

## **AGENDA ITEM 8**

### **Classification Issues and Topics for Possible Country Study**

#### **Introduction**

At the second meeting of the Task Force several issues were raised relevant to industrial classification. The view of many members was to study these issues at the country level. These issues/problems include activities that can be classified to more than one class, or more than one group or division. Similar to this issue is the treatment of vertically integrated activities (undertaken by the same unit where the product of one activity becomes intermediate input to a subsequent activity). In vertically integrated activities, two or more activities is undertaken by the unit. These activities belong to different classes, groups or division. The final product is released to the third party at the end of the integrated process. In practice, the price of the product of the vertically integrated activities are determine at the final stage of production. There were other issues raised which needed to be addressed to help the countries adapt ISIC rev 4 to the needs of the country but at the same time ensuring international and regional comparability.

While the structure of the economies of the AMCs may differ, there are still several industries, which are common to many member countries with similar production processes. Member countries are encouraged to conduct special studies for issues or areas that will assist in developing harmonized industrial classification in AMCs. The result of the studies will be incorporated in the guideline of harmonization and will also serve as a basis for adapting the ISIC to the categories relevant to the countries.

#### **Issues Raised by the Member Countries of the Task Force**

There were several concerns raised by the member of the Task Force during the second meeting in applying ISIC Rev 3. These issues relate to collection of data and classification of units to the different industry categories.

1. Activities that fall under different division, different groups or different classes. Some examples are:
  - a. Making charcoal from wood gathered in the forest( forestry, manufacturing)
  - b. Gathering honey in the forest and bee farming (forestry, agriculture)
  - c. Slaughtering of animals on the farm (agriculture, manufacturing)
  - d. Processing of product on the farm and by trader (agriculture, trading)
  - e. Stone crushing from quarried stone (quarrying, manufacturing)
  - f. Selling of processed food from own produced (manufacturing, trading)
  - g. Beauty saloon and selling of cosmetics ( personal services, trade)
  - h. Mall with own store and renting out of spaces( trading and real estate)

2. Vertically integrated activities are common in large and small establishments/enterprises where the unit undertake one activity and all the output are used as intermediate input of the next activity. The product of the last stage of production is for a third party.
  - a. Cutting trees and saw milling (forestry and manufacturing)
  - b. Egg production and processing into salted eggs (agriculture, manufacturing)
  - c. Catching and processing of fish (fishing, manufacturing)
  - d. Processing of crops in plantation such as rubber, oil palm, coffee, copra, etc
  - e. Plantation with processing and transport (canned fruit and juices)
  - f. Real estate development and selling of real estate (construction, real estate)
3. Issues on classification
  - a. Classification criteria for new industries
  - b. Classification criteria for industries not covered in ISIC rev 4.

### **Possible Topics for Country Study**

In harmonizing the industrial classification of AMCs, there would be need to further examine the issues by undertaking country study on specific issues. Some of the topics which the member countries may choose to conduct special studies are given below:

1. Study to determine the default classification for boundary activities by establishing the benchmark estimates of value added of boundary activities.

The study will determine the nature of boundary activities and to set the benchmark for the share of value added of the different activities. Because of the lack of pricing of the intermediary activity, the current practice is to classify the activity into the activity of the final product regardless of the implied value added of the output of the intermediary activity. The result of the study could be used in setting default classification of the boundary activities.

2. Study to determine the benchmark of the share of value added of the activities under the different activities of vertically integrated activity

Where the value added can be measured for the different economic activities of the vertically integrated activities, the integrated activities will be disaggregated accordingly. However, if this is not possible the activities will be classified to the industry with the highest value added. However, this is only possible with the availability of data. This will pose problem in sampling of establishments for surveys. The study will determine the basis of allocation of the value added of the different stages so that the output could be divided accordingly. A distribution ratio would be established for such vertically integrated activities.

3. Study to determine the classification of industries common to the country but are found problematic in classification with ISIC Rev 4.
4. Determining the specialization ratio and coverage ratio of specific industry to determine whether there is a need to contract or expand as maybe appropriate for the country.