



# Government Finance Statistics IMF Statistics Department

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## Functional Classification of Outlays

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# Contents of Lecture

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- **Introduction**
- **Revisions to COFOG**
- **Main COFOG divisions**
- **Some uses of COFOG**
- **Some problem areas**
- **Cross-classification of outlays by function and by economic type**

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# Introduction

(1/3)

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- The ***GFSM 2001*** classification of outlays by function is based on the UN/OECD **Classification of the Functions of Government (COFOG)**, which is a later version of that used in the 1993 ***System of National Accounts***

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# Introduction

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- **In GFS, COFOG can be used for the classification of government expense transactions and transactions in nonfinancial assets**
  
- **Outlays = expense + transactions in nonfinancial assets**

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# Introduction

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- **The GFS classification of outlays by function is a classification of **transactions****
- **In practice, administrative data may only allow classification at the program or agency level of detail**

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# Revisions to COFOG

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- **Revisions to COFOG (GFSM1986 to GFSM2001)**
  - Reduction in number of major categories (“divisions”) from 14 to 10
  - Greater emphasis on environment protection (separate major category)
  - Separation of outlays on applied and pure research

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# Main COFOG Divisions

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<b>COFOG Divisions</b>	<b>GFS Code</b>
<b>01 General public services</b>	<b>701</b>
<b>02 Defense</b>	<b>702</b>
<b>03 Public order and safety</b>	<b>703</b>
<b>04 Economic affairs</b>	<b>704</b>
<b>05 Environment protection</b>	<b>705</b>

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# Main COFOG Divisions

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<b>COFOG Divisions</b>	<b>GFS Code</b>
<b>06 Housing and community amenities</b>	<b>706</b>
<b>07 Health</b>	<b>707</b>
<b>08 Recreation, culture, and religion</b>	<b>708</b>
<b>9 Education</b>	<b>709</b>
<b>10 Social protection</b>	<b>710</b>

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# Some Uses of COFOG

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- **Permits examination of trends in government outlays on particular functions or purposes over time**
  - **Conventional government accounts are usually not suitable for this because**
    - **they reflect organizational structures of government (which change)**
    - **organizations in government may be responsible for more than one function, or one function might be divided among several organizations**

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# Some Uses of COFOG

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- **Used for making international comparisons**
- **Use to distinguish between individual & collective services provided by general government**
  - **Predominantly collective consumption**
    - **701 General public services**
    - **702 Defense**
    - **703 Public order and safety**
    - **704 Economic affairs**
    - **705 Environment protection**
    - **706 Housing and community amenities**

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# Some Uses of COFOG

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- **Predominantly individual consumption**
  - **707 Health**
  - **708 Recreation, culture, and religion**
  - **709 Education**
  - **710 Social protection**

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# Some Problem Areas

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- **If an outlay covers two or more classes, an attempt should be made to apportion outlays between classes concerned**
  - **If not feasible, total should be allocated to class that accounts for largest part of total outlay**
- **Subsidies**
  - **Political objectives behind subsidies should not be confused with functions as the term is used in COFOG**

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# Some Problem Areas

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- **Consumption of fixed capital**
  - **Difficult to allocate by function, especially if only aggregated figures for total government capital stock and CFC are compiled**
  - **Use approximations in these circumstances**
    - **E.g., distribute CFC among functions in proportion to gross fixed capital formation over a number of earlier years**

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# Cross-classification of Outlays by Function and by Economic Type

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- **Provides an analysis of**
  - **“Inputs” and “outputs”**
  - **How governments carry out their public expenditure policy functions**
  - **How pattern / composition of outlays changes over time**
  - **Comparison of how functions are carried out by different governments**

# Example of Cross-classification of Outlays

<i>(In percent)</i>	<u>Economic type</u>			
<u>Function</u>	Wages & salaries	Other expense	Fixed assets	Total
Education	59.0	18.3	22.7	100.0
Health	81.9	11.2	6.9	100.0