sectors according to the similarity of their economic objectives, functions, and behavior and the types of units that may control them. There are many ways to classify these characteristics and, as a result, there is no unique way to construct sectors. The SNA suggests two sectors that are relevant to this study - the public sector and the general government sector.

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to the identification and grouping of institutional units. The one difference between the *GFSM* and the SNA relevant to this paper is consolidation.

[4] References to the SNA will be given as [SNA x.y], where x is the number of the chapter and y is the number of the paragraph in chapter x. References that do not follow quotations are paraphrases of the cited paragraphs.

[5] International Federation of Accountants, *Handbook of International Public Sector Accounting Standards, 2003 edition*, p. 10.

A The Public Sector

7. Institutional units can be classified as being public or private units or being owned or controlled by public or private units. The grouping of all public units and units owned or controlled by public units is referred to in the SNA as the public sector. It consists of all government units, all nonprofit institutions (NPIs) controlled and mainly financed by government, and all public corporations.[6] Statistics on the public sector provide information on the total resources controlled by governments and the purposes and efficiency with which those resources are employed.

8. The public sector is defined in the SNA as the national, regional, and local governments plus related governmental entities. Determining exactly what is meant by the public sector is part of the first question raised in paragraph 5. The difficulty lies with the definition of control and, therefore, with related governmental entities. As will be seen in section III.A, there is some uncertainty about the exact meaning of some of the terms used to define government units, NPIs controlled and mainly financed by government, and public corporations.

B The General Government Sector

9. Institutional units also can be classified as being either market or nonmarket producers. Such a classification is important for economic analysis because units subject to market forces behave differently than units not subject to market forces. Many units engage in both market and nonmarket production, but usually one type of production predominates so that a classification of mixed units is not needed. It is sufficiently accurate to treat each unit as being either a completely market producer or a completely nonmarket producer.[7]

10. All corporations and some NPIs are predominantly market producers. All government units and most NPIs are predominantly nonmarket producers. Within nonmarket producers, some units finance their activities primarily through taxes and other compulsory transfers, and other units finance their activities primarily through voluntary transfers. The first group consists of all government units and NPIs controlled and mainly financed by government. This group is referred to in the SNA as the general government sector.

11. Determining exactly what is meant by the general government sector in the SNA is part of the second question raised in paragraph. As will be seen in later sections, there is some uncertainty about the exact meaning of some of the terms used to define institutional units and the exact definition of economically significant prices.

12. Economic reports for the general government sector are intended to provide identification of all units that implement the country's fiscal policy and a measure of their activities. These units may control units engaged in market production and their decisions may be affected by the activities and status of those units, but combining the two types of activity would disguise the effectiveness with which the public resources are used and make it harder to estimate the impact of a country's fiscal policy on the total economy. To the extent that public corporations exist, however, the assets, liabilities, and economic

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[6] This definition is equivalent to the definition cited in paragraph because all corporations are either financial or nonfinancial corporations and in chapter IV of the SNA it is clear that the phrase "units of general government" includes NPIs controlled and mainly financed by government.

[7] As will be discussed in section IV, this statement is not quite accurate. If a unit is sufficiently mixed in its production to hamper economic analysis, a synthetic unit - the quasi-corporation - is created. Once all quasi-corporations have been created, each unit can be treated as a completely market or a completely nonmarket producer.

activities controlled by governments will be split between the statistics of market and nonmarket producers.

13. The activities of public corporations obviously affect the status of their parent government units. Any transaction between public corporations and their parent units, such as operating subsidies or dividends, are recorded appropriately along with all other transactions of the government units. In addition, the net worth of a public corporation is an asset of the owning government unit. Any change in the net worth of the corporations will be reflected in the balance sheet of the relevant government units.[8]

III. The Public Sector

A The Reporting Entities of Economic Statistics

Institutional units

14. The heart of the statistical system of the SNA is a set of accounts that presents (1) stocks of assets and liabilities in a balance sheet for the total domestic economy and its major sectors at the beginning and end of an accounting period and (2) the principal economic activities occurring within the accounting period in several flow accounts. A statistical unit known as the institutional unit is used for the compilation of these accounts. The total domestic economy is the aggregation of all domestic institutional units, and each sector is an aggregation of certain domestic institutional units with specific characteristics.

15. An institutional unit is "an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities." [SNA 4.2] Such a unit "is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law," including entering into contracts. [SNA 4.2] Because an institutional unit can engage in economic activities on its own account, it can buy and sell goods and services, own assets, and incur liabilities in its own name. Another implication is that either a complete set of accounts reflecting the unit's activities exists or it must be possible and meaningful to compile such a set of accounts. [SNA 4.2] Finally, an institutional unit must be resident in the domestic economy.

16. An institutional unit is either (1) a household or (2) a legal or social entity whose existence is recognized by law or society independently of the persons or other entities that may own or control it. [SNA 4.3] For the purpose of this study, only legal or social entities are of interest. Three main types of legal or social entities are identified in the SNA: government units, corporations, and nonprofit institutions. [SNA 4.5]

17. The implications of the definition of an institutional unit will be explored in the following sections. It will be seen that the definition is sufficiently vague that a list of domestic institutional units cannot be drawn up without additional guidance and the definition is sufficiently elastic to permit practical interpretations that support various analytical objectives.

Government units

18. Government units are "legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area." The principal economic functions of government units are (1) to assume responsibility for the provision of goods and services to the community or to individual households at prices that are not economically significant, and (2) to

[8] Working Group II (WGII) of the TFHPSA is examining government transactions with public corporations including accounting for income from public corporations on an equity basis.

redistribute income and wealth by means of transfer payments, financing both of these activities primarily from taxation or transfers from other government units. [SNA 4.104]

19. In order to apply the general definition of an institutional unit to identify government units, the SNA offers the additional guidance that a government unit must:

- Have funds of its own, either (1) raised by taxing other units resident in or engaging in economic activities in its area of authority or (2) received as transfers from other government units; [SNA 4.104(a)]

- Be able to own assets [SNA 4.125] and incur liabilities by borrowing on its own account; [SNA 4.104(a)]

- Have the authority to disburse at least some of its funds in the pursuit of its policy objectives; [SNA 4.104(a)] and

- Be able to appoint its officers, independently of external administrative control. [SNA 4.125]

20. All government units supply most of the goods or services they produce or purchase for resale to consumers free or at prices that are not economically significant. Roughly speaking, economically significant prices can be characterized as market prices. [SNA 4.24(b)] Thus, producers that charge prices that are not economically significant are referred to as nonmarket producers. Despite being nonmarket producers, government units may engage in some market production. By definition, the amount of market production must be less than the amount of nonmarket production, and it usually is much less. The treatment of such market production depends on the organization of the government unit. Economically significant prices and the possible treatments of the market production of a nonmarket producer are discussed further in section IV.

Corporations

21. Corporations are legal entities that are (1) created for the purpose of producing goods or services for the market, (2) collectively owned by other institutional units, (3) intended to be a source of profit or other financial gain to their owners and (4) recognized at law as separate legal entities from their owners. [SNA 4.23 and 4.47]

22. Producing for the market means that the goods and services produced by the unit are sold or otherwise disposed of at economically significant prices. [SNA 4.24(b)] The definition of these prices is discussed further in section IV.

23. The owners, known as shareholders, can be any type of institutional unit, including households, government units, and other corporations. The total value of a corporation is allocated in some manner among the shareholders, usually in proportion to the number of shares owned.

24. Any profit or other financial gain earned by a corporation belongs directly or indirectly to the shareholders. Financial gains can be passed on directly to the shareholders as a dividend or similar distribution or the corporation can retain them.[9] Any amount retained by the corporation increases the value of the corporation and indirectly the value of the shares. [SNA 4.24] Similarly, any loss suffered by the corporation decreases the value of the shares.

[9] See footnote 8.

25. As institutional units, corporations must be responsible and accountable at law for their own actions, which implies that they are legally independent of their shareholders. Legal independence implies the ability to buy, sell, lease, and mortgage property in its own name and the power to sue and be sued without recourse to the owners. This independence usually means that the liability of shareholders with respect to the corporation's actions is limited to the amounts invested in the corporation.

26. Legal independence does not mean that corporations make decisions autonomously. In fact, the requirement that shareholders must own corporations means that their activities have to be controlled in some manner by the collective decision of those owners. If there is a large number of owners, each with a small percentage ownership share, then the corporation's decisions will be relatively autonomous. If, however, there is only one owner, then that owner will be able to direct the corporation's activities in whatever detail desired. Nevertheless, even corporations wholly owned and controlled by a single unit are legally responsible for their own actions and, therefore, constitute separate institutional units. [SNA 4.38]

27. In the SNA, the concept of corporations includes companies, partnerships, cooperatives, proprietorships, and other legal forms of organization in addition to organizations formally designated as corporations as long as they produce for the market, are owned by other units, can be a source of financial gain to their owners, and are separate legal entities. [SNA 4.23] Conversely, many entities known as corporations by the governing law are not corporations in the SNA because they do not produce for the market or cannot be a source of financial gain for their owners. [SNA 4.48] For example, many governments and NPIs are legally organized as corporations.

28. Corporations are formed in accordance with the laws of a specific locality. A corporation may normally be expected to have a centre of economic interest - i.e., to be resident - in the country in which it is created and registered. When it also has one or more branches engaged in significant amounts of production over long periods of time in other countries, such branches are treated as quasi-corporations that are separate institutional units resident in the countries in which they are located. [SNA 4.24] The treatment of these nonresident branches is discussed in section IIIB.

Public corporations

29. Corporations can be owned or otherwise controlled by government units as well as by other types of institutional units. Corporations controlled by government units are referred to as public corporations. Control is defined as the ability to determine general corporate policy, typically by appointing appropriate directors. Owning more than half the shares of a corporation usually is sufficient to control the corporation, but other methods of control are possible. For example, a government may be able to control a corporation as a result of special legislation giving it the right to appoint the directors regardless of the number of shares owned. [SNA 4.30]

Nonprofit institutions

30. NPIs are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them. The articles of association by which they are established must be drawn up in such a way that the institutional units which control them are not entitled to a share in any profits or other income they receive. [SNA 4.54] Some NPIs may be created as legal corporations. They are, however, treated as NPIs in the SNA because they cannot be a source of financial gain to the units that establish, control, or manage them.

31. NPIs can be market producers. The term "nonprofit" derives from the fact that the members of the association controlling the NPI are not permitted to gain financially from its operations and cannot

appropriate any surplus that it may make. It does not imply that an NPI cannot make a profit from its productive activities. [SNA 4.56] For example, nonprofit universities, hospitals, and credit unions might charge prices that are sufficiently high to be judged economically significant. [SNA 4.58]

32. NPIs that do not charge economically significant prices are nonmarket producers; they must rely principally on funds other than receipts from sales to cover their costs of production or other activities. Their principal source of finance may be investment income, regular subscriptions paid by the members of the association that controls them, or donations from third parties, including government units. [SNA 4.60]

Nonprofit institutions controlled and mainly financed by government

33. Some nonmarket NPIs are controlled and mainly financed by government. To be nonprofit institutions, these units must be properly constituted legal entities that exist separately from government. Governments can establish NPIs, reserve the right to appoint the directors and otherwise direct the activities on the NPI, and provide any necessary financing. It is likely that an NPI controlled and mainly financed by a government is carrying out the government's policies using government resources and effectively is a part of that government. Once established, however, the government cannot profit from the NPI's activities or retain a claim on its assets.

34. Governments may find it appropriate to create NPIs to carry out a specific function rather than use a government unit because NPIs are seen as more detached and objective and less subject to political pressures than government units. [SNA 4.62] Possible examples are NPIs engaged in research or development and NPIs that set and/or maintain standards in fields such as health, safety, the environment, accounting, finance, and education.

35. As with corporations, control of an NPI is the ability to determine its general policy or program, typically by having the right to appoint its officers. [SNA 4.62] The SNA does not define "mainly financed." It was previously observed, however, that a nonmarket NPI must rely principally on funds other than receipts from sales to cover their costs of production or other activities, and that one source of these funds can be donations from government units. It is presumed, therefore, that "mainly financed by government" means that a government unit is the principal source of the funds used by a nonmarket NPI to cover its costs of production and other activities.

B Difficulties in Identifying Public Sector Institutional Units

36. Although the preceding sections present reasonably clear notions of what an institutional unit is and how to classify them as public or private units, there are a number of borderline issues.

Definition of an institutional unit

37. Institutional units are defined so that they will adequately support macroeconomic analysis. The measurement and analysis of production is perhaps the primary goal of economic statistics, and the classification of institutional units in the SNA into market and nonmarket producers is vital for that goal. A second design aspect is that the variety of possible analytical tasks requires a coherent set of statistics regarding the full range of economic activities. The definition of an institutional unit as a unit that can engage in all types of economic activity is crucial for such a coherent set of statistics. **The current definition needs some elaboration as institutional units cannot be identified without additional guidance and the definition permits practical interpretations that support various analytical objectives.**

a. Having balance sheets, a complete set of accounts, owning assets and incurring liabilities can be done by entities that are not institutional units. **The relationship between these characteristics and the concept of an institutional unit needs to be defined more clearly.**

b. Social security and autonomous pension funds probably are not institutional units if the definition is strictly followed, but the needs of economic analysis are better met if they are classified as institutional units. **The definition of an institutional unit should make it clear why they are so classified.**

Some conditions are cited in paragraph for government units that do not appear to go beyond the definition of an institutional unit. There is no explanation in the SNA whether this extension of the definition of an institutional unit is intentional or these requirements of government units are simply interpretations of the definition. **However, it should be clarified in the SNA whether the definition includes these requirements or whether they are provided for guidance only. In addition, the requirements should be reviewed to avoid inconsistencies in interpretation.**

Control and finance

38. Establishing the definition of control is the most important borderline issue for determining if a unit is a public or private unit. A public corporation is a corporation that is controlled by a government unit, and a NPI is a public unit if it is both controlled and mainly financed by a government unit.

39. The IFAC PSC defines control[10] to be "the power to govern the financial and operating policies of another entity so as to benefit from its activities". The SNA definition is less restrictive than the financial reporting definition. The criterion of having the power to govern the financial and operating policies of another entity in the financial reporting definition is essentially the same as the entire definition of control in the SNA. **The power to receive a benefit from the controlled entity is not part of the SNA definition [SNA 4.30], but should be for corporations. Doing so would exclude units operated in a fiduciary capacity from the public sector of the SNA, which is desirable.**

40. According to the PSC, having the power to govern the financial and operating policies does not mean that the powers have to be exercised. The controlling entity does not have to have responsibility for the day-to-day operations of the controlled entity. An entity may exercise its power to control another entity only in exceptional circumstances, which may never occur. [IPSAS 6.29] The power must, however, be presently exercisable. If the power depends on the existence of legislation or a formal agreement, that legislation or agreement must be in effect; it cannot be contingent and it cannot require changing legislation or renegotiating agreements. [IPSAS 6.28] **The explanations that the power to control must be presently exercisable (i.e., power already conferred by legislation etc.) and that regulatory or purchase powers do not imply control should be added explicitly to the SNA definition of control [SNA 4.30]. Additional guidance on the meaning of "the capacity to determine financing and operating policies" should be provided in the SNA.**

Corporations

41. In many cases, it will be clear that a government unit controls a corporation because it is the sole owner or it has the exclusive right to appoint directors. There easily can be, however, cases in which the government is not the sole owner. In those cases, it may not be obvious that there is a controlling owner.

[10] The definition is in the International Public Sector Accounting Standard (IPSAS) issued by the IFAC PSC: IPSAS 6 – *Consolidated Financial Statements and Accounting for Controlled Entities*

In addition, governments can strongly control the economic actions of corporations by exercising their sovereign powers.

42. A corporation "is collectively owned by shareholders who have the authority to appoint directors responsible for its general management." [SNA 4.23] A public corporation is one that is controlled by a government unit, where "control is defined as the ability to determine general corporate policy by appointing appropriate directors, if necessary." [SNA 4.30] This rule is repeated elsewhere in the SNA with the same generality. **It is recommended that additional guidance be provided on how to implement it.** The IPSASs include some guidance on what is control and this could be considered for use in the SNA. IPSAS 6 also includes a decision tree on establishing control of another entity for financial reporting purposes. **Development of a similar decision tree in the SNA is recommended.**

43. The simplest case is where ownership is expressed by possessing a number of shares, all shares have equal standing, owners may own different numbers of shares, and no units can influence the management of the corporation except by owning shares. In this case, "Owning more than half the shares of a corporation is evidently a sufficient, but not a necessary, condition for control." [SNA 4.30] If ownership is diffused among a large number of owners, it is possible for a government unit owning less than half of the shares to control the corporation. Determining when a minority owner controls the corporation is, however, judgment and it is suggested in the SNA that errors should be in the direction of not assuming control: "Nevertheless, because it may be difficult to identify those corporations in which control is exercised by a minority of shareholders, it is recommended that, in practice, corporations subject to public or foreign control should normally be confined to those in which governments or non-residents own a majority of the shares. This recommendation is intended only as a practical guideline, however, to which exceptions can be admitted if there is other evidence of control." [SNA 4.30]

44. Reference is also made in the SNA to slight variations of controlling a corporation by owning shares. A government unit can own shares indirectly as well as directly and the degree of control should be considered the same. "As a practical guideline, therefore, it is recommended that control should normally be attributed to an institutional unit, or organized group of units, only when they own or control (e.g., *through a subsidiary*[11]) more than 50 percent of the voting shares of a corporation…" [SNA 4.70, italics added] For example, a government unit can control one corporation and that corporation can control a second corporation. In theory, a government can control a corporation by owning only a small fraction of its equity indirectly through partial ownership of a long chain of intermediate corporations.

45. The reference to an "organized group of units" in the quotation just cited also suggests that two or more government units acting in concert can control a corporation. For example, within an economic territory, several local governments could jointly establish a corporation to provide regional transportation services. The corporation would be completely owned by government units but is not controlled by any single unit. Nevertheless, it clearly is a public corporation, although **more specific guidance should be added to confirm that conclusion**. [SNA 4.70 and 4.84] However, in the case of a corporation located and incorporated in one country, and owned by governments of other countries, the corporation would be classified as a private corporation in the country in which it is located. (See section on Residence below.) **The SNA should make the point more clearly because it indicates that the concept of control is used to determine the way a unit will behave, not to indicate financial responsibility.**

[11] A corporation (B) is a subsidiary of another corporation (A) when either A controls more than half of the shareholder's voting power of B, or A is a shareholder in B with the right to appoint or remove a majority of the directors of B. Corporation B is an associate of A if A and its subsidiaries control between 10 per cent to 50 per cent of the shareholder's voting power in B so that A has some influence over the corporate policy and management of B.

46. Alternatively, a government unit could establish a joint venture with a private unit, in which both owners jointly control and neither is dominant. Such a situation can present a difficult judgment whether the unit is public or private. Current statistical standards require the entire unit to be one or the other; it cannot be partitioned as in financial reporting. **It is recommended that guidance be provided in the SNA on the classification of joint ventures**.[12]

47. One other method of control is specifically provided for in the SNA: "The government may secure control over a corporation …(b) As a result of special legislation, decree or regulation which empowers the government to determine corporate policy or to appoint the directors." [SNA 4.72] In some cases, control will be clear. Perhaps the corporation has not issued any formal ownership instruments, but a government possesses and exercises the power to appoint all of the directors. Other cases may not be clear. For example, in return for a charter to a corporation granting monopoly rights to produce some type of goods or services, a government may reserve the right to appoint some of the directors or exercise financial oversight.

48. Legislation other than the specific right to appoint directors can influence a corporation's actions to the extent that control could be considered to have been established. For example, a corporation could be limited in the type of output it may produce; there may be minimal quality standards or required uses of inputs; and many other types of restrictions are possible. If restrictions of this nature are particularly extensive, then one could conclude that the government is determining general corporate programs and thus has control. General regulatory powers, on the other hand, do not constitute control of corporate policy. For example, industry regulators do not control the corporations that they regulate. There is no guidance in the SNA on this subject beyond the cited statement that control can be obtained by means of special legislation. **As long as the corporation is under the management of privately appointed directors and the benefits of the corporation's activities accrue to private owners, the corporation should be classified as private, but greater specificity in the SNA should be added.**

49. Corporations, which in the SNA include legal forms of organization other than corporations, could be controlled by a government but operated for the benefit of other units or they could not be controlled by a government but operated for the benefit of government. Two special types of organizations of this nature are organizations in which a government acts in a fiduciary capacity for other units and special purpose vehicles (SPVs) created by securitization operations in which a private financial corporation is the trustee acting for the benefit of a government. These cases are discussed in later sections. [SNA 4.84]

Nonprofit institutions

50. NPIs can be controlled by other units just as corporations can be controlled, but the controlling units cannot benefit financially from the operations of the NPI. With regard to market NPIs, it is stated in the SNA that control of nonfinancial market NPIs is determined by the same rules as are used for nonfinancial corporations, [SNA 4.70] and that financial market NPIs should be evaluated according to the same criteria. [SNA 4.84]

51. The classification of nonmarket NPIs as public or private does not follow the same criteria as the classification of corporations. Control of a nonmarket NPI is determined in the same manner: "In this context, control [of a nonmarket NPI] is to be understood as the ability to determine the general policy or programme of the NPI by having the right to appoint the officers managing the NPI." [SNA 4.62] Nonmarket NPIs are classified as public units, however, only if they are both controlled and mainly

[12] The Canberra II Group is examining nonfinancial assets including assets of joint ventures.

financed by government. It was deduced above that mainly financed means that a large share of the funds needed for current operations is supplied by government.

52. Although the criteria for determining control of an NPI are the same as for control of a corporation, those criteria may not be applicable to a NPI or not with the same degree of importance. A typical corporation is governed by owners casting votes in proportion to the number of shares owned. Because NPIs do not have owners, this method of selecting directors is not possible. If the NPI is a member-based organization, then the directors likely are elected with each member having one vote, regardless of the member's degree of financial support or other involvement in the NPI. It is unlikely that a government unit, or any other type of unit, could control such a NPI as it would have just one vote. However, if there were several members from government units, then the government would have several votes and could control the NPI. The directors of other types of NPIs are either self-selecting, in which case the existing directors select new directors to fill a vacancy, or are determined in accordance with the legal documents that created the organization, in which case the directors are usually appointed by a specified government or other sponsoring organization. In either case, a government could dominate the board of directors and control the organization.

53. Because the methods of controlling a NPI differ from corporations, statistical agencies have considered several criteria when deciding if an NPI should be considered a public unit. Some of the criteria that have been suggested are: (1) whether the NPI's budget requires approval by a government, (2) whether its financial results are subject to government audit, (3) whether the NPI's financial results are included in government financial reports, (4) whether the employees are government employees, (5) whether the government is the sole consumer of the NPI's output, and (6) whether the NPI performs a regulatory function. Satisfying one of these criteria is not conclusive, but it does suggest that the government controls the NPI.

54. It is not clear from the current text of the SNA whether the requirement to be mainly financed by government is a supplemental means of establishing control or whether it is an independent requirement. Supplying a large share of the operating funds to a nonmarket NPI certainly creates the opportunity for influence as the donor can severely curtail the NPI's operations by withholding funds unless the directors of the NPI agree to act as directed by the donor. An NPI that is not otherwise controlled, however, retains the option of refusing the funds and operating on a reduced scale unconstrained by the donor-imposed restrictions. A government also could provide funds to an NPI without connecting them with any operating restrictions. The government may feel obligated to provide certain services to its constituents and an existing NPI may already have the know-how to provide those services efficiently. As a result, the government can simply provide sufficient funds to produce the desired volume of output without exerting any control. Thus, it is not obvious that finance provides control.

55. Statistical agencies have answered this question differently. Governments often provide a large share of the operating funds for universities, primary and secondary schools, and hospitals, but do not directly appoint the directors or otherwise interfere with the operating and financial decisions of the institutions. In some cases, governments may impose substantial restrictions about curriculum or standards of health care. Some agencies have decided that the supply of funds and operating restrictions amount to de facto control; other agencies have concluded that the institutions make their own operating decisions and, therefore, are private units.

56. Another possibility is that having control may not be sufficient to force an NPI to carry out the wishes of the controlling unit. A nonmarket NPI must rely principally on funds other than receipts from sales to operate. Presumably the goods and services provided are a type deemed important by the directors of the NPI, and the directors must have an expectation of being able to raise the necessary funds from donors who also think the services are important. It is not likely that a government could establish a NPI

for the purpose of supplying a certain type of services, appoint all of the directors, and then expect the general public to supply the funds. In other words, if a government wishes the NPI to act as an extension of the government, then the government most likely will have to finance as well as control the NPI.

57. In summary, more guidelines are required in the SNA on the classification of NPIs as it is not clear which NPIs are part of the public sector. Although the criteria for determining control of NPIs is the same as for corporations, such criteria may not be applicable as the methods of controlling NPIs differ to those of corporations. For non-market NPIs, it is not clear whether the requirement to be mainly financed by government is part of the control definition criteria or an additional requirement. Clarification is recommended.

Independence and autonomy of decision

58. Institutional units, as defined in section III.A, are independent in the sense that they are able to engage in economic activities, own assets, incur liabilities, enter contracts, and be responsible at law for their own actions. However, their autonomy may be constrained to some extent by other institutional units. For example, the fact that other units must own a corporation means there is a limit on its autonomy. In general, each corporation is treated as a separate institutional unit, even if it is completely owned and controlled by another corporation and has no autonomy of decision.

A complete set of accounts

59. A complete set of accounts, including a balance sheet, must exist for an institutional unit, or it must be possible and economically meaningful to construct such a set of accounts. The meaning of a complete set of accounts is not further explained. The specific mention of a balance sheet is somewhat peculiar. It could be that balance sheets were integrated into the statistical system of the SNA for the first time with the 1993 version of the system and there was a desire to call attention to the new feature. Another possible reason is that the balance sheet can serve as the conceptual foundation of the system. Once a balance sheet and the assets and liabilities to be recorded on it are defined, then it is logical that the statistical system should include the economic flows necessary to explain all changes in the balance sheet of a unit between the beginning and end of an accounting period.

60. A complete set of accounts can be constructed by government ministries, departments, agencies, and so forth even though their range of activities, assets, and liabilities may be limited. The clear intent of the SNA, however, is that a complete set of accounts should be meaningful for economic analysis, and a complete set of accounts for ministries does not satisfy this criterion.

61. The definition of an institutional unit only states that it can engage in economic activities, own assets, and incur liabilities. It does not say a unit can engage in all types of economic activities, own all types of assets, and incur all types of liabilities or that, at a minimum, it must be able to own certain types of assets and engage in certain types of activities. Some units are limited in their range of activities by their nature or by force of law, but this type of limitation should not affect the definition of an institutional unit. The general intent of an institutional unit expressed throughout the SNA is that a unit should be capable of engaging in *all* types of activities appropriate for the type of unit, which implies an ability to own *all* types of assets and liabilities. If this is true, then all of the SNA accounts can be compiled for an institutional unit in a meaningful way. **The SNA should be revised to confirm or deny this interpretation of the definition of an institutional unit.**

Residence

62. The overriding goal of the statistical system of the SNA is to measure production taking place within a country. For this purpose, production is defined in terms of the productive activities engaged in

by resident institutional units. Within that restriction, however, an institutional unit is not limited in its geographic location. The offices of the primary central government unit are likely to be spread throughout the entire country and may extend outside the country, for example, embassies. When a corporation undertakes economic activity outside its own economic territory, the SNA [4.24] recommends the creation of separate units in each economic territory in which the activity takes place. To show the correct value of the parent unit, a financial asset representing the value of each foreign subsidiary is added to its balance sheet, but not the individual assets and liabilities of the foreign subsidiaries.

63. In the SNA, an institutional unit is resident in a country when it has a center of economic interest in the economic territory of that country. Residence is not based on nationality or legal criteria because they may not be appropriate for economic purposes. [SNA 14.8]

64. The economic territory of a country consists of the geographic territory administered by a government within which persons, goods, and capital circulate freely, including any clearly demarcated areas of land located in other countries and used by the government that owns or rents them for diplomatic, military, scientific or other purposes - embassies, consulates, military bases, scientific stations, information or immigration offices, aid agencies, etc. - with the formal political agreement of the government of the country in which they are physically located). [SNA 14.19] Conversely, embassies, consulates, military establishments, and other entities of a foreign general government unit are to be considered as extraterritorial by the economy in which they are physically located. [SNA 14.31]

65. Corporations have a center of economic interest in a country when they are engaged in a significant amount of production of goods or services there, or own land or buildings located there. They must maintain at least one production establishment in that country that they plan to operate indefinitely or over a long period of time—a guideline of one year or more is suggested. [SNA 14.22]

66. As the foreign operations of public corporations are nonresident institutional units, they are not part of a country's public sector and their production should be classified as production in a foreign country. However, the net result of their activities will be included in the statistics of the public sector and the net worth of the public sector will be correct. **This requirement for separation of operations into domestic and foreign could be made clearer in the SNA.**

Pension funds and other fiduciary activities

67. Employers and governments often hold funds in a fiduciary capacity for other units. If the holding of these fiduciary funds is organized in a manner that constitutes a separate institutional unit, such as an autonomous pension fund for employees or a joint investment fund for several governments, the units must be classified in the same manner as other institutional units. In this case, a government unit or a public corporation will control the pension or investment fund, and it would be classified as a public unit. Such a classification might be inappropriate because the unit's fiduciary activities are not governmental activities and benefits flow, not to the public sector, but to households.

68. Institutional units are capable, in their own right, of engaging in all types of activities, but pension funds generally do not have that capability. The employees managing the funds are usually employees of the parent organization and the capital stock employed usually is the property of the parent unit. Typically, only a summary management fee is charged to the pension fund for the operating expenses. Nevertheless pension funds that are constituted in such a way that they are separate units in the SNA are classified as financial corporations. The current definition of control in the SNA, however, still leaves these units in the public sector when they probably should be private financial corporations.[13]

[13] See footnote 1.

Extending the SNA definition of control to include the power to receive a benefit from the controlled entity, would exclude units operated in a fiduciary capacity from the public sector, which is desirable.

Special purpose vehicles

69. Special purpose vehicles (SPVs) are created for securitization, financing public private partnerships,[14] and other specialized activities where a separation from their nominal owner of assets or the right to future revenue is desired. For example, a government unit might transfer its rights to future taxes of a specified type to a SPV in exchange for a specified sum. The SPV then borrows using the rights to future government revenue as collateral and uses the funds to pay its obligation to the government. It then repays the borrowed funds using the designated taxes as they are received. The SPV usually is created as an independent entity for this single purpose and will go out of existence when the taxes have been collected and all debts liquidated. Often it is a trust under nongovernment administration. As such, it is a separate institutional unit, a financial corporation. Its classification depends on who controls the SPV, which could be the government unit, but more likely is an independent trustee. **There are no guidelines in the SNA about how to evaluate and classify SPVs.**[15] Quite often, they are simply methods for government units to borrow with the SPV providing a fiduciary role, which implies that the SPVs should be public units or an ancillary unit within a government unit.

NPIs controlled and mainly financed by government versus NPIs serving households that obtain all or most of their funds from government

70. Governments and NPIs often serve the same goals of providing social services to selected portions of the population free or at very low cost. Sometimes a government unit will provide the funds to support delivery of the services, but a NPI will actually produce the services or procure them from another producer. When that happens, the classification of the NPI depends on the interpretation of government payments to the NPI and the definition of economically significant prices (see section IV).

71. If the payments are interpreted as a purchase of services or as a subsidy on products (i.e., payment is related to the volume of the goods and services produced) to the NPI, then the NPI is classified as a market producer, either public or private depending on the interpretation of the degree of government control. If the payments to the NPI are treated as non-subsidy transfer payments, then the NPI is a nonmarket producer. Being mainly financed by government, it is again a public or private unit depending on the interpretation of control. There have been discussions for many years about the guidelines to be used when classifying government payments to NPIs. **The SNA needs further guidelines in this area.**

IV. The General Government Sector

72. The second question in paragraph asks whether, within the universe of public sector entities, units engaged primarily in either commercial or governmental activities are correctly identified and classified.

73. Economic statistics use the concept of economically significant prices to distinguish between commercial and governmental units. This nebulous concept is discussed in section IV.A. Improvements can undoubtedly be made in the definition, but the goal of a precise operational definition will remain elusive. It was previously asserted that all units are either predominantly market or nonmarket producers.

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[14] SPVs are specific to individual public private partnership (PPP) projects. A SPV for a PPP is typically a consortium of banks and other financial institutions, set up to coordinate the use of their capital and expertise.

[15] See footnote 2.

As will be seen, this generalization is not quite true; the possibility of mixed units should be admitted.[16] The treatment of such units is discussed in section IV.B.

A Economically Significant Prices

74. A publicly controlled institutional unit could be either a government unit or a public corporation in the SNA depending on the prices for which the unit sells or otherwise disposes of its output. Market producers sell most or all of their output at prices that are economically significant. Prices are economically significant when they have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. Universities and hospitals, for example, are market producers when they charge fees based on their production costs that are sufficiently high to have a significant influence on the demand for their services. Even if they generate persistent operating losses, they are market producers as long as their fees are determined mainly by their costs of production and are high enough to have a significant impact on demand. [SNA 6.50]

75. Nonmarket producers are producers that provide most of their output to others free or at prices that are not economically significant. A price is not economically significant when it does not have a significant influence on the amounts the producers are willing to supply or on the amounts purchasers wish to buy. Such prices are likely to be charged in order to raise some revenue or achieve some reduction in the excess demand that may occur when services are provided completely free, but they are not intended to eliminate such excess demand. Once a decision has been taken on administrative, social or political grounds about the total amount of a particular nonmarket good or service to be supplied, its price is deliberately fixed well below the equilibrium price that would clear the market. The price merely deters those units whose demands are the least pressing without greatly reducing the total level of demand.

76. Applying the definition of an economically significant price can only be a matter of judgment. The title is unfortunate, but should not be allowed to impede the adoption of sensible guidelines. Any price, including a price of zero, has economic significance and will affect the amounts demanded. More realistically, the definition is an attempt to describe situations in which the producer is selling its output for a market price or something close to it and responds to changes in market prices in ways similar to responses expected by private producers. This behavior is quite different from a nonmarket producer that supplies outputs for which there is not an effective market, such as public safety, or which a government or nonprofit institution feels members of its community should have access to but may be too expensive for many, such as shelters for the homeless. These producers will produce according to their capacity or what they feel is socially needed; any receipts from customers will be secondary.

77. The two extremes are fairly clear. Between them is a vast range of uncertainty. If a price permits an enterprise to generate continuously a positive operating surplus and the price is determined by current supply and demand conditions, it is a price that would be charged by a private corporation and is economically significant. Both the producer and the consumers will adjust to changes in the price. Two general cases can be imagined in which one of the conditions just described is absent, but one would most likely conclude that the price is economically significant. First, the price may not generate a positive operating surplus and there may be no reasonable hope that any price would generate a surplus. Municipal transportation enterprises are typical examples. In most cases, the profit-maximizing price will produce a loss. Receipts that cover 50 to 75 percent of costs are common. Governments perceive a social necessity to provide public transportation and will subsidize it to maintain some desired level of service. As long as the transportation enterprise acts like a market producer by adjusting its level of output and prices in response to demand and seeks to minimize costs, then this type of enterprise should be treated as a market producer. Second, a government may produce a product that could be sold at a profit-generating price, but

[16] Mixed units are units that are engaged in both market and non-market production.

adopts a public policy of selling it at a lower price to make it affordable to certain portion of the community. Perhaps there is a public unit that is the monopoly producer of electricity in a local market and the controlling government decides to set the price at 80 percent of the cost of production. Although a subsidy will be required, the enterprise is still acting as a market producer.

78. There have been several efforts since the publication of the SNA to divine what an economically significant price is, either attempting to develop general rules[17] or by examining individual cases. There cannot be any greater hope of defining an operational definition here than has been achieved elsewhere. In order to retain flexibility in the SNA, it is recommended that some additional background guidance, not rules, be developed and the relationship with the IPSAS definition of a government business enterprise (GBE) may be examined. The *European System of National Accounts 1995* (*ESA 95*) could be considered in developing further guidance.

79. Most of the efforts to define an economically significant price center on the percentage of cost of production that the price represents. The higher the percentage, the more likely the price is economically significant. These analyses have revealed a need to better define price, sale, subsidy, and transfer payment.

80. There are three different definitions of price used in the SNA: basic, producers', and purchasers' prices. Basic prices are generally favored for valuing output. The basic price is the amount receivable by the producer from the purchaser for a unit of a good or service minus any tax payable and plus any subsidy receivable as a consequence of its production or sale. [SNA 6.205] If a government unit pays a subsidy calculated as an amount per unit, then the basic price includes that amount in addition to the amount paid by the purchaser. Thus, a product can be very heavily subsidized, but have a basic price that more than covers the cost of production. If the subsidy is paid to a private producer, then there is little question that the producer is a market producer. If the subsidy is paid by a government unit to a putative controlled public corporation, then there is no difference between this arrangement and one where the government simply sells the product for a minimal price. That is, an institutional organization should not be usable to convert a sale at a price that is not economically significant into a sale at an economically significant price.

81. Defining a sale is difficult when a government is involved. One of the economic functions of government is to supply goods and services to the community for free or at prices that are not economically significant. It can accomplish this supply by producing the goods and services or by insuring their supply by a third party. If the government chooses to involve a third party, it can purchase the items from a market producer at a market price and distribute them to the community or it can provide funds to a nonprofit organization engaged in that business. In the latter case, is the payment to the NPI a purchase of the output, which the government then gives to members of the community according to its criteria, is it a subsidy per unit of production, or is the payment a lump-sum donation to the NPI so that it can produce and distribute the output?

82. Other general guidelines concern the unit's behavior and how subsidies are distributed. For example, how is the price established? Is it a true market price? Are there private producers competing with the public unit? Does the unit respond to changes in the market in the same manner as a private producer? If so, then the prices probably are economically significant. When answering these questions, one should consider the actual price paid by the consumer rather than the basic price.

83. Are the subsidies provided to the unit available to private producers on the same basis, such as a subsidy for employing certain people, or is the subsidy the amount necessary the cover the unit's operating deficit, whether estimated in advance or after the fact. Some observers have suggested that certain types of

[17] The European System of National Accounts (ESA 95) adopts a 50 per cent rule to determine the type of producer and the sector for private NPIs.

activity are inherently commercial or governmental. There is sufficient variation among countries in how production is organized, however, this type of rule has attracted little support.

84. Does the consumer have a choice? If there is only one bridge across a river and the government establishes a separate unit to operate it as a toll bridge, the unit has little incentive to act as a market producer. A higher standard should be applied when deciding if the toll is an economically significant price, than if there were many competing toll bridges.

85. In summary, **there is no precise definition of economically significant prices that is applicable in the real world**. It is clear that the SNA permits prices that are substantially less than the cost of production to be economically significant. The interest of the SNA in this regard is to group units together that behave similarly. **Thus, considerable flexibility is allowed if the producer in question is clearly acting like a market producer. The less market-like the producer acts, the higher the price should be relative to production costs to be classified as economically significant.**

B Quasi-corporations and Market Establishments

86. It is possible for any government unit to sell some of its output for economically significant prices. These sales may constitute only a very minor part of the unit's activities, such as selling government-published pamphlets in a large office otherwise devoted to nonmarket activities. These incidental sales do not affect the unit's classification as a predominantly nonmarket producer and a government unit or the valuation of its output.

87. Sometimes, however, an entire section of an otherwise nonmarket unit is engaged in market activities. Institutional units consist of one or more establishments, where an establishment is located in a single location and at which only a single productive activity is carried out or in which the principal productive activity accounts for most of the value added. [SNA 5.21] If there are two or more establishments in the institutional unit, then by definition none of the establishments meets the requirements to be an institutional unit. Because a government unit is a nonmarket producer, most of its establishments will deliver all or most of their output to consumers for free or at prices that are not economically significant. Some establishments might sell their output for economically significant prices, such as an office that produces publications and sells them for market prices or a municipal swimming pool that charges market entrance fees. If it is possible to identify a market establishment within a government unit, then the output of that establishment is valued at the applicable market prices and the net operating surplus will in general not be zero.

88. Of interest here is the possibility that one or more market establishments within a government unit may constitute a cohesive unit that functions as if it was a public corporation. If so, then the SNA requires that the government unit be divided into two units, with the market producing portion designated a quasi-corporation and the nonmarket portion remaining a government unit. In other words, a government quasi-corporation is an unincorporated enterprise owned by a government unit that operates as if it were a separate corporation and whose de facto relationship to its owner is that of a corporation to its shareholders. [SNA 4.49] Quasi-corporations are treated as if they were corporations: that is, as separate institutional units from the units to which they legally belong. [SNA 4.50] The intent behind the concept of a quasi-corporation is to separate from their owners those unincorporated enterprises that are sufficiently self-contained and independent that they behave in the same way as corporations. [SNA 4.51] Indeed, the requirement that a quasi-corporation act like a corporation almost requires it to be a separate reporting entity, and that requirement could be added to the SNA definition.

89. A quasi-corporation must have its own value added, saving, assets, liabilities, and so forth. It must be possible to identify and record any flows of income and capital that are deemed to take place

between the quasi-corporation and its owner. The amount of income withdrawn from a quasi-corporation during a given accounting period is decided by the owner, such a withdrawal being equivalent to the payment of a dividend by a corporation to its shareholder(s). A balance sheet is also needed showing the values of the quasi-corporation's fixed assets, inventories, financial assets, and liabilities. [SNA 4.52]

90. In order to be treated as a quasi-corporation, the government must allow the management of the enterprise considerable discretion not only with respect to the management of the production process but also the use of funds. Government quasi-corporations must be able to maintain their own working balances and business credit and be able to finance some or all of their capital formation out of their own savings, depreciation reserves, or borrowing. The ability to distinguish flows of income and capital between quasi-corporations and their owners implies that their operating and financing activities cannot be fully integrated with government revenue or finance statistics in practice, despite the fact that they are not separate legal entities. [SNA 4.108]

91. An example of a government quasi-corporation might be a major administrative division of a ministry or department that produces and sells electricity for market prices. The division is expected to cover its costs of production, including its cost of capital. The relationship between the division and the rest of the ministry in the budget approved by the legislature might only be a single line item for the net flow of resources to or from the division, and the division might issue separate financial reports. The division might need to borrow large amounts to acquire its fixed assets and it might be restricted to borrowing from the government. The division does not quite qualify as an institutional unit under the general definition because it does not really borrow in its own name and the government remains financially responsible for the actions of the division. Nevertheless, it acts so much like a market producer that economic analysis is improved by classifying the division as a quasi-corporation.

92. It is quite possible that a quasi-corporation will be a reporting entity for financial accounting, in which case the financial results will be available for compiling economic statistics. The previous section about economically significant prices applies with equal validity when deciding if a quasi-corporation exists because it must sell its output for those prices. **The fact that a quasi-corporation does not meet the general definition of an institutional unit suggests that the SNA should include more guidance in assessing the economic significance of the prices of possible quasi-corporations.**