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What is in the Update for the Arab world region

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What is in the Update for the Arab world region

1- Introduction

The aim of this paper was to show the proposed SNA 1993 updates from the point of view of countries in the Middle East, but because this region includes countries which I don't have adequate knowledge about their national accounts, how these accounts are compiled and how their statistical agencies operate, I decided to make a slight change by discussing these updates from the perspective of Arab countries. The choice of Arab countries was due to the possibility of classifying them into three homogenous groups and because of the experiences gained through the work I had in some of these countries which provided me with adequate knowledge about the compilation of their national accounts. In addition, several meetings were conducted during the last decade in order to discuss several issues relating to the implementation of SNA 1993 such as the proper techniques to be used for implementation of SNA1993, what are the problems and how to overcome them. Several papers and reports were prepared by national accountants and experts in each country and delivered during these meetings illustrating the implementation stage, data sources used, encountered problems and their future plans. Accordingly, the main ideas and issues discussed in this paper are based on such papers and reports in addition to my experience in some of these countries that I had the opportunity to work with them on improving their national accounts statistics, implementing SNA1993, and improving data sources including surveys and price statistics.

When discussing the updates in the Arab countries point of view it should be kept in mind that the national accounts compilers in most of the Arab countries never followed the updating process even that their statistical agencies received official letters from the ISWGNA asking them to follow the process and provide the ISWGNA with their opinions and feedbacks. Additionally, the national accountants in some countries don't have language skills other than Arabic as it is the case for Syria, Yemen, Iraq, Sudan, Algeria, Morocco, and Libya so they were not able to do so because almost all of the correspondences, papers, and documentation of updating process were provided in English.

Most of the national accountants from the Arab countries who provided believe that most of this updates were endorsed and encouraged by countries that have very advanced statistics in general and have the full set of national accounts up to the balance sheets. The request for the updates was due to the inconsistencies of the national accounts system with other statistical systems and because of practical and

theoretical problems encountered by them during compilation of their national accounts. As a result of that the national accountants in most of the developing countries and from the Arab world in particular found that the updates are not related to what they are facing during compilation of their national accounts. The updates are discussing issues related to very advanced topics which are mainly related to accounts beyond the capital and financial accounts, so non of the statistical agencies in the Arab countries had the motive to examine these updates because according to their foreseeable plan weren't expecting to compile any account beyond the financial accounts and this was the reason for having low response rate from the countries in the countries consultation.

Since there was no adequate response from the countries on their opinion about the updates I was forced to depend on my experience in these countries and on the meeting reports in order to illustrate the some of the updates from the point of view of Arab countries.

As Arab world consist of various countries that differ in its economies, statistical capacity and their willingness this paper provides a description of these aspects in order to assist in having better understanding of the updates from the stand point of the Arab countries. Therefore, the paper classified the 21 Arab countries into three categories based on their statistical capacity, economic development and their willingness to implement such updates.

2- Dissimilarities between Countries

Based on the statistical capacity of the country, the degree of economic development and the willingness of the country to implement the updates, countries are classified into the following categories

- a) Oil producing countries: This group comprises of countries with an economy dominated by the crud oil production and it's related activities. The countries in this group usually have the ability to allocate adequate resources to build strong statistical systems which can play an important role in obtaining the necessary data needed for compiling the national accounts according to the SNA 1993. Unfortunately, some of these countries hadn't devote adequate resources in order to improve or build coherent statistical system to collect at least the primary data needed for compiling the minimum set of the accounts according to SNA 1993 or 1968. The main reason for that was due to the fact that the national accounts statistics had never been the major data source used by the governments for planning and making economic polices instead they were depending on their

expectation of future revenue from crude oil activities. The publication of national account statistics were released mainly to satisfy academic researches, international organizations and justify the results of the policies when the estimates are in favor of these policies, otherwise governments will not take the national account statistics into consideration. In many countries the economic surveys are not conducted annually nor periodically and in some cases even the minimum set of indicators required for compiling GDP estimates at acceptable degree of creditability are not collected knowing that some these indicators can be obtained easily from several administrative sources. The funds that were devoted to statistical agencies in those countries are relatively limited and used mainly for collecting demographic or social statistics. Despite of that some of these countries like Oman had established a statistical system with the aim of obtaining the necessary data to compile it's national accounts according to SNA 1993 and created well designed databases to support the compilation process. Oman had released a publication recently which includes Oman's integrated national accounts by institutional sectors up to the capital accounts. For countries like Saudi Arabia, Kuwait and Qatar provided more attention to national accounts by conducting surveys and acquiring international consultation with the aim of improving the statistical system to the degree that can help the national accountants to compile their national accounts based on the SNA 1993 but unfortunately, they were not succeeded yet to compile the accounts. The compilation of the accounts for other countries like Bahrain, United Arab Emeritus, Algeria and Libya were based on partial data collected from large companies, various administrative sources and in some cases they conduct surveys covering some of the economic activities such as mining, manufacturing, and finance. It was observed from the remarks made by the national accountant in this group of countries that the surveys can provide satisfactory data required for compiling the production and distribution of income accounts, while the data needed for compiling the rest of the accounts are not satisfactory. Due to the availability of data constraint in most these countries the national accounts are compiled according to SNA 1968 except Oman who started publishing it's national accounts based on SNA 1993. Recently, due to the globalization and free trade agreements, some of these countries like United Arab Emirates started to devote more attention to statistics and they are trying now to conduct surveys in order to start compiling national accounts.

- b) Non oil producing countries: Those countries with diversity of economic activities and good statistical system including Jordan, Egypt, and Palestine. Annual surveys are conducted annually covering almost all economic activities and good

coordination between all agencies responsible of producing statistics are established. All of the countries within this region were able to compile their national accounts according to SNA 1993 up to the capital account. They are working at present on improving the statistical frames as a step to obtain business registers which is considered one of the main requirements for compiling the national accounts based on SNA 1993 with an acceptable degree of creditability and accuracy. The available data at present are not sufficiently detailed to enable the compilers to implement most of the proposed updates and if they want to do so they have to devote more resources to collect additional data and to expand and adjust the methods used to conduct their economic surveys.

- c) Other countries: this group comprises Lebanon, Sudan, Syria, Iraq, Yemen, Morocco and Tunisia very limited resources are devoted to statistics because statistics is not considered as one of the major priorities of the government. Some of the countries may conduct economic surveys but the results would be unreliable and may vary dramatically from one year to another because the surveys are not based on business register or even reliable statistical frames that cover all the establishments. Therefore, the available data are not sufficient to allow the national accountant in these countries to initiate a system to compile the national accounts based on the SNA 1993 and that was the main reason for maintaining SNA 1968 as the base for compiling their national accounts. The compiled accounts are based on data collected through economic surveys conducted on irregular basis covering some of the activities such as mining, manufacturing and transportation while they obtain the estimates for other activities based on various indicators collected from administrative sources or value judgments in some cases. Nevertheless, despite of all these limitation most of these countries made some efforts by trying to implement the SNA 1993 but unfortunately, they were not succeeded yet which mean that they are at the initial step. In addition to that the flow of data is very week and the coordination between all data producing unit is not established also.

From the above comparison between countries it should be easy to understand how national accountants and authorities in the Arab countries think about the proposed updates if we ask ourselves several questions, such as, Why only four countries out of twenty one countries were able to compile the accounts up to the capital accounts which is less than the minimum set of the accounts from the point of view of the developed countries? What are the reasons behind shifting to 1993SNA? Is it because the SNA meets the demand for data in these countries or because they have to cope with other countries and say that they reached to capital accounts? Are countries who

compiled the accounts have any concern in implementing the proposed updates? If so, then other questions arise, which of the updates are relevant to Arab countries? Are these updates applicable? Are they relevant to all Arab countries? Is it so that some of the updates are restricted to some countries? Are of governments and statistical agencies in these countries consider the update as one of priorities? When countries would be able to implement the relevant updates?

The paper will try in the following section to answer these questions in order to give the reader the chance to understand why the interest in the updates are not as expected by international agencies or by any one who is not familiar with this part of the world. The second section the paper will review some of the updates which seems to be relevant, important, and applicable in all or some of the Arab countries. The paper will show how the perspective would vary from one country to another depending on the stage of economic development, the statistical awareness, the uses of statistics in economic policies and the available resources.

3- The updates from the stand of point of Arab countries

The statistical capacity of the country is the most important aspect that should be taken into account when talking about the relevance of the updates in any country because what matters in this aspect is to know is it possible to implement these updates in the foreseeable future or not. Without adequate level of statistical capacity it would not be possible to implement any of such updates. Accordingly the paper will concentrate on this aspect while discussion the relevance of the updates from the point of view of Arab countries. The statistical agencies were developed in some of the Arab countries due to the statistical awareness and willingness of governments to produce various kinds of statistics including those related to the economy to enable the policy makers from formulating polices to accomplish their future plans. Most of the Arab countries are still using the SNA 1968 as the base for compiling their national accounts because the statistical agencies were not provided with sufficient fund to create reliable statistical frames, conduct the required surveys and support them with qualified staff. It can be observed from looking at the problems behind not implementing the system in those countries as stated in the papers delivered during the regional meetings that the statistical agencies are not in a position to employ qualified staff in their agencies in general and in the national accounts divisions in particular. Most of the staff of national account division does not have economic background because the system forced them to recruited staff with statistics background. On other hand the recruitment should be via the civil bureau which will provide them with the staff without giving them the opportunity to choose the staff

that may have promising inputs. Because governments do not take statistics seriously they rank the statistical agencies as one of low profile agencies. This can be seen from the low salaries given to the staff in statistical agencies compared to other technical agencies like central banks, ministry of planning and other similar agencies.

Shifting from SNA 1968 to the SNA1993 was initiated by the countries as a result of a request from international agencies to meet the international standards. It wasn't resulted from the demand of the government because there was no system in place to use national accounts in the policies which is the case in most of developed countries where the methodology, breakdown, and the details of national accounts is discussed by various government agencies. During the meetings the national accountants decided that in order to draw the attention of the government to the national accounts efforts should be devoted to explain to government official in the relevant agencies the major characteristics of the system and what are the benefits that can be gained from implementing it in addition to providing them on the use of the national accounts aggregates in policy making. By doing so it would be possible to create a demand from these governments which may assist the statistical agencies in asking their government for more funding and more support.

The national accountants in the Arab countries believe that if they obtain the adequate support from their governments to implement SNA 1993 they would be able to implement some of the updates. they updates were discussed among the national accountants in the Arab world and reached to a conclusion that the updates can be divided into three categories i) updates such as military expenditures, employers pension schemes, financial services allocation of the output of central banks and non-life insurance that can be implemented by most of the countries in the short run and have an impact on the currently compiled accounts ii) Updates such as land improvements, informal sector, meaning of national economy, goods for processing, and merchanting which are relevant to countries and could be implemented by the countries after introducing major improvements in their statistical systems. iii) Updates that is not of an interest for the government or the statistical agencies and cannot be implemented during the foreseeable future as it is the case for most of the updates.

This paper is trying to explain that why the proposed updates are not crucial to most of the countries in this region as described from the previous section which discuss the situation in most of countries in the region. Most of them are still having real problems in obtaining the basic statistics needed for obtaining at least reliable estimates of GDP regardless of the national accounts system they are going to use.

Almost all of the statistical agencies, including those who have clear plans to implement SNA 1993 are not provided with adequate funding nor qualified staff to enable them from conducting such plans. Unless governments in these countries are really having an interest in statistics it would not be possible for the statistical agencies to compile the accounts according to SNA 1993 in an acceptable manner without relaying on assumptions and value judgments in other cases. These were reasons behind the delay of implementing the SNA 1993 in most of the countries in the region, where, only four countries had partially implemented the system.

Furthermore, it was observed that several assumptions were made concerning the classification of institutional units and sectors due to the absence of reliable business registers or statistical frames for institutional units. In addition to this problem, the non-response in the economic surveys are very high rate which forced the national accountants to use certain procedures to compensate for the missing data at aggregated level. Due to this limitation it would not be possible to obtain the additional details needed for implementing the proposed updates.

4- Classifying the proposals for updating SNA 93

By reviewing the proposed updates we can say that most of them are related to very advanced areas in the system concerning financial accounts up to balance sheets and in some cases are dealing with issues not relevant in the region like stock option and research and development. These kinds of updates are not of interest of any country even in the foreseeable future because reaching to reliable financial accounts or compiling balance sheet for the economy are not in the long run agenda of any statistical agency in the region, so the paper will not discuss most of these updates because it was not examined by any agency. The paper discusses the updates which can be implemented by most of the statistical agencies if they have the support from their governments without forcing them to revise the overall statistical system, these updates are

1. Allocation of the output of central banks
2. Financial services
3. Informal sector

In addition to those updates, the paper will discuss the following updates which are relevant to the region and can be implemented by the four countries who already initiated a system to compile national accounts based on SNA1993.

1. Military Expenditures
2. Non-life insurance

3. Goods for processing

Almost all of the countries in the region accept and agree that most of these updates are needed and necessary, but they think that for developing countries it is very difficult or impossible to implement due to practical reasons in the foreseeable future.

4- Review of the proposals for updating SNA 93 relevant to the region

This section provides a briefing for the relevant updates mentioned in the previous section

Allocation of the output of central banks

The role of the central banks can vary from one country to another due to the wide range of functions operated by the central banks. Some of the functions might be a way from market producer such as issuing currency and managing the international reserves. This was the reason behind asking for a new treatment of central banks, and we can say that this proposal is much of concern to the developing countries than the developed countries since the main tasks of the central banks in developing countries are restricted to the non-market functions as mentioned above while in the developed countries these functions are shifted to the government or considered minor functions compared to the overall functions of the central banks in these countries. Therefore, all of the developing, in general, were interested in this issue and they were waiting for guidelines on how to measure and allocate the output of central banks in order to get rid of the unusually large positive or negative estimates of output.

As for the Arab countries the major role of central banks are in monetary policy area which is similar to the role of the Finance Ministry in the fiscal policy area which force these central banks to perform non-market activities much more than the financial operations. Due to this special case of these central banks the value added would be negative when calculating it from receipts comprising the fees, commissions and financial intermediation services indirectly measured (FISIM) because they are generated from activities which considered as minor activities. Applying the FIFI formula to calculate the output of central banks in Arab countries created problems and ambiguities of the estimates in for most of the countries. This issue led the countries to discuss these problems and find solutions during meetings arranged by the Arab League in Cairo. The participants of these meetings reached to a conclusion that calculating the output of central bank from the cost side would solve this problem but they could not reach to a decision on the allocation of the output. Some of the countries added calculated something called a normal FISIM and allocated it as

intermediate consumption of the bank sector, while the rest of the output was allocated as final consumption by the central bank which is not the correct way since the central bank is classified under the corporate sector. Others allocated the output of central banks to general government on the basis that this output is in similar to a no-market output so it should be consumed by government as intermediate consumption because by definition the central bank is classified under the corporate sector which couldn't have final consumption. Both of the approaches are not correct, so the compilers of national accounts in these countries are eager to see something in the revised SNA that would help them in this Issue.

Most of the national accountants stated in their papers that they agree with the recommendation to allow countries to choose one of two methods to estimate the output of the central bank and they most of them are in favor of measuring the output of Central Banks through costs because the the functions of central banks are much wider than functions of financial intermediaries and include a lot of non-market activities. They believe that the use of the output of a central bank should be attributed to the intermediate consumption of the government sector which would increase the government final consumption expenditures, they believe that this is what should the accounts show because the central banks operate to provide services to the community as a whole and not to the banking system. All of the resident units in the country would be influenced by the outcomes of the monetary policy

Financial services

This was raised as a result of the structural transformation of the financial corporation toward an increasing importance of portfolio management of financial assets with the aim of generating holding gains and decreasing the importance of simple financial intermediation. Unfortunately, the financial corporation in most of the countries included in the third group as motioned above are still very primitive and operated by governments, in some cases the financial intermediation cannot be measured correctly because the banks use their own funds or get a transfer from government to provide loans for households or any other unit in the corporate sector. But in the same time the banking system in other group of countries especially the oil producing countries is developing and they started to diversifying the means of generating revenue. This update would provide be useful for the compilers of national accounts because it will enable them from dealing with governmental banks that lend their own funds to clients.

Informal sector

The treatment of informal sector varies from one country to another within the Arab countries because the present SNA doesn't provide clear definitions, methodologies on how to treat the informal sector. Several meetings were arranged by Arab League and other Arab statistical organizations to discuss this issue in order to reach to a clear definitions and methodologies to be followed by Arab countries so it become possible to compare the results between countries in the region. Unfortunately, all the meetings failed to reach to an agreement on the definitions and the procedures to be used to deal with these activities. The national accountants in the region were asking the UNSD through the national accounts regional advisor to provide them with such definitions and methodologies in order to use them as the base for covering this sector but unfortunately there were no answers. Therefore, the inclusion of this topic as one of the updates of SNA 1993 would be of a great help to the statistical agencies and can assist the region in improving the coverage of the GDP estimates.

Furthermore, several governmental agencies and NGOs are interested in obtaining reliable statistics concerning this sector and for this reason it is expected that when there is clear definitions related to this sector, governments would be happy to provide funding to conduct surveys to collect the necessary data needed to obtain the estimates for this sector. Governments in the Arab countries were reluctant to provide funds for such surveys because several agencies are interested in this issue and each one had it's own definition which is not based to any international system and it was hard whom to serve so they decided not to finance any survey unless they reach to an agreement regarding this sector. All of these agencies were asking the national accountants in the statistical agencies to provide them with clear definitions and treatments regarding this sector so they can be ready to cooperate in order to put an appropriate system in place for collecting the necessary data that can satisfy all the needs.

As regard of the present practice, the estimates for part of the output produced by the units operating under the informal sector are included in the official figures of GDP in most of the countries. The problem with these estimates is that they are not exhaustive and it there was no clear idea or possible procedure to measure the missed part which is not covered. Some of countries covers the informal sectors through field surveys while others depends on households income and expenditure surveys to cover it and for others they base their estimates on other sources. Some of countries such as Palestine are basing their estimates on the methodologies and procedures recommended by the Handbook of Measurement of NOE and worked with

EUROSTAT on this subject. The results were acceptable for the Palestinians because of the situation they are facing within Israel but their approach were not so satisfactory for other countries as they stated by most of the national accountants in the Arab countries when the Palestinian's presented their experience in this field during the specialized workshop.

Military Expenditures

All of military purchases are classified in all of the Arab countries wither they were on durable or nondurable goods as intermediate consumption based on the recommendation of the SNA 1968 even those countries who implemented the SNA 1993 because of scarcity of the data on such expenditures. The compilers were aware of the necessity of drawing a distinction between weapons and weapons delivery systems on the one hand and non-lethal capital assets on the other as recommended by SNA1993 and they also agree from theoretical point of view to consider all expenditures by the military which meet the definition of being used in production over a period in excess of one year as capital formation regardless of the nature of expenditure or the purpose intended for it. Compilers of national account in the region believe that this couldn't happen even in the foreseeable future because what they already have and in some cases don't have at all regarding the military expenditure is a single figure and they have to distribute this figure between wages and intermediate consumption. This kind off treatment means that the estimates of output and value added for the general government sector is not accurate in most of developing country because of the unreliable assumption used to split the single figure. If Arab countries are going to implement this proposal then it will face more problems in the future especially because they that are not expecting to have improvement in the attitudes of the government toward providing detailed data on military expenses and so most of the national accountants believe that they will not be able to obtain better data than they already have in the foreseeable future because of governments would not allow to provide such statistics especially with all of the conflicts going around. Another practical concern is related to how to calculate a value for consumption of military fixed assets knowing that all of the countries are calculating it in a wrong way using various procedures; some of the countries calculate it as 10% of Value added and others as 12% of capital formation. They did not try to calculate it using an acceptable procedure like PIM or any similar method because this would require availability of data on stocks by various types of non-military durable goods and knowing the service life of each type of asset which could not be obtained from the currently available data.

Despite all of what have been mentioned above some statistical agencies who had implemented part of the SNA 1993 such as Oman had made some progress with their governments and had some breakdown on military expenditures. But they believe that they may face a lot of objections when they ask to have breakdown covering military equipments.

Non-life insurance

Modifying the formula for calculating the output of non-life insurance could be applied in most of the countries in the region because the data on insurance is usually adequate to do so in addition to the coordination that was put in place between national accountants in many countries and the insurance companies. Several meetings were arranged with accountants from those companies and discussions were held in order to reach to better understanding of the insurance activities. Several papers were delivered during these meeting which was attended by participants from several Arab countries. The provided papers would provide the national accountants with good background on this issue and could help them to implement this proposal. The only problem that may arise when implementing this proposal is to reach to good estimates for the adjusted claims, if this problem is solved through more detailed guidelines then the recommended formula would provide a solution for some countries when the estimates of the output and value added of some companies were negative and the national accountants could not have the ability to interpret these negative results to data users. The national accountants in these countries were forced to show that there was an implicit subsidy from the government to compensate those companies which were owned by government and by according to this the output at basic prices would be positive and hence positive value added. All of the Arab countries are expecting that the revised SNA would provide detailed guidelines clarifying the calculation of the variables required for the formula and they have to see the implications of the new treatment on related statistics in order to guarantee consistency between all these statistics.

Goods for processing

Many countries in the region receive goods for processing in the free zones that provide motivation to manufacturing. The main activity of several companies located in these zones is to receive raw material from other countries and they do the processing and send it again to that country. For example the main task of the textile companies located in the qualifying industrial zones in Jordan is to get the raw material from Israel and do the processing and return and exported to United States of America on behalf of the company in located in Israel because the company in Israel

owns this company and in many cases the company in Israel will get the value of the final product directly from the imported company in USA. In this case the external trade statistics would record the transaction when the goods shipped to USA as export but there will be no recording of a corresponding financial transaction which means that the statistics would show that the economy received income from export while in reality there is no inflow. This issue is an important issue in some of the countries in the region like Jordan, Dubai and Egypt problem because the Balance of Payment Manual and the SNA 1993 do not provide adequate guidelines on how to treat such cases, so they will appreciate if more a decision is made and more clarification is provided in the revised SNA1993.