

Dong Suk Oak

Incheon University

Coverage of the Government Sector in Korea

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Coverage of Public Finance in Korea

by
Dong Suk Oak, Incheon University

1. Introduction

The objectives of public expenditure management are generally accepted as maintaining aggregate fiscal discipline, allocating resources in accordance with government priorities, and promoting the efficient delivery of services. The fiscal targets and indicators used most commonly in maintaining aggregate fiscal discipline are the fiscal deficit and fiscal debt, which many countries have laws and rules to restrict fiscal policy.¹ The establishment of explicit fiscal targets allows the government to state clearly its fiscal policy and enable the legislature and the public to monitor the implementation of government policy, and, ultimately, making the government politically as well as financially accountable.

Fiscal deficit is defined as the difference between fiscal revenue and fiscal expenditure. In order to measure the fiscal deficit, the government needs, among other things, to determine the coverage of public finance in a sufficient and appropriate manner. Determining the coverage of public finance implies that the government should decide which public institutions, funds and accounts are to be included in measuring the fiscal deficit. The coverage of public finance is also instrumental in measuring fiscal debt. Which public institutions, funds and accounts are to be included in measuring the public debt?

Since every country has its own historical tradition and institutional system for public finance, countries differ greatly in their governmental and fiscal coverage. While the statistics on the coverage must reflect the institutions and practices of each country, a common system of definitions and classifications is helpful to users because it allows comparisons with other countries. It is desirable for the fiscal statistics to follow the conventions and classifications in constructing the national accounts for the entire economy, as laid out in the United Nations' *A System of National Accounts 1993*(SNA). Following the fiscal coverage of the SNA, European Union publishes more specified criteria, *Manual on Government Deficit and Debt* in order to obtain reliable and comparable statistics for evaluating fiscal convergence concerning both the ratio of the fiscal deficit to GDP and the debt-to-GDP ratio.

In SNA five mutually exclusive institutional sectors are identified. They are the nonfinancial corporations sector, the financial corporations sector, the general government sector, the nonprofit institutions serving households sector, and the household sector. The IMF's *Manual on Government Finance Statistics*(GFS) harmonized

¹ Fiscal targets and indicators should cover three areas: current fiscal position(e.g., fiscal deficit), fiscal sustainability(e.g., debt-, tax-, or expenditure-to-GDP ratios), and vulnerability(e.g., analysis of the composition of the foreign debt).

with sectorization of the SNA, defines the coverage of the statistics to be a country's general government sector, which is defined on the basis of institutional units. The coverage can also be extended to the public sector by including the fiscal activities of public corporations. The public sector is defined as consisting of the general government sector plus government-controlled market entities, known as public corporations.

In spite of the SNA's definition of the general government sector, the coverage of government expenditure, being the baseline of government deficit and government debt, varies in a number of countries. Especially many developing countries, having a relatively short history in operating the modern public management system and rare opportunities to share the experiences of other countries, have problems in transparency, responsibility and efficiency because their coverage of government and public finance is not defined comprehensively and systematically.²

In the developed countries the coverage of government expenditure is not all consistently the same through the stages of budget preparation, parliamentary votes, funds release, accounts and statistics. A significant share of public expenditure is usually managed through special procedures. The objectives of the special arrangements include: avoiding excessive negotiating during the budget preparation process, resolving difficulties in the legislature debates and scrutiny, and providing more flexibility in the use of funds by the executive.

This study draws lessons for the Korean government from the comparative study between Korea, Japan and the UK. The paper is structured as follows. Section 2 discusses some key factors in determining the general government sector in the SNA and EU Manual, and summarizes several concepts on the coverage of the public finance according to the management process of public expenditures. Section 3 explains the Korean government's coverage of the public finance, while Section 4 and 5 provides a broad overview on the UK and Japan government's coverage of the public finance. Section 6 concludes with policy implications for reforming public expenditure management in Korea.

2. Several Concepts on the Coverage of Public Finance

A. Determining General Government Sector

SNA, the cornerstone for the other international manuals on statistics, divides the economy into five sectors in addition to the rest of the world: (1) non-financial corporations sector; (2) financial corporations sector; (3) general government sector; (4) nonprofit institutions serving households sector; and (5) households sector. The public sector includes the general government sector plus all public nonfinancial and financial corporations. The total resident economy except the public sector is the private sector, so there should not be no gray area between the public and private sector.

The general government sector and the public sector are the basis for the government finance and public finance statistics. In deciding if an entity is to be included in the general government sector, the steps to be followed could be summarized as three-staged. These are provided by EU *Manual*, describing more specifically the concepts and criteria of the SNA for the Excessive Deficit Procedure required in the Article 104 of the Maastricht Treaty.

² The two terms, public finance and government finance are generally used in the literature without distinction. Fiscal deficit of the general government sector and the public sector, however, are defined as government deficit and public deficit respectively.

The first step to be taken is to ask whether the entity is an institutional unit. Sectorization decisions in the SNA must be taken at the level of institutional units, defined in the SNA as units having autonomy of decision and a complete set of accounts. Autonomy of decision means that it must be able to own goods or assets in its own right; be entitled to make economic decisions and carry out economic activities for which it is held directly responsible and accountable by law; be able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts. In order to keep a complete set of accounts, a unit must keep accounting records covering all its economic and financial transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities.

The second step is to ask whether the institutional unit is private or public. A public unit is one controlled by the general government, where as a private unit is one not controlled by the general government. Control, defined as the ability to determine general policy, is an essential criteria for sectorization between the public and private. The general government of a country consists of the public authorities, their agencies and instrumentalities, which are established through political processes and exercise a monopoly of compulsory power. The form that administration or accounting for a entity takes - whether budgetary, extra-budgetary, special account, etc. - should not affect its inclusion for the general government sector. When a public unit, by virtue of special legislation, is recognized as an independent legal entity, it can be considered as an institutional unit, to be classified in the general government sector, if it is not a public corporation.

The third step is to ask whether the public institutional unit is market or non-market. When the principal function of the public institutional unit is to supply certain public goods and services and fulfill certain public purposes not for commercial or financial reasons, or, if of a commercial or financial nature, not on a major basis or not primarily for profit, this unit is to be classified in the general government sector. In the SNA, the distinction between market (i.e., for commercial reasons or for profit) and non-market producers depends on whether or not prices charged are economically significant. A price is said to be not economically significant when it has little or no influence on how much the producer is prepared to supply and is expected to have only a marginal influence on the quantities demanded. In practice, the public institution whose production costs are not covered by more than 50% through sales is classified as a non-market producer and general government.

The general government sector, which is determined by the three steps, normally includes the ministries, departmental agencies, other decentralized public bodies, and local authorities. The principal function of the general government sector is to carry out public policy through the production of non-market services primarily for collective consumption and the transfer of income, financed mainly by compulsory levies on units in other sectors. The public institutions in the general government sector are being called in different terminologies in different countries, making it to be the shortcomings of international comparative research. Institutions other than the ministerial agencies are sometimes named as authorities, autonomous bodies or organisms, quangos, non-departmental public bodies, extra-governmental organisations, subsidiary organisations, etc.

Public policy may be also carried out by public corporations outside the general government sector, sometimes named as a quasi-fiscal activities. Most of the quasi-fiscal activities are funded by grants from the general government sector, so those can be included in the coverage of the public finance. The total receipts and expenditures of public corporations should not be treated equally to those of the governmental institutions, because they collect sales proceeds only by incurring corresponding

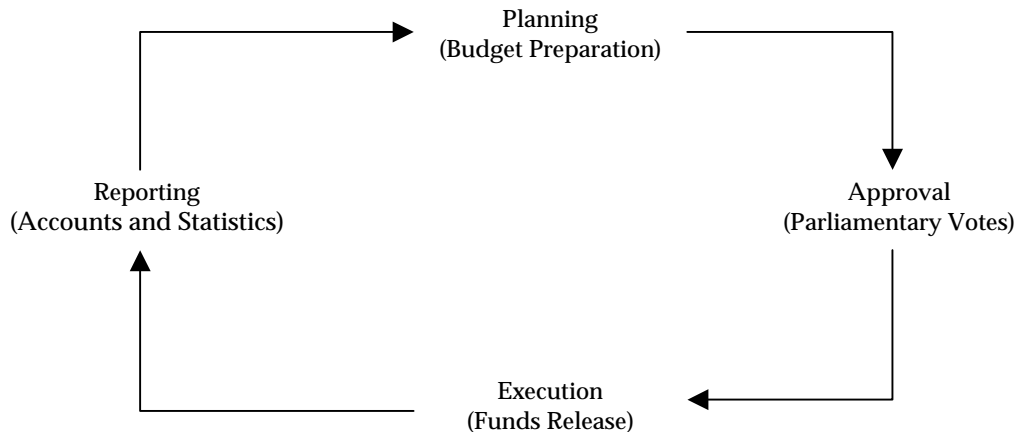
production costs.

For the purposes of control and accountability, the general government sector is an appropriate coverage for the public resources and finance. The general government sector includes all the ministerial departments, departmental agencies, the public law and the private law non-market bodies which are directly and indirectly controlled by the ministers. The finances of those are ultimately the responsibility of the government, so those are to be answerable and accountable to the legislature and managed and controlled by the ministers. Public corporations, not included in the general government but in the public sector, are usually private law bodies whose owners have limited liabilities and can control only with voting shares. However, some considerations should be given to public corporation established by public law, since the law provides implicit guarantee and financing for it seems to be the responsibility of the government.

B. Coverage of Public Finance at Management Stages

The expenditure management process of the various institutions included in the general government sector has four major stages: planning, approval, execution, and reporting. The coverage of the institutions in each stage of the process may be greatly different because it is necessary to allow special management arrangements to some special institutions, funds or accounts on historical, legal, political and administrative grounds. Owing to the special arrangements, the coverage of government expenditure is not all consistently the same through the stages of budget preparation, parliamentary votes, funds release, accounts and statistics.

Figure 1.



In order to use the resources of the general government sector responsively, efficiently and effectively, the government needs to define the budget as a comprehensive plan for the operations of the sector. Different countries have different budgeting coverage, each with its own specific features consistent with the overall administrative culture. Not many countries seem to require budgets to cover all the public institutions of the general government sector defined in the SNA.³ For the coverage of the budget being

³ Since public corporations in general do not use tax or other compulsory levies, they are not included in the budget. Only grants to them will be included in the budget.

comprehensive, the budget should include all general government sector's revenues and expenditures regardless of the arrangements for separately managing some particular programs, the legal provisions for authorizing expenditures, and the financing source. If the budget excludes major expenditures of the general government sector, there can be no assurances that scarce resources are allocated to priority programs and that legal control and public accountability are properly enforced.

Different actors are involved in budget preparation: Central Budgeting Bureau(CBB) of the Administration, budget departments of line ministries, and, within line ministries, budget departments of subordinate spending agencies and decentralized public bodies. The CBB reviews budget requests from line ministries, departmental agencies and decentralized public bodies, and is responsible and accountable for drafting budget bill submitted to the parliament. Depending on the country, the coverage of budget bill, which the CBB is involved in preparing, may not fit the general government sector. Special arrangements on the budget process may allow the line ministries to have all the power and responsibilities on some budgetary resources without reviews by the CBB, which weakens accountability. Some decentralized public bodies may not be under the budgetary control of the CBB rather just under that of the line ministries. In this study, the budget that is controlled and prepared by the CBB is denoted as Budget^{ctr}, and the Budget, controlled by the government in general, includes the Budget^{ctr} plus the other budgets controlled only by the line ministries.

The *Budget^{ctr}* is submitted to the legislature for approval some months before the start of the fiscal year, to allow budgetary debates to be completed before the start of the fiscal year. Many countries have adopted procedural rules to regulate and limit legislative debates on the *Budget^{ctr}*. These usually pertain to (i) the coverage of voting on the *Budget^{ctr}*; and (ii) the legislature's powers to amend the budget.

The *Budget^{ctr}*, submitted to the legislature by the CBB, has two parts; Votes and Non-Votes. While Votes are the budgetary resources which should be approved by legislature for its execution, Non-Votes are the ones just for scrutiny the legislature. The de-facto differences between Votes and Non-Votes lie in the legal powers of the legislature to propose amendments to budgetary items.

In addition to the annual voting process, the legislature may also have access to administrative information through regular departmental briefings and expenditure reports from the Comptroller and the Auditor General. The resource included in the *Budget* other than the *Budget^{ctr}* will be scrutinized by the legislature through the briefings and reports. For example, some decentralized public bodies do not require approval by the legislature for their budget, instead report budget executions to the legislature on a regular or ad-hoc basis.

Budget execution needs the release of budgetary resources from funds and accounts. Spending institutions must be provided with the funds necessary to implement the budget in a timely manner, and the cost of government borrowing must be minimized. In most countries, the government has a number of funds and accounts to administer public money irrespective of the institutional unit. Every country has a consolidated fund or account, the main fund into which all receipts are deposited and from which all payments are made, and some earmarked special funds. The central bank is, in most countries, the main cashier of the government, so the consolidated fund or account is held at the central bank. Special or earmarked funds and accounts may be held in commercial banks, whether the funds and accounts are automatically swept at the end of each day or not.

To minimize borrowing costs or maximize interest-bearing deposits, operating cash balances should be kept to a minimum. Idle balances of special earmarked funds or accounts increase the borrowing needs of the government, which must borrow to finance

the payments of some funds, even if other funds have excess cash. Whatever the institutional arrangements, the centralization of funds and accounts is required and should cover as many of the government funds and accounts used for payment transactions. In this paper, funds and accounts held at the central bank will be denoted as F & A¹, and funds and accounts held at commercial bank as F & A². The coverage of F & A¹, F & A² will vary greatly according to the country.

The last stage of the expenditure management will be government accounting and financial reporting. Government finance statistics can be distinguished from two other data systems. CBB or other ministerial departments will publish the government finance statistics from the government budgets and accounts, being maintained by operating units for purposes of control and accountability. In the national accounts, data for the government are recast in a form common to all sectors so as to measure and aggregate their production, income, consumption, capital accumulation and finance, and delineate inter-sectoral transactions. Even if the office responsible for preparing the national accounts will vary according to the country, the statistical guidelines and concepts of the SNA should be observed. In this paper the de-facto coverage of government finance statistics published by the CBB or other ministerial department will be denoted as FS(Financial Statistics), and the coverage of national accounts will be denoted as NAS(National Accounts Statistics).

3. The Coverage of Public Finance in Korea

The coverage of the consolidated government finance in Korea is traditionally recognized according to the criteria of accounting and fund units such as General Account, Special Accounts, and Funds. The General Account is the main consolidated account with the Bank of Korea. Most of the central government's expenditure is financed from this account, and most taxes and other receipts deposited there. Special Accounts, whose total number is 20, and Funds, whose total number is 58, are all created for earmarking to some special programs and bypassing traditional appropriation management rules, such as rules for transfers between line items("virements"), the cancellation of appropriations at the end of the fiscal year.

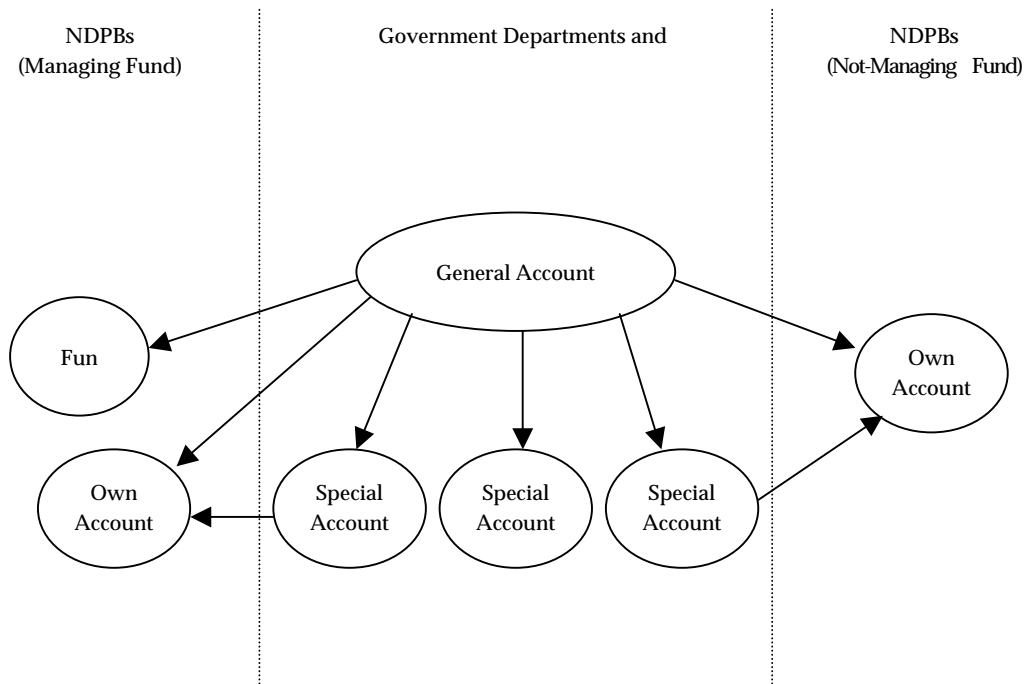
The coverage of the government accounting and fund units, however, do not correspond with that of the general government sector in the SNA, being defined on the basis of institutional units not of the administrative, legal or accounting types. According to the SNA, the central government of the general government sector in the Korean resident economy should include all the decentralized public bodies as well as ministerial departments, departmental agencies. Decentralized public bodies, most of which are public law administrations, are controlled by the ministerial departments and departmental agencies. They have their own legal personality, while ministerial departments and departmental agencies have no separate legal identities from the state and their staff are comprised of civil servants. They are equivalents to NDPBs of UK.

The resources of which the decentralized public bodies have control are not reflected in the government accounts except government's grants to them. The coverage of General Account, Special Accounts and Funds do not reach all the expenditures of the decentralized public bodies. The coverage of General Account and Special Accounts is approximately equal to the coverage of ministerial departments and departmental agencies. However the 58 Funds do not cover all the decentralized public bodies.

Some NDPBs are managing government Funds, and some are not. In the case of NDPBs managing Funds, their expenditures funded from the Funds can be reflected in the government accounts. Since the expenditures of NDPBs have never been published in

Korea, it is impossible to identify the share of the resources of the decentralized public bodies (NDPBs in the Figure 2) covered in the resources of Funds. All the resources of the NDPBs' own accounts, whose amount is usually alleged as equivalent to that of the General Account, are excluded in the coverage of government accounts.

Figure 2. Public Expenditures in Korea



While the budgetary resources in the coverage of General Account, Special Accounts and some Funds are under the CBB's control of the Ministry of Planning and Budget, the resources of the NDPBs' own accounts are outside the control of the CBB and approved just by the line ministries. In other words, the budgetary resources of the general government sector are all controlled by the government, but those are not controlled by CBB. That means *Budget* does not equal to *Budget^{ctr}*. Additionally, some funds are not controlled by CBB, so are not included in the *Budget^{ctr}*. Those 10 Funds are related to financial inter-mediation activities, and are managed by the Ministry of Finance and Economy.

Funds, which are included in the *Budget^{ctr}*, are not legally included in the Votes. The plans of Funds are submitted and scrutinized by the National Assembly, but their approval is not legally required for execution. It was not until 2001 that Funds were recognized as government resources and those plans should be submitted to National Assembly.

Most of the Funds are held by the Bank of Korea, like General Account and Special Accounts. While it is legally binding that the Bank of Korea holds General and Special Accounts, Funds' account can be held either at the Bank of Korea or at commercial bank. Some Funds and NDPBs' own accounts are all held in the commercial bank owing to

banking services.

Since the coverage of public finance has long been recognized as General Account, Special Accounts and Funds, both Public Finance Statistics published by CBB and National Account Statistics published by the Bank of Korea reports only *Budget^{ctr}*. The coverage of the public finance according to the management stages can be shown as follows.

Table 1. The Coverage of Public Finance in Korea

	General Account	Special Accounts	Funds	NDPBs	Local Authorities
Budget					
Budget ^{ctr}				×	×
Votes			×	×	×
non-Votes	-	-		×	×
F & A ¹				-	-
F & A ²	-	-			
NAS ¹⁾				×	
PFS				×	×

Note : 1) Only a few NDPBs are included in the National Accounts, but those can be neglected.

4. The Coverage of Public Finance in the UK

In the UK, decisions on which sector an actual or proposed body should be classified in are made by the Public Sector Classification Committee(PSCC), which is a small committee consisting of about 10 staff members and external experts within the Office for National Statistics(ONS). The PSCC's purpose is to help formulate decisions about the sector classification of bodies/institutions. Straightforward classification decisions may be taken by the HM Treasury on the basis of agreed classification rules between the Treasury and ONS. Decisions must be consistent with the principles of the international statistical manuals, ESA(European System of Accounts) and SNA, and supporting manuals and case laws. *Sector Classification for the National Accounts* was published in 1998, listing all the institutional units allocated to each sector including the general government sector and public non-financial corporations.

UK governments set targets for themselves based on a concept of national accounts. Fiscal policy targets are based on 2 strict rules, namely the Golden Rule and the Sustainable Investment Rule.⁴ The government has chosen to present the government

⁴ The Golden rule is that over the economic cycle, the government will borrow only to invest and not to fund current spending. In other words current spending must be matched by current receipts such as taxation and social security contributions. The Sustainable Investment Rule is that net public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. The government's intention is to hold

accounts using principles from the national accounts and to control public expenditure according to rules based on national accounts. The political debate on fiscal policy focuses on the statistics based on the national accounts principle.

Table 2. Key Fiscal Indicators in the UK

	(unit : £ million)				
	1997	1998	1999	2000	2001
A. Surplus on Current Budget(B-E)	-11,777	8,260	15,108	20,252	17,365
B. Gross Saving plus Capital Taxes(C-D)	615	20,846	27,714	33,183	30,754
C. Current Receipts	305,959	333,968	349,872	375,797	391,558
D. Current Expenditure	305,344	313,122	322,158	342,614	360,804
E. Depreciation	12,392	12,586	12,606	12,931	13,389
F. Net Investment	4,664	5,876	5,136	4,836	8,481
G. Total Managed Expenditure(D+E+F)	322,400	331,584	339,900	360,381	382,674
H. Public Sector Net Borrowing(F-A)	16,441	-2,384	-9,972	-15,416	-8,884
I. Net Debt (£ billion)	357.6	353.8	352.7	317.0	318.2

Source: United Kingdom National Accounts: The Blue Book 2002, p.291,

The Blue Book, *United Kingdom National Accounts*, shows the surplus on current budget(net saving plus capital taxes), net debt, net borrowing and the public expenditure measures. The surplus on current budget measures achievement against the Golden Rule, and the public sector net debt is related to the Sustainable Investment Rule. General government net borrowing is closely related to government deficit in the context of the Maastricht Treaty, which requires governments to keep their deficits below 3 per cent of GDP. The public expenditure measures in the UK is denoted as total managed expenditure(TME). TME is the present government's main measure of public expenditure. It represents the consolidated current and capital expenditure of the general government sector and excludes capital grants to public corporations and adds in certain expenditures(mostly capital) by public corporations.

On Budget day, the Treasury publishes the *Economic and Fiscal Strategy Report*(EFSR) and the *Financial Statement and Budget Report*(FSBR) in order to describe the government's fiscal policy. Those two now appear together with- in a single budget document, sometimes called the Red Book. The Treasury also publishes *Main Supply Estimates, Supplementary Budgetary Information, Public Expenditure Statistical Analyses*(PESA), which are command papers to be submitted to the Parliament. PESA is a compendium that brings together recent outturn data, estimated outturns for the latest year and budgetary plans covering a whole range of UK public expenditure. Further information on each governmental department's spending is made available in the individual Departmental Reports. The Red Book and PESA present TME as a government measure of public expenditure, similar to the Blue Book.

Table 3. TME by Spending Sector

this ratio below 40%.

(unit : resources, £ million)

	2001-02 outturn	2002-03 estimated outturn	2003-04 plans
Central Government Own Expenditure	285,811	309,620	330,600
Local Authority Expenditure	98,424	105,736	117,900
Central Government Support	74,416	81,081	88,955
Local Authority Self-financed Expenditure	18,125	18,923	21,168
Others ¹⁾	5,882	5,732	7,746
Public Corporation Expenditure	5,344	5,669	7,200
Central Government Support	2,883	3,182	4,544
Public Corporation's Own-financed Capital Expenditure	1,540	2,161	2,579
Accounting and Other Adjustments	921	327	100
Total Managed Expenditure	389,579	421,025	455,700

Note : 1) Includes Locally Financed Support in Scotland, Accounting and Other Adjustments.

Source: *Public Expenditure Statistical Analyses 2003*, HM Treasury, May 2003.

Some discrepancies in the numbers can exist between the Treasury statistics and National Accounts. Needless to say it reflects the differences of the fiscal year and- the calendar year on the statistical period, the Treasury's accounting and budgeting concepts are based on the UK's generally accepted accounting practice while the National Accounts follows the international guidelines of the SNA. Those discrepancies are very minor.

The UK's budget covers all the public institutions of the general government sector and the capital expenditures of public corporations. Vote, approved by the Parliament, covers the resources drawn from the Consolidated Fund, which is the main Treasury fund. Therefore, total expenditures of NDPBs, Public Corporations and Local Authorities are not included in the Vote, however grants to them are included in the Vote.

The main funds in the UK are the Consolidated Fund and the National Loans Fund, but there are other important funds such as the National Insurance Fund and Exchange Equalization Account and the Paymaster General's Accounts, National Debt Commissioners' Accounts(the National Lottery Distribution Fund Investment Account, the Court Funds Investment Account, the National Savings Bank Fund,/Crown Estate Account, Donations and Bequests Account, Insolvency Services Investment Account, National Endowment for Science, Technology and the Arts, National Heritage Memorial Fund, Northern Ireland Court Service Investment Account, Northern Ireland National Insurance Fund Investment Account), the Northern Ireland Funds and Accounts, and a host of smaller accounts(Customs and Excise Account, Inland Revenue Account, etc.).

Table 4. Voted and Non-Voted Expenditure in TME

(unit : resources, £ million)

	2001-02 outturn	2002-03 estimated outturn	2003-04 plans
Total Voted Expenditure in TME(A)	261,757	283,452	275,672
Central Government Spending	189,909	199,178	191,976
Central Government Support for Local Authorities	62,081	65,770	72,151
Central Government Support for Public Corporations	1,014	1,257	2,239
Accounting Adjustments	8,753	17,247	9,306
Total Non-Voted Expenditure in TME(B)	127,822	137,573	180,000
Central Government Spending(including spending by NDPBs and Devolved Executives)	108,525	114,882	132,237
Central Government Support for Local Authorities	12,335	15,312	16,804
Public Corporations	1,869	1,924	2,305
Others ¹⁾	5,094	5,455	28,650
Total Managed Expenditure(A+B)	389,579	421,025	455,700
Voted Expenditure not in TME(included within "Non-Budget" in Estimate)(C)	52,245	62,627	96,955
Grants to NDPBs to finance their expenditure	19,688	24,115	28,205
Grants to Devolved Executives to finance their expenditure	31,134	35,954	36,643
Other non-public expenditure	1,423	2,558	32,107
Total Voted Expenditure(A+C)	314,002	346,079	372,627

Note : 1) Include DEL not allocated by spending sector, Central Government Debt Interest, AME Margin, Locally Financed Expenditure, Non-Voted Net Payments to EU, and accounting and other adjustments.

Source: *Public Expenditure Statistical Analyses 2003*, HM Treasury, May 2003.

The Consolidated Fund was inaugurated in 1787, which collects every stream of public revenue and issues the supply of funds for every service. The legislation governing both the Consolidated Fund and the NLF ensures that government finances are centrally accountable to Parliament. Generally speaking, all money collected by the government must, unless Parliament specifies otherwise, be paid into one of these two main funds. And in general no money can be paid out of the Consolidated Fund or the National Loans Fund without the specific legal authority of Parliament, and the prior approval of the Comptroller and Auditor General. Expenditures voted by Parliament are mostly financed by the Consolidated Fund.

The Consolidated Fund, NLF, EEA and Paymaster General's accounts are all held at the Bank of England, while NDPBs' accounts are held by commercial banks. This concentration of funds at the Bank enables the government to minimize both its holdings of non-interest bearing bank deposits and its gross level of borrowing. It also facilitates the measurement of the CGBR(Central Government Borrowing Requirements), which is based on the transactions undertaken by central government funds and accounts.

The coverage of the public finance according to the stages can be shown as follows.

Table 5. The Coverage of Public Finance in the UK

	Department	Agency	NDPBs	Local Authorities
Budget ¹⁾				
Budget ^{ctr}				
Votes			×	×
non- Votes	-	-		
F & A ¹			×	×
F & A ²	-	-		
NAS				
PFS				

5. The Coverage of Public Finance in Japan

In the National Accounts published by Japanese Government, the central government of the general government sector is composed of General Account, Special Accounts and Special Entities (SEs, *tokusuhouzin*). The coverage of General and Special Accounts are assumed to coincide with the ministerial departments and departmental agencies, whose employees are all civil servants. SEs are defined as 'institutions established directly by the government departments or established according to special public laws.' Those are public law administrations equivalent to the NDPBs of UK. Japanese central government has approximately 40 Special Accounts and 92 SEs, which are classified between the general government and the public corporations sector according to their principal function. The local governments of the general government sector are also composed of their general account and special accounts including some entities established by themselves.

It seems likely that there exist a number of public institutions in Japan which are not classified into the general government sector. Japanese government is controlling many nonprofit institutions, and those can be classified into the general government sector according to SNA. Sectorization decisions in the Japanese national accounts are not taken systematically at the level of institutional units. That could be the reason to underestimate the size of the Japanese public sector.

There are three types of public institutions which may be classified into the public sector; Related Enterprises of SEs (RESs, *kankeikaisha*), Joint Enterprises between SEs and private corporations (JESs, *shusshikaisha*), Appointed Entities (AEs, *siteihouzin*). RESs are the enterprises on which SEs exercise a power in determining their general policies. The number of RESs of which SEs' ownership is more than 50% is 923 in 1997, while that of RESs below 50% amounts to be 91. All RESs should be classified into general government sector or public corporations, since they are controlled by the central government. JESs are normally used as a policy tool for channelling funds into public-private partnership programs. The number of JESs of which the proportion of SEs' ownership is above 20% is 240 in 1997. Some of them can be classified into public sector according to the nature of SEs' ownership and control.

AEs are nonprofit institutions which perform activities related to administrative procedure for public policies. They may charge administrative fees or be funded by the

government. Nonprofit institutions which are established by private law are called Public Interest Entities. PIEs which perform executive, advisory, tribunal, inspection and authorization role by the law, order or other administrative actions will be regarded as AEs. Those, numbering in 720 in 1997, can also be classified into the general government sector.

The total number of RESs, JESs, AEs, which are currently classified into private sector but controlled and mainly financed by government are approximately 2,000. If a systematic classification would be performed observing SNA manual, most of RESs, JESs, AEs might have been classified into public sector. Therefore, there is no government publication in Japan which can show the consolidated statistics of the general government and the public sector.

The coverage of public finance statistics published by Japanese government is only General Account and Special Accounts. Budget, which is submitted to Parliament for its approval, includes 11 Government Related Institutions (GRIs, *seibukankeikikan*) in addition to General Account and Special Accounts. 11 GRIs are all SEs which principally engage in financial intermediation for the purpose of public policy. Budget and public finance statistics do not include any other SEs than GRIs to say nothing of RESs, JESs, AEs. Government deficit and government debt, reported annually by Japanese government, are sure not to observe the international standard of SNA and GFS.

6. Conclusions: lessons from the two countries

To be an effective instrument of policy, the coverage of the public finance should be comprehensive being based on the general government sector and the public sector. In many countries, a significant share of government expenditure is excluded from the coverage of the public finance, implying that it does not coincide with the general government sector. These issues concerning the comprehensiveness of the public finance are discussed in this paper.

European countries are observing SNA and GFS manual in determining the coverage of public finance, which require it to be the general government sector. European Union has published, *Manual on Government Deficit and Debt* in order to obtain reliable and comparable statistics for evaluating the fiscal deficit and the fiscal debt. In UK, especially, there exists an institutionalized independent decision making process for the sectorization of the general government sector and the public sector.

In the far eastern market economies, Korea and Japan, there has been a long tradition that the coverage of the public finance is recognized not in institutional context but in accounts and funds unit. The government has long exercised its power to establish a number of the decentralized authorities, as a measure to accomplish policy goals. These tradition has made the coverage of public finance to be underestimated in a considerable measure.

The most important task by which the government is confronted in strengthening the management of public expenditure is to rearrange the coverage of the public finance. In making arrangements for the scope and system of the consolidated public finance, what is important is that international standards of the SNA and GFS should be applied on every government and national accounts statistics. As budgetary, parliamentary, fund and accounting practices serve many different legal, political and administrative purposes, they cannot be taken as a guide to the inclusion of particular institutions in the general government sector or some other sector.

All the coverage at each expenditure stage, i.e, budget preparation, parliamentary votes, funds and accounts release, reporting and statistics need not to be equal to the coverage of the general government. In both budgeting and reporting, the coverage of the public finance should be the general government sector. The CBB should manage and control all the budgetary resources included in the general government sector. Every decisions taken on public finance should be based on the reports and statistics of the general government sector.

The scope and contents of the budget submitted by the government to the National Assembly, undoubtedly, should correspond with those of the general government and the public sector. However the coverage of the parliamentary approval may be determined by the allocation of budgetary power between the Administration and the parliament. The coverage of funds and accounts may be also determined by the accounting practices in each country.

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