



**EAC GUIDELINES ON
COMPILATION OF
GOVERNMENT FINANCE
AND PUBLIC SECTOR DEBT
STATISTICS - 2015**



EAC Guidelines on Compilation of Government Finance and Public Sector Debt Statistics - 2015

DRAFT

EAC Guidelines on Compilation of Government Finance and Public Sector Debt Statistics - 2015

Copyright © 2016 by East African Community

ISBN 978-9987-712-67-0

www.eac.int

Email: eac@eachq.org

Give feedback on the guide at:
eac@eachq.org

Forward

The EAC is the regional inter-governmental organisation of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its Secretariat in Arusha, Tanzania. The Treaty for establishment of the EAC was signed on 30 November 1999 and came into force on 7 July 2000 following its ratification by the original three Partner States – Kenya, Uganda and Tanzania. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007.

The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit. To this extent, the EAC have identified the following four stages to achieve the community:

- a) Customs Union** - this involves the strengthening of the free trade area where Partner States adopt a common trade policy with common external tariffs. The Customs Union was established in 2005;
- b) Common Market** - where in addition to Customs Union, there is free movement of capital, labour, goods and services and capital between Member States was established in 2010;
- c) Monetary Union** - this is the most advanced stage of the economic integration process where countries have harmonised their different political, economic, and monetary and fiscal policies. All Partner States signed the East African Monetary Union (EAMU) Protocol in November 2013 with a ten years transition period to a Single currency in 2024; and
- d) Political Federation of the East African States** - this is the ultimate aim of the community. Partner States have put in place a process of fast tracking attainment of this stage.

The EAMU Protocol require that the Partner States macroeconomic environment converge based on an agreed convergence criteria. On the fiscal side the criteria require the fiscal deficit including grants to be maintained at below 3% of GDP, tax revenue to be maintained at 25 % of GDP and the public debt in net present value to be maintained at below 50 % of GDP. To maintain a sound Monetary Union, it is prudent that these indicators are compiled using a common methodology and using similar compilation practices

While the GFSM2014 manual provides a comprehensive conceptual and accounting framework suitable to assess the performance of government of any country in the world, these Guidelines for Compilation of Government Finance Statistics aims to provide government officials who are responsible for the compilation and dissemination of fiscal statistics in the EAC with the basic information necessary to compile good quality and comparable fiscal statistics, based on the methodology of the GFSM 2014.

Let me take this opportunity to thank the IMF- East Africa who provided Technical Assistance, financial and human resources during the drafting of the Guidelines: the Regional Technical Working Group with membership of officials from the EAC Partner States' Ministries responsible for Finance, Statistics Bureaus, Central Banks and Revenue Authorities; and officials from the Secretariat all of who diligently participated in consultations in development of the Guidelines.

Amb. Libérat Mfumukeko

Secretary General

East African Community

Table of Contents

Forward	i
List of Figures	v
List of Acronyms	vi
1. Delineation of the Public Sector	1
Introduction	1
Statement of the Problem	1
Identification of institutional units	2
Government ownership and/or control	3
Nonmarket and market producers	4
Sector delineation	4
General Recommendations	6
2. Social Insurance Schemes	8
Introduction	8
Social Insurance Schemes: Typology	8
Classification of Social Insurance Schemes: Economic Substance over legal form	11
Entities in the EAC region that provide social protection	15
General recommendation	16
3. Classification of Revenue	20
Introduction	20
Statement of the Problem	20
Taxes in the EAMU Protocol	20
Definition of Tax and Nontax Revenue	21
Time of Recording, Measurement, and Attribution rules	23
Time of recording	23

Measurement	24
Attribution rules	24
Recording tax refunds	25
Recording tax relief	25
Rerouting of social security contributions	26
Recording revenue boundary cases	26
Other issues and recommendations	27
4. Treatment of Grants	29
Introduction	29
General Principles	30
Time of Recording	30
Grants and other transfers	31
Classification of Donors	31
Consolidation	31
Classification of Beneficiaries	31
Definition of Current vs Capital Grants	32
Grants in cash and grants in kind	32
Valuation of Grant in Kind	32
Specific Issues – Implementation of Methodological Principles in the Region	33
Classification of Donors	33
Classification of Beneficiaries	33
Definition of Current vs Capital Grants	33
Valuation of grants in kind	34
Treatment of Debt Cancellation	34
Other Specific Issues and Recommendations:	34
Data collection issues	34
Other issues	35

List of Figures

Figure 1: The Public Sector and its Relation to Other Institutional Sectors of the Economy	1
Figure 2: Decision Tree on Residence, Institutional Units, and Public Sector Ownership/Control	6
Figure 3: Decision Tree on Public Sector Delineation	7
Figure 4: Three Main Questions to Distinguish Between GG and Financial Corporations	13
Figure 5: Sector Classification of Social Insurance Schemes	15

List of Appendices

Appendix 1: Summary Classification of Revenue	28
Appendix 2: Proposed Template on Reporting Revenue from Grants by EAC Partner States	36
Appendix 3: Bilateral Donor Countries and Agencies	37
Appendix 3: Multilateral Donors	39

List of Acronyms

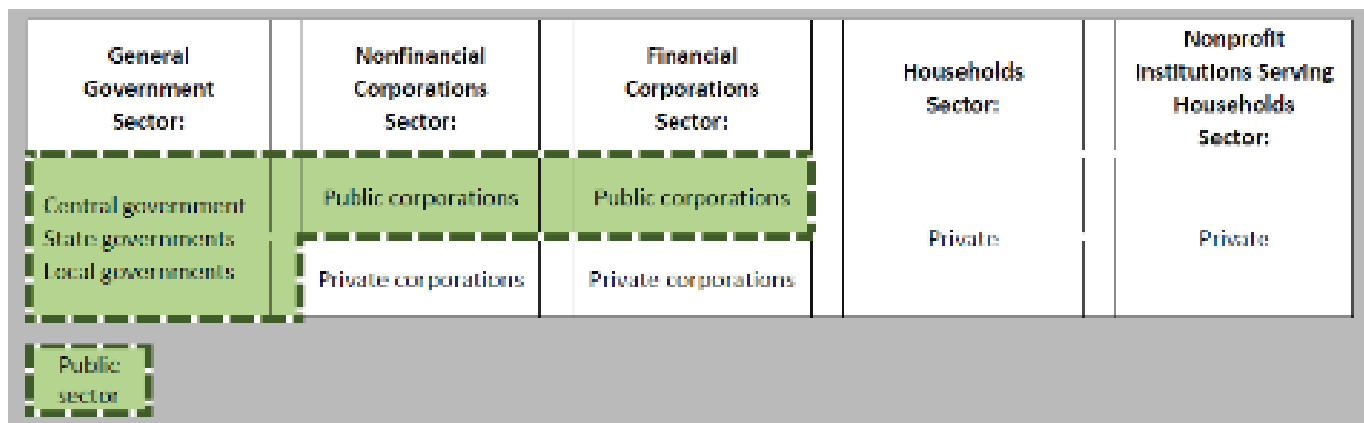
BCG	Budgetary Central Government
EAC	East African Community
EBUs	Extra Budgetary Units
GFS	Government Finance Statistics
GFSM 2014	Government Finance Statistics Manual - version of 2014
GG	General Government
HIPC	Highly Indebted Poor Countries
LAPF	Local Authorities Pension Fund
MMI	Military Medical Insurance
MTCP	Medium Term Convergence Plan for the EAC Monetary Union
NHIF	National Hospital Insurance Fund
NPIs	Non Profit Institutions
NPISH	Non Profit Institutions Serving Households
NSSF	National Social Security Fund
PSPF	Public Sector Pensions Fund
RSSB	Rwanda Social Security Board
SNA 2008	System of compilation of National Accounts - Version of 2008
VAT	Value Added Tax
ZSSF	Zanzibar Social Security Fund

1. Delineation of the Public Sector

Introduction

For successful implementation of the East African Monetary Union, it is necessary to harmonize the classification of government entities. The *GFSM 2014* defines the main principles to adopt in the compilation of public sector statistics. Implementation of the sector delineation process is not a straightforward exercise and may require concerted efforts to ensure that the various entities of the public sector are classified appropriately. The public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units; that is, all units of the general government sector and resident public corporations. This chapter provides guidance on sector delineation in EAC partner states in order to ensure harmonized Public Sector finance statistics.

Figure 1: The Public Sector and its Relation to Other Institutional Sectors of the Economy



Statement of the Problem

1.1 The process of sector delineation entails identification and verification of resident institutional units, establishing the government ownership and/or control and classification of entities on the basis of whether they are market or non-market producers. EAC partner states have successfully identified institutional units that are owned/controlled by government and have sectorized these units based on the *Government Finance Statistics Manual, 2014 (GFSM 2014)* core principles. The resulting institutional tables are now being promulgated to ensure consistency among producers of macroeconomic statistics. The challenge going forward is to keep institutional tables up to date by removing entities no longer owned/controlled by government, classifying new entities, and reclassifying existing entities as required.

1.2 Sector delineation begins with the fundamental process of verifying whether entities are resident institutional units. If they are, then the issue of government ownership and/or control needs to be examined-keeping in mind that only government owned and/or controlled institutional units can be classified in the public sector. Finally, the sectorization of institutional units is determined by whether they are nonmarket or market producers. If the former, then the units are classified in the general government sector; and if the latter, then the units are classified within the public corporations sector.

Identification of institutional units

1.3 The process of establishing whether a resident entity is an institutional unit can be achieved by assessing the following four factors (¶2.22):

- i. The entity is capable, in its own right, of owning assets.
- ii. The entity can, in its own right, incur liabilities.
- iii. The entity can, in its own right, engage in economic activities and in transactions with other entities.
- iv. The entity has a complete set of accounts, including a balance sheet, statement of comprehensive income, statement of Cash flow, Statement of changes in Net Equity and notes to the account or it is possible and meaningful to compile such a set of accounts.

1.4 Once it is determined that an entity is a resident institutional unit, then the next step, from a GFS perspective, is to determine whether the institutional unit should be classified in the public sector. The latter decision should be based on government ownership and/or control.

1.5 Entities that are not institutional units, in their own right, are linked to “parent entities” that are, in fact, institutional units. Entities that are not institutional units are labeled establishments. Each establishment can only be associated with one institutional unit (¶2.24). For example, an establishment that maintains school buses (motor pool) for an entire public school system is not an institutional unit in its own right (¶2.24), but operates as an auxiliary unit of the public school system. It is worth noting that these establishments may engage in selling goods or services at economically significant prices (¶2.75). However, as these establishments do not qualify as separate (corporation or quasi-corporation) institutional units, they are included in their “parent entities” economic classifications. .

Government ownership and/or control

1.6 Given that two types of ownership concepts (legal versus economic) are presented in the *GFSM 2014*, it is not always easy to determine ownership. Ownership implies the right to use an institutional unit in accordance with an owner's preferences (¶13.37). The *GFSM 2014* stresses economic over legal ownership (¶13.38-¶13.41). Therefore, a government owned institutional unit is used to fulfill the functions of government—whether that is a general government function or a function that is fulfilled by a public corporation.

1.7 To establish whether government exercises control over institutional units: the following core factors have been identified as prerequisite.

- i. Control of the board of directors or other governing body.
- ii. Control of the appointment and removal of key personnel.
- iii. Holding "golden shares and options."
- iv. Exercising extensive regulatory control of an institutional unit.
- v. Serving as a dominant public sector customer or group of public sector customers.
- vi. Serving as a key lender to (financer of) an institutional unit or extending loan guarantees on behalf of the institutional unit.
- vii. Including special provisions in legal framework that governs the institutional units.
- viii. Accepting all or a large portion of the financial risk of an institutional unit.

In addition, the following non-core factors can be used to supplement the core factors in determination of government control and/or ownership

- i. Control of key committees within an institutional unit.
- ii. Operational contractual agreements with institutional units that establish *de facto* control of the unit.
- iii. Degree of financing by government (Grants)

1.8 The determination of government control will be based on the core factors identified in paragraph 1.7. In certain cases, one of the core factors may provide sufficient evidence of government control. In other cases, multiple factors combine to produce evidence of government control.

Nonmarket and market producers

1.9 Generally, the general government sector includes nonmarket producers (institutional units that provides goods and services for free or at prices which are not economically significant), while the public corporations sector includes market producers (institutional units that supply goods and services at economically significant prices).

1.10 An institutional unit can either be a nonmarket producer or a market producer. "A market producer is an institutional unit that provides all or most of its output to others at prices that are economically significant. A nonmarket producer provides all or most of its output to others for free or at prices that are not economically significant" (¶12.65).

1.11 "Economically significant prices are prices that have a significant effect on the amounts that producers are willing to supply and on the amounts purchasers wish to buy" (¶12.66).

1.12 Economically significant prices imply that an institutional unit has an incentive to adjust output and/or production costs in order to earn a profit in the long run. A further implication is that sales cover the majority of the producer's costs. While there is no definitive numerical relationship between the value of sales and production costs, the expectation is that sales would, on average, cover at least 50% of production costs when considered over a sustained period of at least 3 years at the time the decision is made. In this context, the value of sales exclude *Taxes* and *Subsidies* (unless they are granted to other producers engaged in the same activity); and costs include *Compensation of employees*, *Use of goods and services*, *Consumption of fixed capital*, *Other taxes on production*, and a "return to capital" (i.e., a normal return for entrepreneurial effort) (¶12.66-¶12.75).

Sector delineation

1.13 A market producer may be a corporation or a quasi-corporation. Corporations and quasi-corporations are included in the public corporations sector, which is comprised of financial and nonfinancial corporations subsectors. Financial corporations are principally engaged in providing financial services, including insurance and pension fund services, to other institutional units. (¶12.53-¶12.57 and ¶12.115-¶12.121) Nonfinancial corporations are principally engaged in the production of market goods or nonfinancial services (¶12.52).

1.14 The general government sector is comprised of central government, local government, and social security fund (SSF) subsectors. Social security funds may sometimes fall under the central government if the controlling institution is part of the central government.

The following serves as an operational guidance for classifying nonmarket producers in general government subsectors.

- i. Central government operations are nation-wide in scope, and include two components within the central government subsector. First, there is budgetary central government (BCG) which comprises of entities that derive most, if not all, of their funding from the central government's budget. Secondly, there are extra budgetary units (EBUs) which should be classified as institutional units that are linked to the central government, but have some autonomy of decision making and that derive most or part of their funding from sources other than the central government budget.
- ii. Local government operations are confined to relatively small areas within the national territory. Like the central government subsector, the local government subsector has two components. Nonmarket components that provide local government services for free or at non-economically significant prices and institutional units owned/controlled by the local government providing services at market prices. This can be described as local government corporations. Institutional units that are owned/controlled by local governments and derive most, if not all, of their funding from the local government budget should be assigned to budgetary local government. Institutional units that are owned/controlled by local government, but that derive most of their funding from non-local-government-budget sources should be assigned to extra budgetary local government.
- iii. The Social Security subsector is as defined by the EAC guidelines on Social Security Funds (*Chapter Two of this document*).
- iv. Nonprofit institutions (NPIs) that are controlled or who serve government belong to the general government sector, (If they are institutional units then they will be classified as EBUs). NPIs that are controlled or serve households are classified as NPISH. NPIs that are controlled or serve corporations are part of the corporation sector

General Recommendations

- These Guidelines recommend among other considerations, the use of 50% rule in determining whether an institutional unit is market or non-market producer, and should be applied among other factors for entities that are making losses for at least the last 3 years.
- Due to uncertainty associated with future financial performance of such institutional units, historical performance should be used in the determination of whether the entity is a market or non-market producer and not business plans
- The determination of whether the government exercises the control and/or ownership of Institutional units will be subject to at least one of the core factors identified in paragraph 1.7
- The GFS National technical committees will be responsible for updating the national institutional units table at least once a year.

Figure 2: Decision Tree on Residence, Institutional Units, and Public Sector Ownership/Control

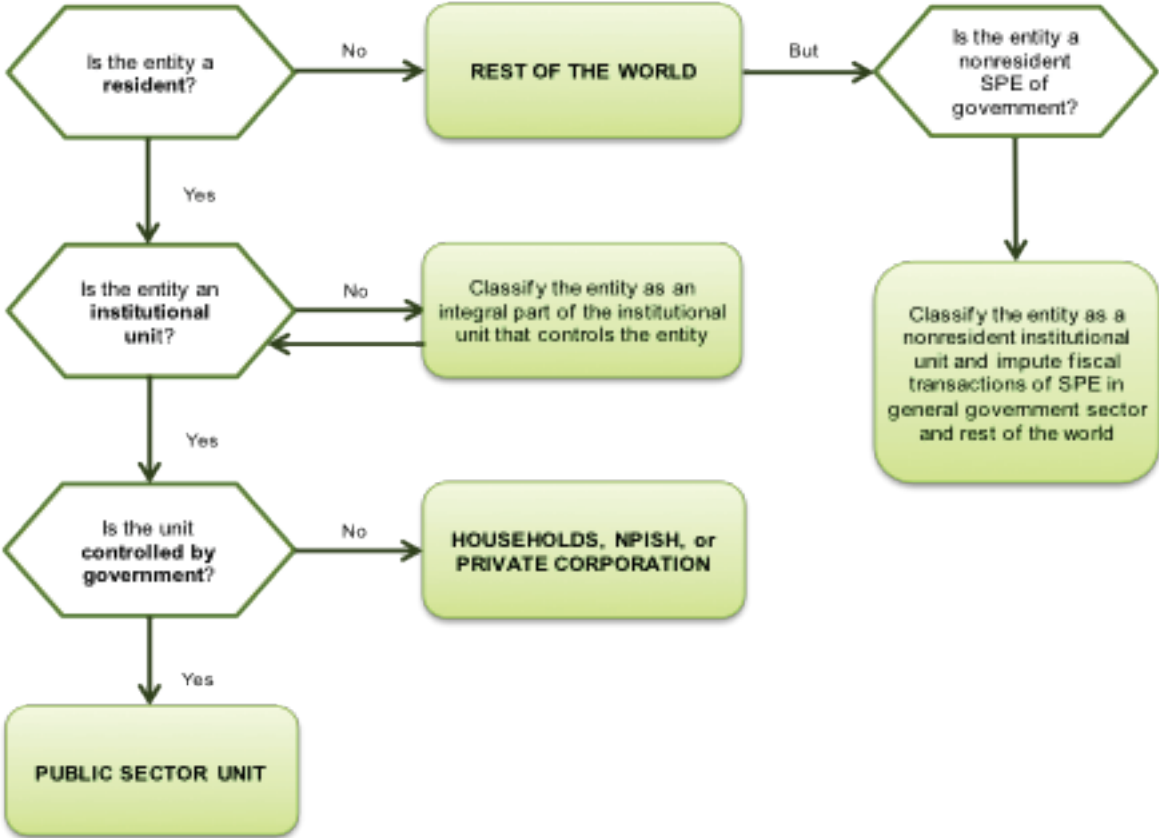
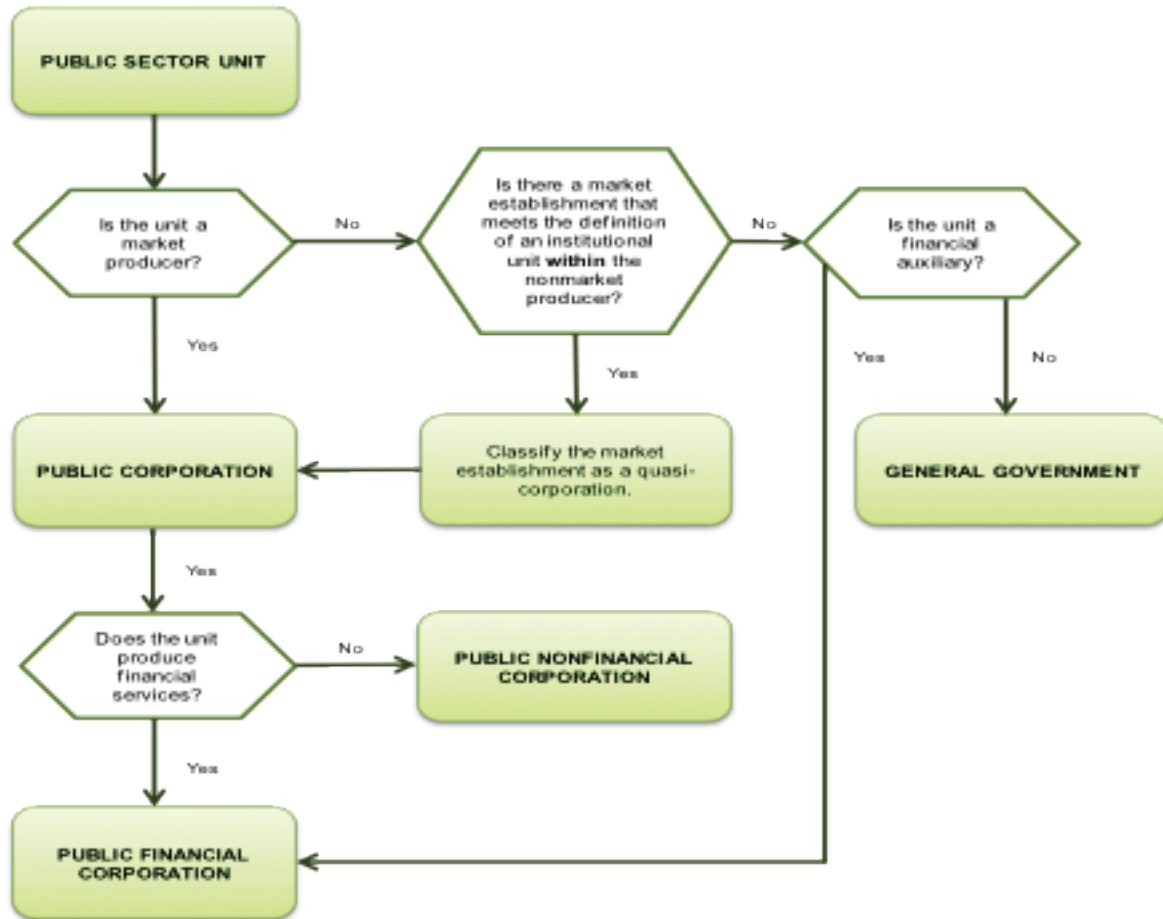


Figure 3: Decision Tree on Public Sector Delineation



2. Social Insurance Schemes

Introduction

2.1 This chapter gives general guidance on the classification of Social Insurance Schemes to ensure harmonization in the EAC. Similar social insurance schemes should be treated uniformly as regards to their classification, to ensure comparability of macroeconomic statistics across the EAC partner states. This guideline provides a typology for social insurance schemes, classification criteria and a summary of these entities in the region and their proposed classification.

Social Insurance Schemes: Typology

2.2 Social insurance schemes are schemes that provide social protection and where one or more of the following conditions are satisfied (¶A2.30):

- (i) Participation in the scheme is obligatory either by law for a specified category of persons, whether employed or unemployed, or under the terms and conditions of employment of an employee, or group of employees;
- (ii) The scheme is a collective one operated for the benefit of a designated group of persons, whether employees or unemployed, participation being restricted to members of that group;
- (iii) An employer makes a contribution (actual or imputed) to the scheme on behalf of an employee, whether or not the employee also makes a contribution.

2.3 In other words: social insurance schemes require formal participation by the beneficiaries, in the form of (actual or imputed) payment of contributions. They are schemes where a third party, usually an employer or the government, encourages or obliges individuals to participate in the schemes that provide benefits for a number of identified circumstances, including pensions in retirement.

2.4 Table 1 shows a typology of social insurance pension schemes. Social security schemes and employment-related social insurance schemes are the two subsets of social insurance pension schemes.

2.5 Social security schemes are social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units (¶A2.33). These schemes cover a wide variety of programs, providing benefits in cash or in kind for old age, invalidity or death, survivors, sickness and maternity, work related injury, unemployment, family allowance, health care, etc and there is not necessarily a direct link between the amount of the contributions payable by an individual and the benefits receivable. Social security schemes that are organized separately from the other activities of government units hold their assets and liabilities separately from the latter, and engage in financial transactions on their own account qualify as institutional units (¶A2.34) and are classified under the subsector social security funds. However, not all social security schemes are organized and managed by social security funds; for example, a social security scheme for sickness may be operated by a national health ministry and thus this scheme is a part of the ministry (budgetary organization). Social security schemes can therefore be operated by government units that are not social security funds.

Table 1: Typology of Social Insurance Pension Schemes

Social Security Schemes	Employment Related Social Insurance Pension Schemes	
	Defined benefit	Defined contribution
Cover the community as a whole or large sections of the community	Derive from an employer-employee relationship in the provision of pension entitlement and other social benefits to employees as part of the conditions of employment	
There may be no direct relationship between contributions and benefits	The ultimate benefit is calculated by means of a formula embodied in the terms of the social insurance scheme	The benefits are determined by the actual contributions made to the scheme, and the investment income and holding gains and losses earned on these and previous contributions.

2.6 Employment-related social insurance schemes derive from an employer-employee relationship in the provision of pension entitlement and other social benefit to employees as part of the conditions of employment (¶A2.40). By definition, these schemes are contributory and, for government or public sector units, protect only their own employees and dependents. The provision of social insurance benefits by government to its own employees is considered to be part of an actual or implicit contract between the government, as employer, and the employees, to compensate them for the provision of their labor services. Therefore, employment-related social insurance schemes give rise to required expense transactions for government when the social contributions became payable. There are two types of employment-related pension schemes:

- (i) A nonautonomous pension scheme that is therefore regarded as an integral part of the employer;
- (ii) A separate institutional unit that operates a pension scheme that is therefore regarded as an autonomous pension scheme.

2.7 Non-autonomous employment-related pension schemes are operated by the employer and are usually unfunded schemes because they are organized by the employer without assigning specific accounts or otherwise creating special reserves for the payment of benefits (¶A2.40). Instead, the benefits are payable from the employer's general resources. A nonautonomous pension fund for public sector employees does not meet the criteria to be considered an institutional unit, and is therefore deemed to be part of the unit that operates the scheme.

2.8 A challenging issue in the sector classification of autonomous employment-related pension and non-pension schemes is to determine if such schemes operate as financial corporations or government units. To be regarded as autonomous, a financial corporation, the entity responsible for the employment-related scheme, must have the characteristics of an institutional unit and be a market producer. While unfunded schemes are always considered non-autonomous (¶A2.24), for funded schemes a further distinction is made between those that are market or non-market. Please note that the same applies to all types of schemes (see below).

2.9 A social insurance scheme is **funded** if contributions are held in a segregated fund (reserve), from which future benefits will be payable. If a segregated fund is sufficient to finance the present value of the future benefits payable, the scheme is fully funded. If the segregated fund is insufficient to finance the net present value of the future benefits payable, it is underfunded. If the reserve is more than sufficient to finance the net present value of the future benefits payable, it is overfunded. For an unfunded scheme, contributions are not held in a segregated fund (reserve). By definition, unfunded schemes have no separate pool of reserves and cannot be a separate institutional unit

2.10 Autonomous pension funds are, by definition, institutional units. The main characteristics of institutional units are described in detail in the first Chapter of these guidelines (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).

2.11 These institutional units, autonomous funds, are considered to provide financial services to the household sector, and should be therefore classified in the financial corporations sector as long as they operate as financial intermediaries, that is, as long as they are market producers. They are classified as either private or public financial corporations, depending on

whether they are controlled by the private or public sectors (¶A2.47).

2.12 A major feature of **financial intermediaries** (including insurance corporations and pension funds) is that they, being market producers, place themselves at risk by acquiring financial assets and incurring liabilities on their own account. The pension fund and insurance corporations subsectors consist of only those social insurance funds that are institutional units separate from the units that control them. Also, one of the characteristics is that these units create reserves and record related liabilities. Taking this into account, the following general recommendations are provided to guide compilers on whether a social insurance scheme is an institutional unit and/or a market producer.

Classification of Social Insurance Schemes: Economic Substance over legal form

2.13 The sections above explain different types of social insurance schemes: defined contribution and defined benefit schemes, pension and non-pension schemes, funded and unfunded schemes, and autonomous and non-autonomous employment related schemes. Some of the main principles to classify individual types of schemes are also explained.

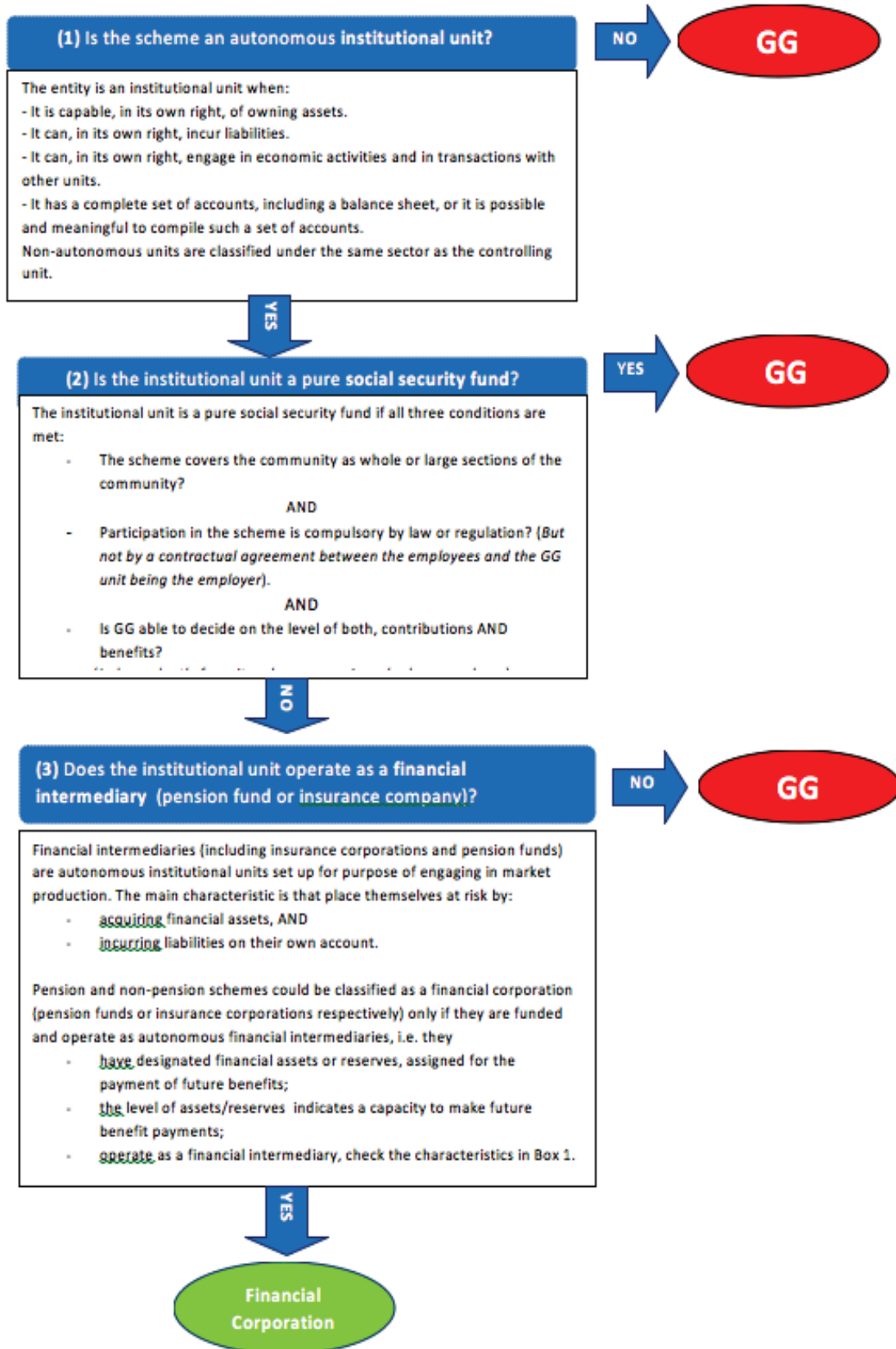
2.14 However, in practice the classification of entities involved in social insurance is not always straightforward. Often, the legal form indicating the type of the scheme does not reflect the economic substance. For example, a provident fund or other scheme legally established as a defined contribution scheme (which would be classified as a financial intermediary, other financial corporation - OFC) could in practice operate in such a way that it is highly dependent on government financing (e.g. subsidies), with investments decided for broad policy purposes and benefits set by the government, and thus may need to be classified within the general government (GG) sector.

2.15 One of the basic principles of the international statistical standards is that the economic substance should prevail over the legal form. Therefore, when deciding on the sector classification of social insurance schemes, it is recommended mainly to focus on the way how the units operate and less on the legal aspects.

2.16 Macroeconomic statistics distinguishes between individual sectors according to the nature of the economic activity the units undertake. Fundamental to the distinction between corporations and government is the basis on which providing goods and services is undertaken. The general government sector contains non-market producers whose funding comes from the government, while the units operating as market producers are typically classified as corporations.

2.17 Taking into account that in the EAC, a large majority of the existing social insurance schemes appear to be borderline cases with respect to their sector classification, and that the related nationally based legal aspects in many cases do not correspond with the statistical definitions, it is recommended to examine carefully whether the unit operates as a non-market producer, or could be qualified as a financial intermediary acting as an autonomous market producer.

Figure 4: Three Main Questions to Distinguish Between GG and Financial Corporations:



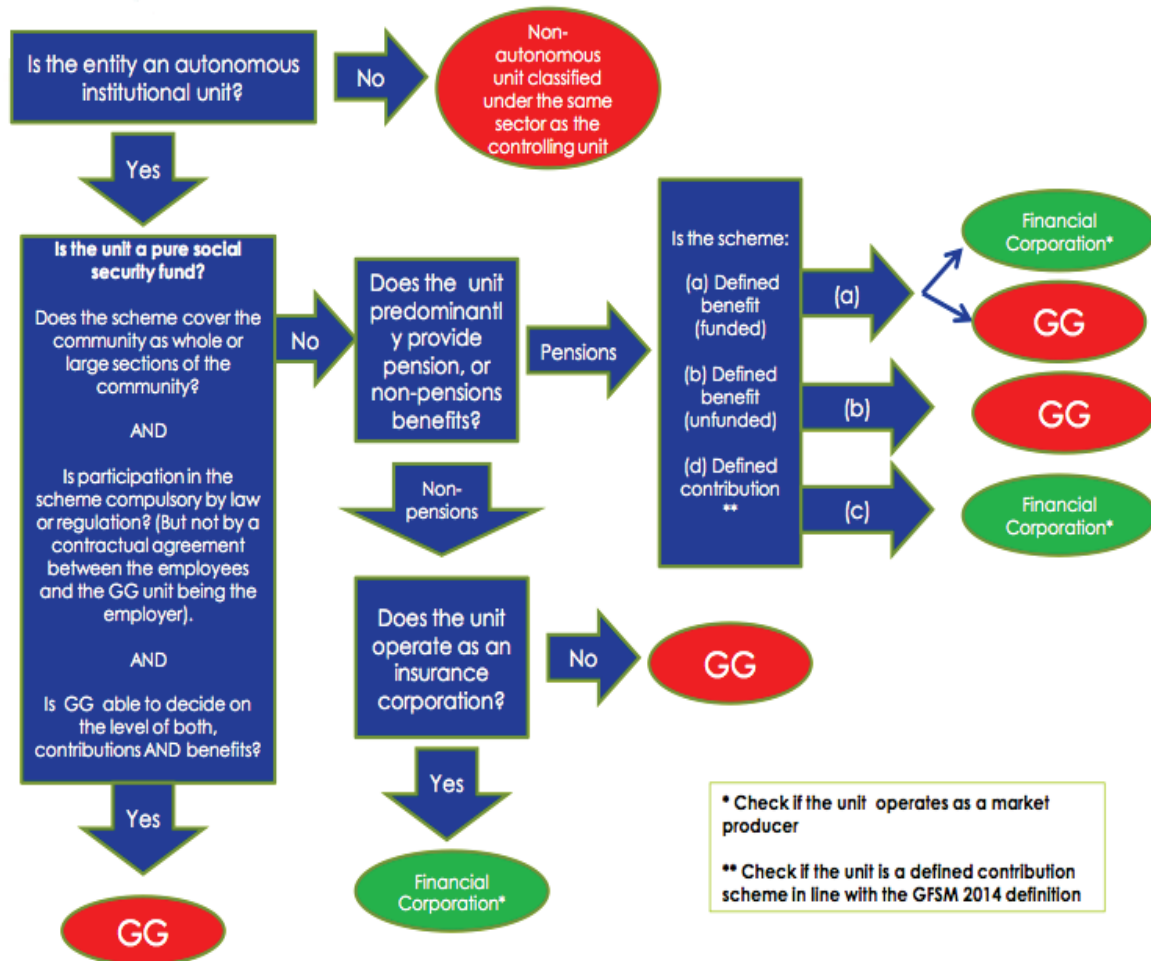
Box 1 – Factors indicating that an institutional unit is not a financial intermediary

The factors below could indicate that the unit is not operating as a financial intermediary and thus should be classified in the general government sector. One “important” or combination of several “indicative” indicators listed below could be considered in order to determine that the unit does or does not meet the criteria of being market producers.

	Importance
The unit is not bearing all risks, e.g.:	
• The unit is primarily funded from transfers from the government (other than social contributions);	Red
• The government is legally obliged to pay benefits in the case of insufficient funds in the scheme;	Green
• Losses reported by the unit are normally financed by the government;	Red
The unit does not benefit from all rewards, e.g.:	
• The government can use the assets of the scheme for purposes other than paying benefits to the households covered by the scheme	Red
The unit does not acquire assets on its own account, e.g.:	
• The government decides on the investments to be made by the scheme; the investments are made for public policy purposes;	Red
• The unit invests its funds exclusively in the government securities;	Green
The unit does not incur liabilities on its own account, e.g.:	
• The government can intervene regarding the level of benefits payable by the scheme	Red
• The unit borrows exclusively from GG;	Green
The unit does not operate on a market basis, e.g.:	
• The level of social contributions (or premium) is economically insignificant as it is set by the government on social, or political grounds;	Green
• The unit does not have designated financial assets or reserves, assigned for the payment of future benefits	Red
• The assets/reserves are not sufficient to cover (a major part of) the net present value of future benefits payable (or at least a few years’ worth of benefits)	Red
• Households do not have the freedom to make a choice on the basis of the prices charged and benefits receivable;	Green
• Producer is often nonmarket in the absence of competition;	Green
• The unit is not supervised by the same supervisory body as other pension or insurance corporations, and is not obliged to follow the same principles as other pension or insurance corporations (with respect to the accounting, holding assets or reserves, calculation of benefits, etc.);	Green
• The scheme is not a defined contribution scheme if the unit maintains records for each person of all contributions made to the fund only for administrative purposes (i.e. they do not reflect the amount of the effective claims);	Green
• If a minimum benefit is guaranteed by the government in a “defined contribution scheme”	Green

2.18 According to the discussion in paragraphs 2.1 to 2.17, the sector classification of social insurance schemes can be summarized in figure 2.1:

Figure 5: Sector Classification of Social Insurance Schemes:



Entities in the EAC region that provide social protection

Burundi has three national social security schemes, the Institut National de la Securite Sociale (National Social Security Fund), the Office National de Pensions et Retraites (National Office of Pensions and Retirements) and the Mutuelle de la Fonction Publique (Public Health Insurer). Kenya has two national social security schemes, National Social Security Fund (NSSF) and National Hospital Insurance Fund (NHIF). Rwanda has three national social security schemes; the Rwanda Social Security Board (RSSB), the Military Medical Insurance (MMI) and the Community-Based Health.

Tanzania has six national social security schemes, PPF Pension Fund, National Social Security Fund (NSSF), Public Sector Pensions Fund (PSPF), Local Authorities Pension Fund (LAPF), National Health Insurance Fund (NHIF) and Zanzibar Social Security Fund (ZSSF). Uganda has one national social security scheme, the National Social Security Fund (NSSF).

General recommendation

Based on the classification criteria in paragraphs 2.13-2.18, partner states should hold in-country consultations among compilers of macroeconomic statistics, in particular GFS, National accounts and Monetary and Financial Statistics (MFS), in order to agree on the appropriate classification for their respective social security schemes.

Table 2: List of entities providing social insurance in the EAC Partner States and their Sectoral Classifications

Social Protection Entity	Activities of the Social Protection Entity	Type of Social Protection Entity	Sector Classification
BURUNDI			
Institut National de Securite Sociale (National Social Security Fund)	Provide social services related to pension, invalidity, work accidents, professional risks and diseases, death Covers Public and private sector	Social Security Scheme	Classification as per the published institutional units table
Office National de Pensions et Retraites (National Office of Pensions and Retirements)	Provide social services related to pension, invalidity, work accidents, professional risks and diseases, death. Covers only 3 or 4 categories of public employees (Civil servants and employees with public law status)	Social Insurance Pension Scheme	Classification as per the published institutional units table
Mutuelle de la Fonction Publique (Public Health Insurer)	Provide health insurance to Public employees. Covers Public employees only	Social Insurance Health Scheme	Classification as per the published institutional units table
KENYA			
National Social Security Fund (NSSF)	Offers social protection to all Kenyan workers both in the formal (mandatory) and informal sectors	Social Security Fund	Classification as per the published institutional units table

Social Protection Entity	Activities of the Social Protection Entity	Type of Social Protection Entity	Sector Classification
National Hospital Insurance Fund (NHIF)	The Fund's core mandate is to provide medical insurance coverage to all its members and their declared dependents (spouse and children)	Social Security Fund	Classification as per the published institutional units table
RWANDA			
Rwanda Social Security Board (RSSB)	Provision of social protection to people living in Rwanda. Health insurance; Occupational hazards and; Pension	Social Security Fund	Classification as per the published institutional units table
Military Medical Insurance (MMI)	Provide health insurance to its members.	Employment related Health insurance fund	Classification as per the published institutional units table
Community-Based Health Insurance (CBHI)	Extend healthcare insurance coverage to people living in Rwanda but not covered by RSSB, MMI or other insurance companies	Health Insurance;	Classification as per the published institutional units table
TANZANIA			
National Social Security Fund (NSSF)	Operate social security scheme that providing a wider range of social benefits	Social Security Fund	Classification as per the published institutional units table
Public Sector Pensions Fund (PSPF)	Collection of contributions and payment of terminal benefits to members	Social Security Fund	Classification as per the published institutional units table

Social Protection Entity	Activities of the Social Protection Entity	Type of Social Protection Entity	Sector Classification
PPF Pensions Fund	Provide social security to all employees in private companies, parastatal organization and public institutions as well as informal sector	Social Security Fund	Classification as per the published institutional units table
Local Authorities Pension Fund (LAPF)	Provide social security to all employees in Local Authorities	Social Security Fund	Classification as per the published institutional units table
National Health Insurance Fund (NHIF)	Provide healthcare insurance to all members who have made contribution with their families	Health Insurance Fund	Classification as per the published institutional units table
Zanzibar Social Security Fund (ZSSF)	Provide social security scheme to a wider range of social	Social Security Fund	Classification as per the published institutional units table
UGANDA			
National Social Security Fund (NSSF)	Provides social security services to employees in Uganda. NSSF is a provident fund (pays out benefits according to contributions made). It covers all employees in the private sector including Non-Governmental Organizations, that are not covered by the Government's pension scheme	Provident Fund	Classification as per the published institutional units table

3. Classification of Revenue

Introduction

3.1 This chapter on revenue seeks to: Highlight the role of taxes in the EAMU Protocol; provide definitions of tax and nontax revenue categories; explain important recording and measurement issues for revenue in a *Government Finance Statistics Manual, 2014 (GFSM 2014)* framework; examine the treatment of special aspects of revenue categories; and to consider unique boundary issues that are encountered within revenue. To ensure statistical harmonization with respect to revenue, this chapter provides operational guidance to GFS compilers so that they adopt a uniform approach to measuring revenue across the East African Community (EAC) region.

Statement of the Problem

3.2 The requirements for East African Monetary Union (EAMU) include harmonization of statistics among partner states. This is particularly true for revenue statistics. In fact, the EAMU Protocol features specific criteria for entering, and remaining in, the monetary union that are related to taxes—one of the most important components of revenue. Recognizing the importance of nontax revenue, during the November 2014 Regional Workshop on Harmonization of Government Finance Statistics (GFS) the Working Group on Taxes decided to expand the focus beyond tax revenue to nontax revenue (excluding *Grants*).

Taxes in the EAMU Protocol

3.3 To achieve monetary union, the EAMU Protocol cites three critical issues with respect to taxes: (i) Partner states must “harmonize fiscal policies” (Article 4.2.a); (ii) as a convergence criterion, the “Tax-to-Gross Domestic Product (GDP) ratio should be at least 25 percent” (Article 5.3.c); and (iii) Partner states are to “avoid harmful tax competition” (Article 8.1.h).

3.4 The harmonization of fiscal policies implies that partner states will, as part of their revenue collection efforts, impose and collect similar types of taxes with similar tax rates within the context of each state’s unique economic landscape. It is assumed that, in due time, partner states will achieve a tax-to-GDP ratios that is at least 25%.

3.5 The last critical issue, avoiding harmful tax competition, should be satisfied as long as partner states address the first critical issue; i.e., coordinate their fiscal policies effectively. This is particularly relevant if EAC nations inadvertently enter a “race to the bottom” in their efforts to offer tax incentives (expenditures) in order to attract foreign direct investment—a race in which all

partner states are likely to suffer.

Definition of Tax and Nontax Revenue

3.6 As an important starting point for comparability, it is necessary that partner states define revenue categories identically. In this section, *Taxes*, *Social contributions*, and *Other revenue* categories are defined explicitly. It is expected that partner states will use these definitions to classify their revenue within GFSM 2014 guidelines.

3.7 *Taxes* (11) are compulsory, unrequited amounts receivable by government units from institutional units (¶15.23). Taxes are defined within six broad categories (¶15.41-¶15.93):

(i) *Taxes on income, profits, and capital gains* (111), which are taxes on the incomes/net income of institutional units (pay-as-you-earn taxes are classified in the category);

(ii) *Taxes on payroll and workforce* (112), which are taxes on enterprises based on a proportion of their payroll or as a fixed amount per employee;

(iii) *Taxes on property* (113), which are taxes on the use, ownership, or transfer of wealth (such taxes are often imposed at the local government level);

(iv) *Taxes on goods and services* (114), which are taxes that result from the production, sale, transfer, leasing, or delivery of goods and rendering of services (including value-added taxes (VAT) or excise taxes), or as a result of their use for own consumption, or own capital formation;

(v) *Taxes on international trade and transactions* (115), which represent taxes on goods crossing national or customs frontiers of economic territories (mainly custom or import duties) or when services are exchanged between resident and nonresident institutional units; and

(vi) *Other taxes*, that is, taxes not elsewhere classified that are paid by businesses, other than business, or are unidentifiable (116).

3.8 *Social contributions* (12) are actual or imputed revenue receivable by social insurance schemes to make provision for social insurance benefits payable (¶15.94-¶15.100). They exclude contributions receivable under employment-related pension and other retirement schemes that create a liability for future benefits payable. The contributions can be compulsory or voluntary, and may be made by employers on behalf of their employees, by employees, or may be from the self-employed or unemployed on their own behalf in order to secure a right to the related social benefits. The payments are classified as:

(i) *Social security contributions* (121), which are revenue receivable by social security schemes that are organized and operated by government units for the benefit of contributors to the scheme (employees (1211); employer on behalf of employees (1212); and self-employed or unemployed (1213)).

(ii) *Other social contributions* (122), which are actual and imputed contributions receivable by social insurance schemes operated by employers on behalf of their employees. These social insurance schemes are generally operated by government units for their own employees; however, a scheme may be established to serve multiple governmental units or public corporations. Contributions are receivable from employees (1221) or from employers on behalf of their employees (1222). Contributions are imputed (1223) when an employer operates a non-autonomous unfunded social insurance scheme for its employees. The amount of imputed social contributions is generally estimated to equal the cost of operating the social insurance scheme (i.e., provide the social benefits) during the period.

3.9 The overarching definition of *Other revenue* (14), which is comprised of five main subcategories, is all revenue other than *Taxes, Social contributions, and Grants* (¶15.106-¶15.151). Specific definitions follow:

(i) *Property income* (141) (interest including interest on late tax payments, distributed income from corporations and quasi-corporations (i.e., dividends), investment income, and rent), is the revenue receivable from placing financial and natural resources (i.e., land, subsoil assets, inland waters and rivers, timber, etc.) at the disposal of other institutional units.

(ii) *Sales of goods and services* (142) include sales by market establishments, administrative fees charged for services, incidental sales by nonmarket establishments, and imputed sales of goods and services. These sales may be transacted by market or nonmarket producers. Imputed sales are recorded when a unit produces goods and services and uses the goods and services as *Wages and salaries in kind* (2112). A sale is imputed for the cost of these goods and services, and the identical amount is also recorded as *Wages and salaries in kind*.

(iii) *Fines, penalties, and forfeits* (143) are an important source of revenue for many governments. Fines and penalties are compulsory current transfers imposed by courts or quasi-judicial bodies, but out-of-court settlements are also recorded under this category. Forfeits are amounts deposited with a general government unit pending legal or administrative proceedings, and that have been received by general government as part of a resolution of the proceedings.

(iv) *Transfers not elsewhere classified* (144) include subsidies, gifts, and other current transfers from institutional units other than from general government or international organizations (excludes grants). These transfers can generally be current (small) or capital (large) in nature, may be in cash or in-kind, and exclude payments related to the resolution of non-life insurance claims.

(v) *Premiums, fees, and claims receivable related to nonlife insurance and standardized guarantee schemes* (145) comprise premiums for nonlife insurance coverage; fees for coverage under standardized guarantee schemes; and current (small) and capital (large) claims that accrue to policy holders of non-life insurance in settlement of claims. Usually, large non-life insurance claims are classified as a current claim unless it is necessary to record a capital transfer to be consistent with national accounts.

Time of Recording, Measurement, and Attribution rules

3.10 While uniformity in definitions is important to ensure comparability, another key statistical requirement for the harmonization of revenue statistics is that partner states adopt identical time of recording and measurement methods. In addition, specifically for tax revenue, GFS compilers in the region should follow identical attribution rules. Guidance on these three issues is provided in this section.

Time of recording

3.11 The *GFSM 2014* standard recommends an accrual basis of recording. For *Taxes*, ideally, they should be recorded in the period when the transactions occur that produce tax consequences (¶5.10-5.13). However, given that it may be difficult to align tax collections with the period during which the tax liability is established, the *GFSM 2014* includes a provision for flexibility in the time of recording. Specifically, it is acceptable to record taxes at the point of collection (¶5.15). This latter flexibility is beneficial to EAC partner states because all states are on a cash or modified-cash basis of recording, which means that taxes are generally recorded when they are collected. As part of the GFS harmonization effort, guidance will be provided in the Chapter on time of recording.

3.12 For *Social contributions*, the standard for time of recording on an accrual basis is when the income is earned from which the social contributions are receivable (¶5.12).

3.13 For *Other revenue* (14), the general standard for time of recording is accrual, which is described in detail below:

- For *Property income* (141), on an accrual basis, it is assumed that revenue accrues throughout the period that an asset (financial or natural resource) is made available to other institutional units—particularly in the case of *Interest* (1411) and *Rent* (1415) (¶5.108 and ¶5.123, respectively). *Dividends* (1412), *Withdrawals of income from quasi-corporations* (1413), *Property income from investment disbursements* (1414), and *Reinvested earnings on foreign direct investment* (1416) should be recorded when collected or on the “ex-

dividend" date (¶15.112 and ¶15.134).

- For *Sale of goods and services* (142), the accrual time of recording is when legal ownership changes hands. In the absence of such information, a transaction should be recorded when changes in physical ownership occurs. Services are assumed to be delivered continuously as long as they are being provided, and should be recorded accordingly. (¶15.141)
- For *Fines, penalties, and forfeits* (143), the accrual time of recording is when government has an unconditional claim on the revenue. In the case of bail payments set by courts, bail amounts should be recorded as *Other accounts payable* (3308) until bail is violated, at which time government has an unconditional claim on the bail and it should be recorded under this category (*Fines, penalties, and forfeits* (143)). (¶15.144)
- For *Transfers not elsewhere classified* (144), the accrual time of recording is when an institutional unit has an unconditional claim to the transfer.
- For *Premiums, fees, and claims receivable related to nonlife insurance and standardized guarantee schemes* (145), on an accrual basis, only the premiums and fees that are related to coverage in the period are recorded as revenue (¶15.150). Prepayments of premiums and fees are not recorded as revenue, but as an insurance technical reserve liability (¶17.183).

Measurement

3.14 The *GFSM 2014* standard recommends recording revenue on a gross basis. In other words, the gross amount of *Taxes* assessed and expected to be collected (on an accrual basis) or actually collected (on a cash basis) should be recorded; uncollectable amounts should not be recorded. For *Social contributions*, the amounts payable by employers, employees, self-employed or unemployed persons should be recorded. For *Other revenue*, amounts receivable should be recorded on a gross basis.

Attribution rules

3.15 When considering taxes, key attribution rules should be enforced. Governments often extend authority to other government or private-sector institutional units to collect taxes, while retaining authority to impose taxes and establish tax rates. When this occurs, the taxes that are collected should be attributed to (recorded in the accounting records of) the governmental units that have the authority to impose taxes and set tax rates (i.e., authorizing governmental units) (¶15.34). Any portion of the collected taxes that is retained by collecting institutional units should be recorded as revenue from the *sale of goods and services* (142); authorizing governmental units should record a related *use of goods and services* (22) (¶15.35).

3.16 If tax collecting governmental units retain more tax revenue than that associated with the provision of a service, then they should record the difference as the receipt of *current grant* (1331) revenue; authorizing governmental units should record the related amount as a *current grant* (2631) expense (¶15.35).

3.17 If two or more government units share tax imposition and tax rate-setting authority, then if they each collect taxes, they should retain and record an amount of taxes equal to their share (¶15.36).

Recording tax refunds

3.18 Tax refunds represent an adjustment to tax revenue when tax payments exceed tax liabilities. In the *GFSM 2014* framework, refunds reduce the level of tax revenue. Importantly, tax refunds should be recorded as a reduction in the tax category for which the tax overpayment occurred. That is, tax categories should be reported on a net basis (total taxes collected less refunds). As with tax collections, ideally, tax refunds should be recorded in the tax incidence period. Again, however, the *GFSM 2014* permits flexibility in the recording of refunds; i.e., it is acceptable to record refunds when they are identified as being required. (¶15.27)

Recording tax relief

3.19 Tax relief is the result of exemptions, allowances, deductions, or credits that governments extend to taxpayers. Tax exemptions, allowances, and deductions are subtracted from the tax base before the amount of taxes owed is determined. This tax relief is known as “tax expenditures”. No transactions are recorded for tax expenditures in the GFS framework, but governments should maintain a record of tax expenditures for policy purposes and reflect them in a supplementary report. (¶15.28) Some EAC partner states collect data on tax expenditures and provide an annual report to their parliaments. To facilitate accounting for tax expenditures, GFS compilers may incorporate supplementary accounts for tax expenditures in their chart of accounts.

3.20 Tax credits are a form of tax relief (i.e., tax expenditures) that are subtracted after the amount of taxes owed is determined. There are two types of tax credits: (i) Nonpayable (Wastable); and (ii) Payable. In the case of nonpayable tax credits, the credits are constrained to the amount of the tax liability. In other words, even if the tax credit exceeds the liability, no payment is issued. However, payable tax credits motivate a payment to taxpayers in an amount equal to the excess of the tax credit over the tax liability (¶15.29). At this time, most EAC partner states do not offer tax credits; if they are permitted, they are generally restricted to business in the form of *Subsidies* (25) (see paragraph 3.22 below).

3.21 Tax relief in the form of allowances, exemptions, deductions, and nonpayable tax credits all reduce the amount of tax revenue that governments collect, and should be accounted for as reductions in the relevant tax revenue categories (¶15.30). On the other hand, the *GFSM 2014* requires a gross recording of payable tax credits (¶15.31): (i) There is a full recording of tax liabilities within relevant tax categories; and (ii) there is a full recording of tax credits within relevant categories of expense.

3.22 Quite often, payable tax credits are not associated with specific taxable events or expense categories. Therefore, tax credits should be recorded as: (i) *Subsidies* (25) when they are receivable by market enterprises; (ii) *Social assistance benefits* (272) when they are receivable by households to meet needs that arise from certain events or circumstances; and (iii) *Transfers not elsewhere classified* (282) when the nature of the transfer is not easily included in other categories of transfers (¶15.31).

Rerouting of social security contributions

3.23 Special consideration should be made with respect to *Social security contributions* (1211). While, on the surface, the related transaction appears to be between employers, who transmit contributions on behalf of their employees to the social security scheme. In fact the transaction should be *rerouted* to show employers transmitting *Wages and salaries* (211) to household, who, in turn, transmit *Social security contributions* (1211) to the related social security funds (¶15.97).

Recording revenue boundary cases

3.24 Within revenue, there are several critical boundary issues, many tax-related, where the line between the recording of taxes and the recording of nontax transactions should be differentiated. Clarification of some of these important boundary issues is provided below:

- Interest and fines and penalties that are assessed by taxing authorities as a result of late (overdue) payment of taxes should not be recorded as *Taxes* (11), but as *Interest* (1411) or as *Fines, penalties, and forfeits* (143), respectively (¶15.24).
- Regarding payments for rights to use goods or permission to use goods or perform services (e.g., licenses or permits), record the payments as a *Tax on use of goods and on permission to use goods or perform activities* (1145) when governments automatically extend the rights and performs little work effort in doing so; otherwise, record the payments as the *Sale of a good or service* (142)—specifically an *Administrative fee* (1422) when the fee is commensurate with the governmental regulatory function that is performed (¶15.73 and ¶15.138).
- Payments to governments that own natural resource assets for the right to exploit those assets should not be recorded as *Other taxes on goods and services* (1146), but as *Rent* (1415) (¶15.54).
- Taxes on the income generated by the extraction of resources (e.g., subsoil assets) that are owned by the private sector or by other levels of government should be recorded as *Other taxes on goods and services* (1146), not as **Rent** (1415) (¶15.82).
- When the rights to extract natural resources involve the sale of assets (including the right to exploit the natural resource to the point of extinction), then treat the resultant payments as the sale of nonfinancial *Intangible nonproduced assets* (3144)—specifically, contracts, leases, and licenses (31441) (¶15.78).
- The distribution of profits by fiscal monopolies and from export and import monopolies are

not *Dividends* (1412), but are taxes (*Profits of fiscal monopolies* (1143) and *Profits of export or import monopolies* (1153), respectively) (¶15.114). It is important to remember that fiscal, export, and import monopolies are those monopolies established by government mainly for purposes of raising funds.

- When the interest or exchange rates that are charged by central banks are higher than market rates, then the differences between the central bank and market rates are implicit taxes (*Taxes on specific services*, 1144) and should be recorded accordingly (¶15.70). If the central bank rates are lower than market rates, then *Subsidies* (25) should be recorded.
- “Super Dividends,” which are large payments from corporations or quasi-corporations that are inconsistent with their earnings (corporations’ distributable income), should not be treated as *Dividends* (1412) at all, but should be treated as a financial transaction (a withdrawal of owner’s equity) in the form of a sale of *Equity and investment fund shares* (3205) (¶15.115).

Other issues and recommendations

- Need to resolve the issue of government payment of taxes to itself which clashes with the definition of revenue (Change in net worth) and that of taxes.
- There is need to streamline the national laws on treatment of late payment of taxes and interest/penalty due to lateness in payment in order to separate them as they should be classified separately according to *GFSM2014*
- Research should be conducted in order to obtain a standard method for estimating tax expenditures across the EAC
- A common tax expenditure reporting template should be developed for the EAC region.
- All EAC partner states should incorporate accounts within the COAs for the proper tracking of tax expenditures.
- A task force should be established to resolve the latter three issues on the recording of tax expenditures.

Appendix 1: Summary Classification of Revenue

I	Revenue	12	Social contributions [GFS]
11	Taxes	121	Social security contributions [GFS]
111	Taxes on income, profits, and capital gains	1211	Employee contributions [GFS]
1111	Payable by individuals	1212	Employer contributions [GFS]
1112	Payable by corporations and other enterprises	1213	Self-employed or unemployed contributions [GFS]
1113	Other taxes on income, profits, and capital gains ¹	1214	Unallocable contributions [GFS]
112	Taxes on payroll and workforce	122	Other social contributions [GFS]
113	Taxes on property	1221	Employee contributions [GFS]
1131	Recurrent taxes on immovable property	1222	Employer contributions [GFS] Imputed contributions [GFS]
1132	Recurrent taxes on net wealth	1223	Grants
1133	Estate, inheritance, and gift taxes	13	From foreign governments
1135	Capital levies	131	Current
1136	Other recurrent taxes on property	1311	Capital
114	Taxes on goods and services	1312	From international organizations
1141	General taxes on goods and services	132	Current
1142	Value-added taxes	1321	Capital
1143	Sales taxes	1322	From other general government units ¹
1144	Turnover and other general taxes on goods and services	133	Current
1145	Taxes on financial and capital transactions	1331	Capital
1146	Excise	1332	Other revenue
1147	Profits of fiscal monopolies	14	Property income [GFS]
1148	Taxes on specific services	141	Interest [GFS] ¹
1149	Taxes on use of goods and on permission to use goods or perform activities	1411	Dividends ¹
1150	Motor vehicle taxes	1412	Withdrawals from income of quasi-corporations
1151	Other taxes on use of goods and on permission to use goods or perform activities ¹	1413	Property income from investment income
1152	Other taxes on goods and services	1414	disbursements
1153	Taxes on international trade and transactions	1415	Rent
1154	Customs and other import duties	1416	Reinvested earnings on foreign direct investment
1155	Taxes on exports	142	Sales of goods and services
1156	Profits of export or import monopolies	1421	Sales by market establishments
116	Exchange profits	1422	Administrative fees
1161	Exchange taxes	1423	Incidental sales by nonmarket establishments
1162	Other taxes on international trade and transactions	1424	Imputed sales of goods and services
117	Other taxes	143	Fines, penalties, and forfeits
1171	Payable solely by business	144	Transfers not elsewhere classified
1172	Payable by other than business or unidentifiable	1441	Current transfers not elsewhere classified
118		1442	Subsidies ¹
119		145	Other current transfers not elsewhere classified ¹
120		1451	Capital transfers not elsewhere classified
121		1452	Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes ¹
122			Premiums, fees, and current claims ¹
123			Capital claims

¹Indicates that a further breakdown may be analytically useful and is presented in detailed tables.

Source: GFSM2014, p. 88.

4. Treatment of Grants

Introduction

4.1 EAC partner states receive substantial amounts of foreign aid, often in the form of various types of grants and loans. Interpreting and practical implementation of the *Government Finance Statistics Manual 2014 (GFSM 2014)* principles and rules on the treatment of grants is not always straightforward and further guidelines are needed with respect to the classification, time of recording and valuation. In particular, the challenging issue is how to distinguish between grants and other forms of external support; define which unit is to be considered the final beneficiary as only the latter should record the revenue from grants; how to treat grants in kind; and to harmonize the time of recording of grants across the region. In addition to the methodological issues, a big challenge in the region is to ensure comprehensive, timely and reliable data sources on grants since many grants are paid by donors directly to contractors. This chapter aims at providing operational guidelines on these specific issues.

4.2 According to the *Government Finance Statistics Manual 2014 (GFSM 2014)*, Grants (13) are defined as transfers receivable by government units from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy or social contribution (6.92). A transfer is a transaction in which one institutional unit provides a good, service, or asset to another unit without receiving from the latter any good, service, or asset in return as a direct counterpart (3.10). contribution Grants are normally receivable in cash, but may also take the form of the receipt of goods or services (in kind). Grants are also split into current and capital grants depending on the nature of the expenditure to be financed by grants. Both current and capital grants could be provided in cash and in kind.

There are three sources of grants, namely:

- i. Grants from foreign governments,
- ii. Grants from international organizations, and
- iii. Grants from other general government units.

Transfers from private institutions including individuals are not classified as grants and are treated as other revenues (transfers not elsewhere classified). Considering disbursement modality, grants can be classified as general budget support, project support and basket (program/sector budget) support. The following sections cover general principles of treating grants, specific issues attached to grants and recommendations.

General Principles

Time of Recording

4.3 There are two alternatives basis of recording grants, i.e accrual and cash. When using a cash basis of recording, the revenue is recorded when cash is received, and the related expenditure when the funds are actually spent. Thus, if grants are not spent in the same period as received, there is an impact on the net lending/borrowing. In contrary, when using the accrual recording, there is no impact on the net lending/borrowing as the revenue is recorded in the same period and for the same amount as the expenditure.

4.4 When using an *accrual* basis for recording, the time at which a grant is recorded is dependent on whether or not the recipient has a claim on the donor. In many cases, the grant recipient never has a claim on the donor and the grant should be attributed to the time at which the cash payment is made or the goods or services are delivered by the donor (These are mainly general budget support grants) (5.105) When a claim is involved, grants are recorded when all requirements and conditions for receiving them are satisfied and the receiving unit has an unconditional claim recorded under other accounts receivable.(These are mainly project grants).

4.5 In some cases, a potential grant recipient has a legal claim when it has satisfied certain conditions, such as the prior incurrence of expenses for a specific purpose or when a certain event has occurred such as the passage of legislation. Determining this time can be complex because there could be a wide variety of eligibility conditions that have varying legal powers and so grants are most commonly recorded when received. In these cases, to ensure that there is no impact on net lending/borrowing arising from such transactions, the time of recording and the value should be the same as the national government expenditure. It is also possible that governments receive cash amounts before having an unconditional claim on them. Such circumstances include advances for grants for the construction of fixed assets over several periods. When using the accrual basis of recording, these cash receipts cannot be recognized as revenue (but rather as a liability) until the government acquires an unconditional claim on the amount (5.16). However, when using the cash basis of recording, the full amount of revenue will be recognized in the period in which the cash amounts were received, irrespective of whether the service, delivery, or compliance with the conditions were met in the past or will be met in the future.

4.6 Grants in kind, being a non-cash element, will be recorded when associated monetary value is established reliably, otherwise, it will constitute a memorandum item. Similar treatment will apply to commodity grants and technical assistance. Commodity grants should be treated as grants in kind if the recipient government becomes the economic owner of the commodity.

4.7 When an unconditional grant is received from donors it should be recorded as revenue when, deposited in the government account at the Central Bank while a conditional grant should be recorded as a liability (other accounts payable) when deposited in the government account and as revenue when the funds are accounted for after completion of the project

Grants and other transfers

4.8 Grants are defined as transfers other than taxes, subsidies and social contributions. While it is somewhat clear how to differentiate between grants and taxes and social contributions, some difficulties may arise with regard to subsidies. *Subsidies* (1.441.1) are current unrequited transfers to enterprises on the basis of the level of their production activities or the quantities or values of the goods or services they produce, sell, export, or import. Subsidies may be designed to influence levels of production, the prices at which outputs are sold, or the profits of the enterprises (6.84).

Classification of Donors

4.9 Three sources of grants are recognized in GFSM 2014: grants from foreign governments, grants from international organizations, and grants from other general government units (5.103). According to GFSM 2014, possible transfers granted by private donors should not be reported under grants, but rather revenue under *transfers not elsewhere classified*.

Consolidation

4.10 Grants between Government units are termed as inter-entity transfers between government reporting entities. During the consolidation process of government accounts, the transfers between government reporting units are reconciled and eliminated to avoid double counting.

When statistics are compiled for the general government sector, grants from other domestic government units would be eliminated in consolidation so that only grants from foreign governments and international organizations would remain in the general government accounts and would be used for the convergence criteria. Grants from other domestic government units will thus have a nonzero value only when statistics are compiled for a subsector of the general government.

Classification of Beneficiaries

4.11 To accurately record transactions in grants, the ultimate beneficiary should be identified regardless of the practical and/or institutional arrangements for channeling the amounts payable from donor agencies to the economic beneficiaries (A.5.30). There might be cases when grants initially deposited in the central government unit's account are further distributed, on behalf of the donor, to other government or non-government units, which appear to be the final beneficiary

(e.g. extra-budgetary or local government units). In principle, the grant should be classified as a grant from foreign governments and/or international organizations to the final beneficiary and not to the initial recipient when the latter just acts as an agent on behalf of the donor.

Definition of Current vs Capital Grants

4.12 The GFSM 2014 provides definitions distinguishing current and capital grants that should be used.

- Current grants are current transfers receivable by government units, from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy, or a social contribution. Current grants are those transfers receivable that are not capital transfers. Such directly affect the level of disposable income and influence the consumption of goods or services. That is, current transfers reduce the income and consumption possibilities of the donor and increase the income and consumption possibilities of the recipient.
- Capital grants are capital transfers receivable by government units, from other resident or nonresident government units or international organizations, and that do not meet the definition of a tax, subsidy, or a social contribution. Capital transfers are transfers in which the ownership of an asset (other than cash or inventories) changes from one party to another; or that oblige one or both parties to acquire or dispose of an asset (other than cash or inventories), or where a liability is forgiven by the creditor). Transfers in kind involving disposals of noncash assets (other than inventories) or acquisition of noncash assets (other than inventories) are also capital transfers (¶1.2.7). A capital transfer results in a commensurate change in the stock position of assets (or liabilities) of both parties to the transaction.

Grants in cash and grants in kind

4.13 Grants are receivable in cash, but may also take the form of the receipt of goods or services (in kind). Goods and services that are consumed, such as food contributions, blankets, and medical services are classified as current grants in kind. Grants in the form of capital goods and services, such as machinery, equipment, constructions of buildings and structures are classified as capital grants in kind. When a liability is forgiven by the creditor (debt cancellation) or when a liability is assumed by another unit, such transactions are also classified as capital transfers in kind.

Valuation of Grant in Kind

4.14 While valuation of grants in cash should not create difficulties, determining the value of grants in kind is challenging. According to GFSM 2014, grants in kind should be valued at market prices. If market prices are not available, then the value should be the explicit costs incurred in providing the resources or the amounts that would be received if the resources were sold. As a practical guidance applicable to the region, the value provided by donors should be used. If

the donor and the recipient have different views on the value of the transfer, the view of the donor should prevail. However, in any case, a capital grant in kind should have no effect on net lending/borrowing as the inflow from revenue (capital grant in kind) will be neutralized by the expenditure in the form of acquisition of a nonfinancial asset (¶15.104).

Specific Issues – Implementation of Methodological Principles in the Region

Classification of Donors

4.15 The Donors are classified as follows:

- i. **Bilateral:** These are foreign governments providing grants to the government (Appendix 5).
- ii. **Multilateral:** These are International Organizations providing grants to the Government (Appendix 6).

Classification of Beneficiaries

4.16 To avoid recording of the same grant by two or more government units through which the funds are channeled, and to avoid double counting of the grants while measuring the convergence criteria, it is recommended that such grants are recorded by the Treasury or department of the Treasury once the information is submitted by the recipient government unit.

For harmonization purposes, the government should always be considered the final beneficiary if:

- The funds are used to perform government functions (eg social assistance) , or/and
- If there is an official legal agreement between the government and the donor and
- The grants should be on the government budget.

Definition of Current vs Capital Grants

4.17 For harmonization purposes, funding modality should be the main criterion for determining whether the grant is capital or current. These are as outlined below.

- General Budget Support – Current
- Project support – Capital
- Basket support – Capital

Budget support funds which are tied to specific project should be classified as capital.

Valuation of grants in kind

4.18 Taking into account practical difficulties in the region, grants in kind should be valued at the value provided by donor. In its absence, market prices should be used. If market prices are not available, then the value of closely related items should be used.

Treatment of Debt Cancellation

4.19 Most of the countries in the EAC have contracted concessional or non-concessional debt from bilateral, multilateral and other sources of financing and some have already benefited from the HIPC Relief and Multilateral Debt Relief Initiative (MDRI).

4.20 The cancellation of the debt stock should be recorded as capital grant at the time of the completion point (i.e. when a formal commitment is established by the donor via an official document or a legal act, the amount is known with certainty, and there is no conditionality in place which could reverse the commitment). Currently most of the countries record debt cancellation in government accounts.

4.21 Under the debt service relief initiative, debt service should be recorded at the time it is due, but is not paid, making the difference between the debt service that is due and what is paid a HIPC/MDRI grant. However, different countries have different arrangements with creditors, hence the treatment may be country specific, but ultimately the recording should follow accrual basis as part of harmonization process.

Other Specific Issues and Recommendations:

Data collection issues

4.22 One of the most critical issue in the region is the absence of comprehensive data on grants paid directly by donors. This calls for efforts among partner states on the following areas:

- Improve internal processes: This may involve setting up project coordination unit within the MDAs to monitor respective projects; and enhance reporting requirement on quarterly or semi-annual basis
- Donor processes: Strengthening coordination between donors and government through the department of Aid Coordination to encourage donors to report timely and comprehensive data on their aid. In addition, enhance Donor Assessment Framework where the system is in place and introduce one where it does not exist.

Reporting expenditure on grants is feasible for capital grant related expenditures, while it is not possible for current grants due to the fungibility of resources.

Other issues

We recognize that these are statistical guidelines, but the following issues should also be taken into consideration:

- Discounting of grants commitments due to predictability issues for the medium term convergence program (MTCP)
- Mechanisms to ensure continuous capacity building reduce staff turnover by ensuring staff retention, motivation scheme.

Appendix 2: Proposed Template on Reporting Revenue from Grants by EAC Partner States

Total Revenue from grants
Grants in cash - from foreign governments
<i>Current</i>
<i>Capital</i>
Grants in kind - from foreign governments
<i>Current</i>
<i>Capital</i>
Grants in cash - from international organizations
<i>Current</i>
<i>Capital</i>
Grants in kind - from international organizations
<i>Current</i>
<i>Capital</i>
Grants in cash - from other general government units
<i>Current</i>
<i>Capital</i>
Grants in kind - from other general government units
<i>Current</i>
<i>Capital</i>
Total Expenditure from grants
Grants in cash
<i>Capital</i>
Grants in kind
<i>Capital</i>
Outstanding amount of unused funds from grants
Debt cancellation and debt assumption

Appendix 3: Bilateral Donor Countries and Agencies

Austria
Belgium
Burundi
Canada
China
Denmark
Finland
France
Germany
India.
Iraq
Italy
Japan
Kenya
Korea
Kuwait
Netherlands
Nigeria
Rwanda
Saudi Arabia
South Korea
Spain
Sweden
Switzerland
Tanzania
Uganda

United Kingdom

United States of America

AFD	Agence Francaise De Developpment
AKF	Aga Khan Foundation
AusAID	Australian Agency for International Development
CIDA	Canadian International Development Agency
DAAD	Deutscher Akademischer Austausch Dienst
DFID	United Kingdoms' Department for International Development
GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit
JICA	Japan International Cooperation Agency
NORAD	Norwegian Agency for Development Cooperation
NUFFIC	Netherlands Organization for International Cooperation in Higher Education
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SKAT	Swiss Centre for Development Cooperation in Technology and Management
USAID	United States Agency for International Development

Appendix 4: Multilateral Donors

ACBF	African Capacity Building Foundation
ADB/AFDB	African Development Bank
ADF	African Development Foundation
ADF	African Development Fund
BADEA	The Arab Bank for Economic Development in Africa
EEC	European Economic Community
EIB	European Investment Bank
FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environmental Facility
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International fund for Agricultural Development
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
NDF	Nordic Development fund
OECD	Organization for Economic Cooperation and Development
OPEC FUND	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organization
UNIDO	United Nations Industrial Development Organization
WB	The World Bank
WHO	World Health Organization





**East African Community
P.O.Box 1096
Arusha, Tanzania
Tel: +255 27 2162100
Fax: +255 27 2162123
E-mail: eac@eachq.org
Web: www.eac.int**

In Partnership with

