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Government/Public Sector/Private Sector Delineation Issues

Prepared by the Task Force on Harmonization of Public Sector Accounting

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TASK FORCE ON HARMONISATION OF PUBLIC SECTOR ACCOUNTING

GOVERNMENT / PUBLIC SECTOR / PRIVATE SECTOR DELINEATION ISSUES

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Acronyms

GBE	Government business enterprise
GFSM 2001	*Government Finance Statistics Manual 2001*
ESA 95	*European System of Accounts 1995*
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
NPI	Nonprofit institution
PPP	Public private partnership
PSC	Public Sector Committee (IFAC)
SNA	*System of National Accounts 1993*
SPV	Special purpose vehicle
TFHPSA	Task Force on Harmonisation of Public Sector Accounting
WGII	Working Group II (for SNA review), TFHPSA

Executive Summary

A Introduction

As part of the work programme of the Task Force on Harmonization of Public Sector Accounting, this paper investigates two issues about public sector entities. Firstly, whether the current SNA principles and guidance lead to a clear identification and delineation of public and private sector statistical units. Secondly, whether within the public sector, units are correctly classified as either non-market (general government) or market (corporations).

The investigation is carried out with a view to promote harmonization in the classification of public sector organizations between economic and financial accounting reporting. An important step in harmonization is an accurate delineation firstly, of the public and private sectors, and, secondly, of the general government sector and the two public corporations sectors

B The Public Sector

The public sector is defined in System of National Accounts 1993 (the SNA) as the national, regional, and local governments plus institutional units controlled by government units. Problems arise in relation to identification of the latter units and further clarification in the SNA on these units is recommended.

A governmental controlled entity might be an entity that can be a source of financial gain to the government that controls it because it produces goods and services and sells them at market prices (referred to as corporations in the SNA) or it might be an entity that cannot be a source of financial gain to the government regardless of the prices for which it sells the goods and services it produces (nonprofit institutions). Governments exert control over these two types of entities differently.

Control of corporations

In the SNA, a government controls a corporation if it has the ability to determine the general corporate policy. In the International Public Sector Accounting Standards (IPSASs) issued by the International Federation of Accountants Public Sector Committee, a government controls a corporation if it has the power to govern its financial and operating policies so as to benefit from its activities. It is recommended that the definition of control in the SNA [SNA 4.30] be further elaborated along the lines of the definition similar to those found in the IPSASs.

The difference in the definitions is relevant to corporations for which the government involvement is as a fiduciary, such as for pension funds for government employees.1 The classification of such units in the SNA is not entirely clear and the proposed change to the SNA definition of control may result in the classification of these units to the private sector.

[1] An electronic discussion group (EDG), hosted by the International Monetary Fund (IMF) is examining pension schemes, http://www.imf.org/external/np/sta/ueps/index.htm.

Control of nonprofit institutions

More clarification on which non-market nonprofit institutions are part of the public sector in economic accounting could be provided. For non-market NPIs, the requirement to be mainly financed by government could be included in a list of indicators of control, along with other supporting material as recommended.

C General Government Sector – Economically Significant Prices

Once the coverage of the public sector is clearly defined, there is a need to classify public sector entities as either engaging in market or non-market production, i.e., as being in the public corporations sector or general government sector respectively. In the SNA, an institutional unit is a market producer if it charges economically significant prices for all or most of its output. The definition of an economically significant price is, however, quite general and further guidance along the lines suggested would be more helpful.

D Conclusion and Recommendations

It is recommended that the SNA definition of control be extended to align more closely with the financial accounting definition of control in the IPSASs.

The main recommendations are:

Public sector boundary:

- Extend the discussion of control in the SNA to include:
    - Indicators of control of corporations
    - Indicators of control of non-market NPIs

General Government Sector:

- Clarification and elaboration in the SNA of:
    - Distinction between market/non-market production based on the concept of economically significant prices

There are also some areas in the SNA where guidance on the identification and treatment of units, which are relevant for the boundaries of the public and general government sectors, is absent or insufficient; this leads to interpretation and inconsistency of treatments across countries. These issues include, for instance, Special purpose vehicles (SPVs) that have become important, particularly for securitization operations, but they can be used for a wide variety of purposes.2 In addition, it is possible for a government to form a joint venture with another government (public joint ventures), and with a private entity or entities (public-private joint ventures). Potentially, there may be more than one institutional unit and their sectoring is not covered in the SNA. However, while the detail of this will depend on other issues and is not available for this paper, guidance in the SNA is required on how to evaluate and classify these three cases

[2] Working Group II (WGII) of the TFHPSA has an interest in these units as part of its consideration of privatisation and restructuring units.

Recommendation 1: for a decision tree

In practice, when a decision for classifying an entity - in the government sector or in the public sector - is to be made, it is recommended to follow three steps and answer three questions:

1. **Is the entity an institutional unit?**

If the entity does not meet the criteria (see §14) to be considered an institutional unit, it is part of the unit that controls it[3].

2. **Is the institutional unit part of the public sector?**

If the unit is controlled by a government unit it is part of the public sector. If not, it is neither a general government unit, nor a public corporation (part of the public sector).

3. **Is the public institutional unit market or non-market?**

Does the public unit sell its output at economically significant prices?

If yes, it is to be classified as public corporation (in S.11 or S.12).

If no, it is to be classified in the general government sector (S.13).

Recommendation 2: Government control on corporations:

Definition: control is defined as the ability to determine the general corporate policy of the entity. Public corporations – corporations controlled by government units - are to be classified in the non-financial or financial corporations sector according to their main activity.

Indicators: eight major indicators of control are to be considered. In some cases, a combination of indicators is necessary:

Indicator 1: ownership of the majority of the voting interest (p. 17)
Indicator 2: control of the board or other governing body
Indicator 3: control of the appointment and removal of key personnel
Indicator 4: control of key committees of the entity
Indicator 5: golden shares and options (p. 18)
Indicator 6: regulation and control
Indicator 7: control by a dominant customer
Indicator 8: control attached to borrowing from the government (p. 20)

[3] See also the discussion on AEG issue 25 on Institutional units.

Recommendation 3: Government control on non-market NPIs:

Definition: control is defined as the ability to determine the general policy or programme of the NPI. Non-market NPIs controlled by government are allocated to the general government sector.

Indicators of control: five major indicators of control are to be considered:

Indicator 1: appointment of officers (p. 22)
Indicator 2: other provisions of enabling instrument
Indicator 3: existence of contractual agreements
Indicator 4: degree of financing by government
Indicator 5: level of risk exposure

Recommendation 4: Economically significant prices, market and non-market producers

Market producers sell most or all of their output at prices that are economically significant.

Non-market producers are producers that provide most of their output to others free or at prices that are not economically significant.

Economically significant price is important because it is the criterion that is used to classify output and producers as market or non-market. Economically significant prices are defined as prices that have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. These prices normally result when:

The producer has an incentive to adjust supply either with the goal of making a profit in the long run or, at a minimum, covering capital and other costs

Consumers have the freedom to purchase or not purchase and make the choice on the basis on the prices charged.

It can be presumed that these prices result when the units are private corporations. When there is public ownership, these objectives may be modified for example because of public policy purposes, and thus cause difficulties in determining whether the prices are economically significant or not.

It is assumed that units that operate with economically significant prices are operating in line with market conditions. Units that do not use economically significant prices are working in an environment where supply and demand are controlled by other factors usually because of the interjection of government policy into economic behaviour. In the SNA, production that results in products being offered for sale at economically significant prices is described as market output and other production is referred to as non-market production. A production unit is described as a market producer or a non-market producer according to whether the majority of its production is market or non-market, respectively. The only units that operate as non-market producers are those in government and those designated non-profit institutions serving households (NPISH). It is thus particularly important to be clear whether units set up by government or in which government has a controlling interest are to be designated as market or non-market producers.

Governments frequently act to produce goods and services other than those characteristic of government. In order to determine whether these are produced in a market or non-market manner, it is useful to consider a taxonomy which specifies which units are the consumers of the goods and services in question and whether the public sector is the only supplier. The following indicators could be considered in making the decision to classify these producers as either market or non-market.

Production sold primarily to corporations and households

When production is sold primarily to corporations and households, in order to qualify as a market producer, the majority of its costs (including consumption of fixed capital and a return to capital) would normally be covered by the value of its sales and consumers are free to choose on the basis of the prices charged. Although there is no prescriptive numerical relationship between the value of output and the production costs, one would normally expect the value of output to average at least half of the production costs over a sustained multi-year period. Because economic circumstances vary considerably, it may be desirable to accept a lower threshold to achieve consistent economic measurement over time and across countries.

For the same reason, the distinction between market and non-market may be made for a group of entities undertaking similar activities rather than on a case-by-case basis. Examples may be higher educational institutions or transport systems.

Production sold only to government

The 1993 SNA describes some services typically required by all units as ancillary services. These include activities such as transportation, purchasing, sales, marketing, computing, communications, cleaning, and maintenance. A unit that provides some or several of these services exclusively to its parent unit or to other units in the same group of units may be described as an ancillary unit. Ancillary units provide all their output to their owners for use as intermediate consumption. The 1993 SNA treats these units as integral to their parent units. This practice in under review. The cases below consider units providing services (or goods) other than those considered as ancillary services. They include cases where government is purchasing services (including health services) on behalf of households or of corporations.

Only supplier

If a public producer is the only supplier, it is treated as a non-market unit unless it competes with a private producer in tendering for a contract to government on normally accepted commercial terms.

One of several producers

A public producer is considered a market producer if there is evidence that it competes with other producers in the market.

Production sold to government and others

Some public sector units sell some of their production to government and some to other non-government units.

Only supplier

For the unit to be treated as a market producer, either the sales to non-government units is more than half of total output or the sales to government satisfies the tender condition above ("Only supplier", see also § 91).

One of several producers

A public producer is considered a market producer if it competes with other producers in the market.

Mixed ownership

When there is mixed public and private ownership, the greater the degree of private ownership the greater the presumption that the output is market output, but this criterion is not definitive.

Recommendation 5: definition of sales

In order to compare output of corporations with their production costs to assess if prices are economically significant, the output is measured as equal to the business notion of sales (plus if necessary the changes in inventories), excluding taxes on products (D.21) and subsidies on products (D.31), except those subsidies that are also granted to all private producers for this type of activity (in all cases, payments to cover an overall deficit are excluded). Own-account production is not considered part of sales in this context.

Warning: the case of financial corporations (what are ESP, and sales, for financial corporations?) is specific and still under discussion in the TFHPSA and in other fora. A proposal will be made later on to the Advisory Expert Group.

Recommendation 6: definition of production costs

Production costs are the sum of intermediate consumption, compensation of employees, cost of capital services,[4] and other taxes on production. Other subsidies on production are not deducted.

4 If the term "capital services" would not be included in the updated SNA, it would be replaced by the consumption of fixed capital plus the interest on productive capital.

I Introduction

1. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) is examining the harmonisation of the economic and financial accounting[5] reporting of the economic activities and the classification of public sector organizations. One area of harmonization involves the scope of the organizational units that are covered by the two systems.

2. The scope of economic and financial reports about the public sector is defined in terms of organizational entities, with these entities having in common that they are controlled by government. In economic statistics, entities are referred to as institutional units or statistical units. In financial accounting, they are referred to as reporting entities. The public sector is the universe of government controlled statistical units in the SNA and, in the IPSASs, it is a single reporting entity to the extent that it represents the universe of governmental controlled entities. In the SNA, the public sector is defined as the units of the general government, public non-financial corporations, and public financial corporations sectors [SNA 19.37][6.] In financial accounting, the IPSAS Board (ex-Public Sector Committee of the International Federation of Accountants) states that the public sector "refers to national governments, regional (e.g., state, provincial, territorial) governments, local (e.g., city, town) governments and related governmental entities (e.g., agencies, boards, commissions and enterprises)."[7]

3. This paper investigates two issues about public sector statistical units in economic accounting and proposes changes to the SNA:

- To clarify the SNA definition of the public sector and relevant guidance for the correct identification and classification of public sector entities.
- To clarify the SNA guidance in identifying units engaged primarily in either market or non-market activities for the correct delineation of government from other public units.

II The present SNA

II.1 Sectors

4. In the SNA, institutional units are aggregated into sectors according to the similarity of their economic objectives, functions, and behavior and the types of units that may control them. The SNA defines the public sector as encompassing three sectors — the general government sector, public financial and non-financial sectors.

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5 "Economic statistics" and "economic accounting" are used here as interchangeable terms for macroeconomic statistics and the methodological foundation underlying them. The principal manual reflecting the goals and methodological standards of macroeconomic statistics is *System of National Accounts 1993*, which will be referred to as "the SNA." The *Government Finance Statistics Manual 2001* (*GFSM2001*) is identical with the SNA with regard to the identification and grouping of institutional units. The one difference between the *GFSM2001* and the SNA relevant to this paper is consolidation.

6 References to the SNA will be given as [SNA x.y], where x is the number of the chapter and y is the number of the paragraph in chapter x. References that do not follow quotations are paraphrases of the cited paragraphs.

7 IPSAS Board (ex-International Federation of Accountants), *Handbook of International Public Sector Accounting Standards, 2003 edition*, p. 10.

A The Public Sector

5. Institutional units can be classified as being public or private units or being owned or controlled by public or private units. The grouping units owned controlled by public units is referred to in the SNA as the public sector. It consists of all government units, all nonprofit institutions (NPIs) controlled and mainly financed by government, and all public corporations.[8] Statistics on the public sector provide information on the total resources controlled by governments and the purposes and efficiency with which those resources are employed.

6. The public sector is defined in the SNA as the national, regional, and local governments plus entities controlled by government units. Determining exactly what is meant by the public sector is part of the first issue in paragraph 3. The definition of control can be improved resulting in greater certainty in the correct sector treatment of the related governmental entities. As will be seen in section IV, there is some uncertainty about the exact meaning of some of the terms used to define government units, NPIs controlled and mainly financed by government, and public corporations.

B The General Government Sector

7. Institutional units also can be classified as being either market or non-market producers. Such a classification is important for economic analysis because units subject to market forces operate differently than units not subject to market forces. Many units engage in both market and non-market production, but usually one type of production predominates so that a classification of mixed units is not needed. It is sufficiently accurate to treat each unit as being either a completely market producer or a completely non-market producer.

8. All corporations and some NPIs are predominantly market producers. All government units and most NPIs are predominantly non-market producers. Within non-market producers, some units finance their activities primarily through taxes and other compulsory transfers, and other units finance their activities primarily through voluntary transfers. The first group consists of all government units and NPIs controlled and mainly financed by government. This group is referred to in the SNA as the general government sector.

9. Determining exactly what is meant by the general government sector in the SNA is part of the second issue raised in paragraph 3. 0As will be seen in later sections, there is some uncertainty about the exact meaning of some of the terms used to define institutional units and the exact definition of economically significant prices.

C The Corporations Sector

The corporations sector comprises institutional units that are market producers. The sector includes all corporations and some NPIs.

[8] This definition is equivalent to the definition cited in paragraph 2 because all corporations are either financial or non-financial corporations and in chapter IV of the SNA it is clear that the phrase “units of general government” includes NPIs controlled and mainly financed by government.

II.2 Institutional Units in The Public Sector

10. The heart of the statistical system of the SNA is a set of accounts that presents (1) stocks of assets and liabilities in a balance sheet for the total domestic economy and its major sectors at the beginning and end of an accounting period and (2) the principal economic activities occurring within the accounting period in several flow accounts. A statistical unit known as the institutional unit is used for the compilation of these accounts. The total domestic economy is the aggregation of all domestic institutional units, and each sector is an aggregation of certain domestic institutional units with specific characteristics.

11. 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." [SNA 4.2] Such a unit "is able to take economic decisions and engage in economic activities for which it is itself held to be directly responsible and accountable at law," including entering into contracts. [SNA 4.2] Because an institutional unit can engage in economic activities on its own account, it can buy and sell goods and services, own assets, and incur liabilities in its own name. Another implication is that either a complete set of accounts reflecting the unit's activities exists or it must be possible and meaningful to compile such a set of accounts. [SNA 4.2] Finally, an institutional unit must be a resident unit in the domestic economy.

12. An institutional unit is either (1) a household or (2) a legal or social entity whose existence is recognized by law or society independently of the persons or other entities that may own or control it. [SNA 4.3] For the purpose of this study, only legal or social entities are of interest. Three main types of legal or social entities are identified in the SNA: government units, corporations, and nonprofit institutions. [SNA 4.5]

A Government units

13. Government units are "legal entities established by political processes which have legislative, judicial or executive authority over other institutional units within a given area." The principal economic functions of government units are (1) to assume responsibility for the provision of goods and services to the community or to individual households at prices that are not economically significant, and (2) to redistribute income and wealth by means of transfer payments, financing both of these activities primarily from taxation or transfers from other government units. [SNA 4.104]

14. In order to apply the general definition of an institutional unit to identify government units, the SNA offers the additional guidance that a government unit must:

- Have funds of its own, either (1) raised by taxing other units resident in or engaging in economic activities in its area of authority or (2) received as transfers from other government units; [SNA 4.104(a)]
- Be able to own assets [SNA 4.125] and incur liabilities by borrowing on its own account; [SNA 4.104(a)]
- Have the authority to disburse at least some of its funds in the pursuit of its policy objectives; [SNA 4.104(a)] and
- Be able to appoint its officers, independently of external administrative control. [SNA 4.125]

15. All government units supply most of the goods or services they produce or purchase for resale to consumers free or at prices that are not economically significant. Roughly speaking, economically significant prices can be characterized as market prices. [SNA 4.24(b)] Thus, producers whose prices are not economically significant are referred to as non-market producers. Despite being non-market producers, government units may engage in some market production. By definition, the amount of market production must be less than the amount of non-market production, and it usually is much less. The treatment of such market production depends on the organization of the government unit. Economically significant prices are discussed further in section V.

B Corporations

16. Corporations are legal entities that are (1) created for the purpose of producing goods or services for the market, (2) collectively owned by other institutional units, (3) intended to be a source of profit or other financial gain to their owners and (4) recognized at law as separate legal entities from their owners. [SNA 4.23 and 4.47]

17. Producing for the market means that the goods and services produced by the unit are sold or otherwise disposed of at economically significant prices[9]. [SNA 4.24(b)] The definition of these prices is discussed further in section V.

18. The owners, known as shareholders, can be any type of institutional unit, including households, government units, and other corporations. The total value of a corporation is allocated in some manner among the shareholders, usually in proportion to the number of shares owned.

19. Any profit or other financial gain earned by a corporation belongs directly or indirectly to the shareholders. Financial gains can be passed directly to the shareholders as a dividend or similar distribution or the corporation can retain them. Any amount retained by the corporation increases the value of the corporation and indirectly the value of the shares. [SNA 4.24] Similarly, any loss suffered by the corporation decreases the value of the shares.

20. As institutional units, corporations must be responsible and accountable at law for their own actions implies that they are legally independent of their shareholders. Legal independence implies the ability to buy, sell, lease, and mortgage property in its own name and the power to sue and be sued without recourse to the owners. This independence usually means that the liability of shareholders with respect to the corporation's actions is limited to the amounts invested in the corporation.

21. Legal independence does not mean that corporations make decisions autonomously. In fact, the requirement that shareholders must own corporations means that their activities have to be controlled in some manner by the collective decision of those owners. If there is a large number of owners, each with a small percentage ownership share, then the corporation's decisions will be relatively autonomous. If, however, there is only one owner, then that owner will be able to direct the corporation's activities in whatever detail desired. Nevertheless, even corporations wholly owned and controlled by a single unit are responsible for their own

[9] For the purpose of using economically significant price to distinguish among market and non-market producers, the prices should exclude taxes and subsidies on products, except these subsidies that are granted to all producers for the same type of activity.

actions, are required by law and the tax authorities to produce complete sets of accounts and, therefore, constitute separate institutional units. [SNA 4.38]

22. In the SNA, the concept of corporations includes companies, partnerships, cooperatives, proprietorships, and other legal forms of organization in addition to organizations formally designated as corporations as long as they produce for the market, are owned by other units, can be a source of financial gain to their owners, and are separate legal entities. [SNA 4.23] Conversely, many entities known as corporations by the governing law are not corporations in the SNA because they do not produce for the market or cannot be a source of financial gain for their owners. [SNA 4.48] For example, many governments and NPIs are legally organized as corporations.

23. Corporations are formed in accordance with the laws of a specific locality. A corporation may normally be expected to have a centre of economic interest—i.e., to be resident—in the country in which it is created and registered. When it also has one or more branches engaged in significant amounts of production over long periods of time in other countries, such branches are treated as quasi-corporations that are separate institutional units resident in the countries in which they are located. [SNA 4.24]

Public corporations

24. Corporations can be owned or otherwise controlled by government units as well as by other types of institutional units. Corporations controlled by government units are referred to as public corporations. Control is defined as the ability to determine general corporate policy, typically by appointing appropriate directors. Owning more than half the shares of a corporation usually is sufficient to control the corporation, but other methods of control are possible. For example, a government may be able to control a corporation as a result of special legislation giving it the right to appoint the directors regardless of the number of shares owned. [SNA 4.30]

C Nonprofit institutions

25. NPIs are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control, or finance them. The articles of association by which they are established must be drawn up in such a way that the institutional units which control them are not entitled to a share in any profits or other income they receive. [SNA 4.54] Some NPIs may be created as legal corporations. They are, however, treated as NPIs in the SNA because they cannot be a source of financial gain to the units that establish, control, or manage them.

26. NPIs can be market producers. The term “nonprofit” derives from the fact that the members of the association controlling the NPI are not permitted to gain financially from its operations and cannot appropriate any surplus that it may make. It does not imply that an NPI cannot make a profit from its productive activities. [SNA 4.56] For example, nonprofit universities, hospitals, and credit unions might charge prices that are sufficiently high to be judged economically significant. [SNA 4.58]

27. NPIs that do not charge economically significant prices are non-market producers; they must rely principally on funds other than receipts from sales to cover their costs of production or other activities. Their principal source of finance may be investment income, regular subscriptions paid by the members of the association that controls them, or donations from third parties, including government units. [SNA 4.60]

Nonprofit institutions controlled and mainly financed by government

28. Some non-market NPIs are controlled and mainly financed by government. To be nonprofit institutions, these units must be properly constituted legal entities that exist separately from government. Governments can establish NPIs, reserve the right to appoint the directors and otherwise direct the activities on the NPI, and provide any necessary financing. It is likely that an NPI controlled and mainly financed by a government is carrying out the government's policies using government resources and effectively is a part of that government. Once established, however, the government cannot profit from the NPI's activities or retain a claim on its assets.

29. Governments may find it appropriate to create NPIs to carry out a specific function rather than use a government unit because NPIs are seen as more detached and objective and less subject to political pressures than government units. [SNA 4.62] Possible examples are NPIs engaged in research or development and NPIs that set and/or maintain standards in fields such as health, safety, the environment, accounting, finance, and education.

30. As with corporations, control of an NPI is the ability to determine its general policy or program, typically by having the right to appoint its officers. [SNA 4.62] The SNA does not define "mainly financed." It was previously observed, however, that a non-market NPI must rely principally on funds other than receipts from sales to cover their costs of production or other activities, and that one source of these funds can be donations from government units. It is presumed, therefore, that "mainly financed by government" means that a government unit is the principal source of the funds used by a non-market NPI to cover its costs of production and other activities.

III Identification of Public Sector Units: the notion of control

31. Although the preceding sections present reasonably clear notions of what an institutional unit is and how to classify them as public or private units, there are a number of improvements that could be considered.

A Definition of an institutional unit

32. Institutional units are defined so that they will adequately support macroeconomic analysis. The measurement and analysis of production is perhaps the primary goal of economic statistics, and the classification of institutional units in the SNA into market and non-market producers is vital for that goal. A second design aspect is that the variety of possible analytical tasks requires a coherent set of statistics regarding the full range of economic activities. The definition of an institutional unit as a unit that can engage in economic activity is crucial for such a coherent set of statistics[10]. This would help to clarify the following:

a. Having balance sheets, a complete set of accounts, owning assets and incurring liabilities can be done by entities that are not institutional units. The relationship between these characteristics and the concept of an institutional unit needs to be defined more clearly.

b. In some cases social security and autonomous pension funds may not be institutional units if the definition is strictly followed, but the needs of economic analysis are better met if they are classified

[10] This issue was not covered by the TFHPSA.

as institutional units. The definition of an institutional unit should make it clear why they are so classified.

B Definition of Control

33. Establishing the definition of control is the most important issue for determining if a unit is a public or private unit. A public corporation is a corporation that is controlled by a government unit or another public corporation, and a NPI is a public unit if it is both controlled and mainly financed by a government unit.

34. The IPSASB defines control[11] to be "the power to govern the financial and operating policies of another entity so as to benefit from its activities". The definition is also supplemented by a number of indicators. The SNA defines control "as the ability to determine the entity's general corporate policy, by appointing directors if necessary" [SNA 4.30]. As the IPSAS definition applies to a particular reporting entity in question, it is possible for units in the public sector by the SNA definition to be totally excluded from the sector under the IPSASs.[12] Nonetheless, enhancement of the SNA definition, based on the IPSASs would result in more harmonized reporting in a number of respects. For example:

– a classification to the private sector of those government employee pension funds where governments act in a fiduciary capacity,

– specifying that control must be presently exercisable (i.e. power conferred by existing legislation, etc) and that general regulatory powers applicable to a whole class of entities or industry may not imply control of an individual unit.

Government Control of Corporations

35. In many cases, it will be clear that a government unit controls a corporation because it is the sole owner or it has the exclusive right to appoint directors. There easily can be, however, cases in which the government is not the sole owner. In those cases, it may not be obvious that there is a controlling owner. In addition, governments can strongly control the economic actions of corporations by exercising their sovereign powers.

36. A corporation is in the public sector if a government unit or a public corporation controls the entity; otherwise it is in the private sector. The SNA defines this control "as the ability to determine the entity's general corporate policy, by appointing directors if necessary" [SNA 4.30].

37. It is recommended that the above "basic" definition be amended so that control is defined "as the ability to determine the general corporate policy of the corporation".

38. It is further proposed that the existing reference to 'the appointment of directors, if necessary' (and other additional explanatory text) be incorporated into the SNA so as to improve the basic definition by addressing some of the difficulties discussed above and make it operationally similar to the equivalent concept in the

[11] The definition is in the International Public Sector Accounting Standard (IPSAS) issued by the IPSAS Board (ex-IFAC PSC): IPSAS 6 – *Consolidated Financial Statements and Accounting for Controlled Entities*

[12] For example, in some federal systems several governments may each have minority interest in an entity. Such an entity would be in the public sector by the SNA definition whereas under the IPSASs no government would consider it a controlled entity, resulting in it being excluded from enumeration in the public sector altogether.

public sector accounting standards. The conceptual basis of the current definition is therefore not changed in any material way by the supporting text outlined in the box below.

Supporting text:

39. Government units and or public corporations may be able to determine the ‘general corporate policy’ of a corporation in a variety of different ways depending on the institutional arrangements in place. The expression “general corporate policy” as used here is understood in a broad sense to mean the key financial and operating policies relating to the corporation’s strategic objectives as a market producer.

40. Since governments exercise sovereign powers through legislation, regulations, orders and the like, care needs to be applied in determining whether the exercise of such powers amounts to a determination of the general corporate policy of a particular corporation and therefore control of the corporation. The laws or regulations applicable generally to all units as a class or in a particular industry should not be viewed as amounting to control of these units. Government authority to determine the general policy of a corporation usually comes from legislation or other instrument that is specific to the individual corporation, identified by its name, over which control is exercised.

41. The ability to determine the general corporate policy does not necessarily include the direct control of the day-to-day activities or operations of a particular corporation. The officers of such corporations would normally be expected to manage these in a manner consistent with and in support of the overall objectives of the particular corporation.

42. The ability to determine the general corporate policy of a corporation also would not include the direct control over any professional, technical or scientific judgments, as these would normally be viewed as part of the core competency of the corporation itself. Thus, the professional or technical judgment exercised by a corporation set up to certify aircraft airworthiness would not be considered controlled in respect of individual approvals and disapprovals, though its broader operating and financial policies, including the airworthiness criteria, may well be determined by a government unit as part of the corporation’s corporate policy.

43. Following on from the above, the determination of the general corporate policy of a corporation acting as a *bona-fide* trustee would not amount to control of the trustee’s execution of its professional functions as a fiduciary[13]. In such instances, the institutional units typically involved would be the trustee (say in the form of a particular corporation in question), the trust property or activity (say in the form of another corporation) and the beneficiaries (say individuals or householders). If a government unit (or another public corporation) did determine the general corporate policy of the corporation in question, then this would not amount to control of the trust property or activity. This is because the trustee, in executing its fiduciary obligations, would be obliged to act strictly in accordance with the trust deed. The trustee would act in the interests of the beneficiaries and not at the behest of its controlling entity (in matters subject to the trust of course). Accordingly, the public corporation in question would not be viewed as controlling the trust property or activity and the latter would therefore be classified to the private sector. Two examples where this may apply

[13] According to common legal definition, a fiduciary refers to a business or person who may act for another with total trust, good faith and honesty. A fiduciary may include several types of experts (business adviser, attorney, estate administrator, banker, stockbroker etc.).

relate to government employee pension funds and public trustees.

44. In the above case, if the beneficiaries were public sectors entities then a classification of the trust property or activity to the public sector would be appropriate. The general principles described here in relation to a public corporation performing as a bona-fide trustee would also apply if the unit in question were of a different type (e.g. a government unit or an NPI controlled by government).

45. When governments control corporations in the manner discussed here, they generally do so for public policy purposes as this is fundamentally the reason for government's existence. Governments therefore always benefit in the process of controlling other entities, irrespective of the success or otherwise of the public policies in question. Although all such benefits can ultimately be linked to the fundamental reason for government's existence i.e. formulation and execution of public policy, it is also possible to view a subset of these benefits in a financial or monetary sense (such as entitlement to dividend income or exposure to financial loss). In this view, if a government controlled a corporation it would also be able to benefit by being able to determine the corporation's profit distribution policy or by applying its share of the funds to alternative uses through a liquidation of the corporation, for example. An analysis of benefits along these lines may be helpful in establishing the existence of control in some circumstances; however, the wider notion of benefits emanating from the fundamental reason for a government's existence always exists. Therefore, a determination of the existence of government control over a corporation can also be done independently of the benefits involved.

46. Since the arrangements for the control of corporations can vary considerably it is neither desirable nor feasible to prescribe a definitive list of factors to be taken into account; however, the following indicators could be taken as a guide:

Some indicators of control:

Indicator 1 – ownership of the majority of the voting interest

47. The ownership of the majority of shares if decisions are made on a one-share one-vote basis needs to be considered. The shares may be held directly or indirectly and the aggregate ownership of the whole public sector needs to be considered as a number of different public sector entities may hold shares. Such a situation could be relevant temporarily in cases when the government has taken control of a private company in difficulty.

48. A single institutional unit owning more than a half of the shares, or equity, of a corporation is able to control its policy and operations by outvoting all other shareholders, if necessary. Similarly, a small, organized and coordinated group of shareholders whose combined ownership of shares exceeds 50 per cent of the total is able to control the corporation by acting in concert.

49. In cases where decisions are not made on a one-share one-vote basis (i.e. the ownership is on a different basis to control), the classification to the public sector would be based on whether the control provides a majority voice.

Indicator 2 – control of the board or other governing body

50. The controlling entity may have the ability to appoint or remove a majority of the board or other

governing body as a result of existing legislation, regulation, contractual, or other arrangements. This may be determined by examining the arrangements and considering, where necessary, the total public sector influence. There may be appointees of different levels of government and of different public corporations that need to be aggregated to assess the overall situation.

51. Even when the public sector does not control the appointment of directors, they may have the right to veto proposed appointments. This can be seen as a form of control if it influences the choices that can be made. This right of veto may also be relevant to other indicators below.

52. Another body, including a subset of the board itself, may be responsible for appointing the directors. In these cases it is necessary to look at the composition of these other bodies to see whether these are majority public sector or not. There may also be timing issues if the government (or the public sector more widely) appoints the first set of directors but does not control the appointment of replacement directors. The body would then be public sector until the initial appointments had expired, provided there was no control of the next set of appointments.

53. There may also be circumstances where the key financial and operational policies of the entity are actually established and limited by existing legislation, regulation or other instrument, thereby making the issue of board appointments less critical or even irrelevant.

Indicator 3 – control of the appointment and removal of key personnel

54. In cases where control of the board or other governing body appears marginal or inconclusive, the appointment of key executives, including the chief executive, chairperson and finance director may be considered. Non-executive directors may also be relevant if they sit on key committees such as the remuneration committee determining the pay of senior staff.

Indicator 4 – control of key committees of the entity

55. Sub-committees of the board or the governing body could determine the key operating and financial policies of the entity. These sub-committees could be examined to establish whether any have a majority public sector membership. This can happen under the constitution or enabling instrument if it specifies that some public sector members of the board must be on the sub-committee.

Indicator 5 – golden shares and options

56. The government may own a “golden share” in some companies, particularly those that have been privatized. In some cases, this share gives the government some residual rights to protect the interests of the public and, for example, prevent the company selling off some categories of assets. For example, the share may confer the right to appoint a special director who has strong powers in certain circumstances. The government may also have indicated that they do not expect to exercise the power of the golden share in normal circumstances and the companies’ owners/shareholders accept the existence of the golden share voluntarily. Control is defined in recommendation 2 of this paper as “the ability to determine the general corporate policy of the entity”. Thus the power covered by such a golden share as described above, is not of itself indicative of control. However, if the powers covered by the golden share did confer on the government the ability to determine the general corporate policy of the entity in particular circumstances, and those circumstances currently existed, then the entity would need to be reclassified to the public sector from the date

in question.

57. The existence of a share purchase option available to a government unit or a public corporation in certain circumstances may also be similar in concept to the golden share arrangement discussed above. If the purchase option was exercised, then this should be taken into account if it results in having control. Prior to the exercise of the option, it will also be necessary to consider whether the circumstances in which the option may be exercised currently exists, the volume of shares which may be purchased under the option and the consequences of such exercise means that the government currently has “the ability to determine the general corporate policy of the entity” by exercising that option.

58. As a general principle, the public/private determination of an entity’s status should be based on the existing ability to determine corporate policy exercised under normal conditions rather than in exceptional economic or other circumstances such as wars, civil disorders or natural disasters. Any ability to control an entity in such circumstances would not give rise to control in the absence of such circumstances.. However, when exceptional economic or other circumstances arise, the ability to control is activated and a reclassification would be justified during the period of such abnormality.

Indicator 6 – regulation and control

59. The borderline between general regulation (of a kind that would normally apply to all entities within say a whole class or industry group) and the control (of an individual corporation as discussed here) can be difficult to judge sometimes. There are many examples of government involvement through regulation, particularly in areas such as monopolies and privatized utilities, but regulatory involvement itself is not necessarily control. Therefore, it is possible for regulatory involvement to exist in important areas, such as in price setting, without the entity ceding control of its general corporate policy.

60. Where regulations are accepted by the entity (i.e. the entity chooses to enter into or continue to operate in a highly regulated environment) this suggests that they are not equivalent to control. However, when the regulation is so tight as to effectively dictate how the entity performs its business, then this could amount to a form of control. Fundamentally, if an entity retains unilateral discretion as to whether it will take funding from, interact commercially with or otherwise deal with a public sector entity, other than abide by laws and regulations applicable generally, then the entity has the ultimate ability to determine its own corporate policy and is therefore not controlled by the public sector entity.

Indicator 7 – control by a dominant customer

61. If all of the sales of a corporation are to a single public sector customer there is clear scope for dominant influence. All of such sales may also be to several public sector customers in which case there is again potential for dominant public sector influence.

62. Whether such influence by a dominant customer is tantamount to control may be difficult to judge. Where not all of the sales are to public sector customers, the presence of a minority private sector customer usually implies an element of independent decision-making by the corporation; hence would not be considered controlled. In general, if there is clear evidence that the corporation could not choose to deal with non-public sector clients because of the public sector influence, then public control is implied.

Indicator 8 – controls attached to borrowing from the government

63. Lenders often impose controls as conditions of making loans. If the government imposed controls through lending or the issuing of guarantees that are more than would be typical when a healthy private sector entity borrows from a bank, they may indicate control. Similarly, control may be implied if only the government (and not the banks) was prepared to lend. The overall significance of any such borrowing from government, in relation to the magnitude of the corporation's other borrowings and equity, would also need to be taken into account.

Indicator 9 – other controls associated with the entities constitution and other rules

64. There are often a number of formal legal documents underpinning an entity. These need to be examined for indications of control although it is difficult to cover all eventualities. The following list suggests points to watch for to check whether under the existing arrangements the government can:

- determine aspects of how the body delivers its outputs
- have a final say in the disposal or acquisition of fixed assets
- be entitled to share of proceeds of asset disposals that goes beyond the repayment of previous government support for capital formation
- close or restructure the body
- prevent the body from ending its relationship with government
- change the constitution of the body
- decide what sort of financial transactions the body can undertake, or limit them
- prevent the body from receiving certain types of income from other sources
- exert numerous minor controls over how the body is run
- exert financial control as part of a system of controlling public expenditure (this may require more frequent and more detailed financial reporting than would be the case more generally)
- control dividend or other distribution policy
- set pay or remuneration rates
- approve mergers or acquisitions (other than for regulatory reasons provided for under existing arrangements).

Totality of all indicators

65. In many cases, a single indicator alone could be sufficient to establish the existence of control beyond doubt. In other cases, a number of separate indicators could each be indicative of control, but lack conclusiveness as individual indicators. In these instances, the total impact of all such indicators should be taken into account to establish whether overall control effectively exists, even when none of them provide such an indication on their own.

66. A decision based on the totality of all indicators as described here must necessarily be judgmental in nature, rather than one based on the principles of exact science. Of course, there has to be consistency of approach in classification decisions for such judgments to be effective.

Government Control of Non-market NPIs

Background and Current definition

67. NPIs controlled and mainly financed by government are allocated to the general government sector. In this context, control is defined ‘as the ability to determine the general policy or programme of the NPI by having the right to appoint the officers managing the NPI’ [SNA 4.62].

Proposed revised definition and supporting text

68. It is proposed that the reference to ‘and mainly financed by government’ be replaced with the term ‘non-market’ (or perhaps even ‘mainly non-market’) and that the reference to ‘the right to appoint the officers managing the NPI’ be repositioned under a new ‘indicators of control’ sub-heading.

69. The amendment does not change the conceptual basis of the current definition but it does it make it operationally more consistent with that used in the accounting standards. As a result of these changes the paragraph above would read as follows:

Non-market NPIs controlled by government are allocated to the general government sector. In this context, control is defined as the ability to determine the general policy or programme of the NPI.

70. In addition, further text could be added in the revised SNA so as to provide guidance on the factors that may indicate control of NPIs. The text in the box below is recommended:

Some indicators of control:

Indicator 1 – appointment of officers

71. Under the provisions of the NPIs constitution, articles of association or other enabling instrument, the government may have the right to appoint the officers managing the NPI.

Indicator 2 – other provisions of enabling instrument

72. Even though government may not have the right to appoint the officers managing the NPI, the enabling instrument may contain other provisions that effectively allow the government to determine significant aspects of the general policy or programme of the NPI. For example, the enabling instrument may simply specify and or limit the functions, objectives and other operating aspects of the NPI, thus making the issue of managerial appointments less critical or even irrelevant. The government may retain the right to remove key personnel, veto proposed appointments, require prior approval of budgets or financial arrangements, prevent the NPI from changing its constitution, dissolving itself, terminating its relationship with government, etc.

Indicator 3 – existence of contractual agreements

73. The existence of any contractual agreement between a government and an NPI for, say, the provision of goods or services may contain clauses indicative of the NPI effectively allowing government to determine aspects of its general policy or programme. However, so long as the NPI is ultimately able to determine its policy or programme to a significant extent (for example by being able to renege on the contractual agreement and accepting the consequences, by being able to change its constitution or dissolving itself without requiring government approval other than that required under the general regulations), then it would not be considered controlled by government.

Indicator 4 – degree of financing by government

74. Where an NPI is mainly financed by government, the arrangement needs to be examined in order to establish whether this amounts to effective control of the entity that is the NPI itself, as opposed to control over the application of the financing made available. Generally, if the NPI is able to determine its policy or programme to a significant extent along the lines mentioned in indicator 3 above, then it would not be considered an institutional unit which is controlled by government.

Indicator 5 – level of risk exposure

75. If a government openly allows itself to be exposed to all or a large proportion of the financial risks associated with an NPI's activities, then the arrangement may be examined to establish if control of the NPI itself exists or is implied. Again, the rationale in indicators 3 and 4 above could be applied.

Totality of all indicators

76. In many cases, a single indicator alone could be sufficient to establish the existence of control beyond doubt. In other cases, a number of separate indicators could each be indicative of control, but lack conclusiveness as individual indicators. In these instances, the total impact of all such indicators should be taken into account to establish whether overall control effectively exists, even when none of them provide such an indication on their own.

77. A decision based on the totality of all indicators as described here must necessarily be judgmental in nature, rather than one based on the principles of exact science. Of course, there has to be consistency of approach in classification decisions for such judgments to be effective.

C NPIs controlled and mainly financed by government versus NPIs serving households that obtain all or most of their funds from government

78. Governments and NPIs often serve the same goals of providing social services to selected portions of the population free or at very low cost. Sometimes a government unit will provide the funds to support delivery of the services, but a NPI will actually produce the services or procure them from another producer. When that happens, the classification of the NPI depends on the interpretation of government payments to the NPI and the definition of economically significant prices (see section IV).

79. If the government payments are interpreted as a purchase of services or as a subsidy on products (i.e., payment is related to the volume of the goods and services produced) to the NPI, then the NPI is classified as a market producer, either public or private depending on the interpretation of the degree of government control. If the payments to the NPI are treated as non-subsidy transfer payments, then the NPI is a non-market producer. Being mainly financed by government, it is again a public or private unit depending on the interpretation of control. There have been discussions for many years about the guidelines to be used when classifying government payments to NPIs. The SNA needs further guidelines in this area.

IV Identification of market producers: Economically Significant Prices

80. The second issue in paragraph 3 (part b) asks whether, within the universe of public sector entities, units engaged primarily in either market or non-market activities are correctly identified and classified. Economic statistics use the concept of economically significant prices to distinguish between market and non-market units.

A Current definition and difficulties

81. A publicly controlled institutional unit could be either a government unit or a public corporation in the SNA depending on the prices for which the unit sells or otherwise disposes of its output. Market producers sell most or all of their output at prices that are economically significant. Prices are economically significant when they have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. Universities and hospitals, for example, are market producers when they charge fees based on their production costs that are sufficiently high to have a significant influence on the demand for their services. Even if they generate persistent operating losses, they are market producers as long as their fees are determined mainly by their costs of production and are high enough to have a significant impact on demand. [SNA 6.50]

82. Non-market producers are producers that provide most of their output to others free or at prices that are not economically significant. A price is not economically significant when it does not have a significant influence on the amounts the producers are willing to supply or on the amounts purchasers wish to buy. Such prices are likely to be charged in order to raise some revenue or achieve some reduction in the excess demand that may occur when services are provided completely free, but they are not intended to eliminate such excess demand. Once a decision has been taken on administrative, social or political grounds about the total amount

of a particular non-market good or service to be supplied, its price is deliberately fixed well below the equilibrium price that would clear the market. The price merely deters those units whose demands are the least pressing without greatly reducing the total level of demand.

B Recommendation

83. Applying the definition of an economically significant price can be a matter of some judgment. There have been several efforts since the publication of the SNA to define what an economically significant price is, either attempting to develop general rules[14] or by examining individual cases. In order to improve the application of the concept, it is recommended that some additional guidance, not rules, be included in the revised SNA along the lines of the boxed text below.

Economically Significant Prices

84. Economically significant price is important because it is the criterion that is used to classify output and producers as market or non-market. Economically significant prices are defined as prices that have a significant influence on the amounts the producers are willing to supply and on the amounts purchasers wish to buy. These prices normally result when:

a. The producer has an incentive to adjust supply either with the goal of making a profit in the long run or, at a minimum, covering capital and other costs

b. Consumers have the freedom to purchase or not purchase and make the choice on the basis of the prices charged.

85. It can be presumed that these prices result when the units are private corporations. When there is public control, these objectives may be modified for example because of public policy purposes, and thus cause difficulties in determining whether the prices are economically significant or not.

86. It is assumed that units that operate with economically significant prices are operating in line with market conditions. Those that do not use economically significant prices are working in an environment where supply and demand are controlled by other factors usually because of the interjection of government policy into economic behaviour. In the SNA, production that results in products being offered for sale at economically significant prices (excluding both taxes and subsidies on products) is described as market output and other production is referred to as non-market production. A production unit is described as a market producer or a non-market producer according to whether the majority of its production is market or non-market, respectively. The only units that operate as non-market producers are those in government and those designated non-profit institutions serving households (NPISH). It is thus particularly important to be clear whether units set up by government or in which government has a controlling interest are to be designated as market or non-market producers.

87. Governments frequently act to produce goods and services other than those that are generally characteristic of government. In order to determine whether these are produced in a market or non-market manner, it is useful to consider a taxonomy which specifies which units are the consumers of the goods and

[14] The European System of National Accounts (ESA 95) adopts a 50 per cent rule to determine the type of producer and the sector for private NPIs, but the TFHPSA does not support so prescriptive a cut-off.

services in question and whether the public sector is the only supplier. The following indicators could be considered in making the decision to classify these producers as either market or non-market.

Production sold primarily to corporations and households

88. When production is sold primarily to corporations and households, in order to qualify as a market producer, the majority of the producer's costs (including consumption of fixed capital and a return to capital) would normally be covered by the value of its sales and consumers are free to choose on the basis of the prices charged. Although there is no prescriptive numerical relationship between the value of output (excluding both taxes and subsidies on products) and the production costs, one would normally expect the value of output to average at least half of the production costs over a sustained multi-year period. Because economic circumstances vary considerably, it may be desirable to accept a lower threshold to achieve consistent economic measurement over time and across countries.

89. For the same reason, the distinction between market and non-market may be made for a group of entities undertaking similar activities rather than on a case-by-case basis. Examples may be higher educational institutions or transport systems.

Production sold only to government

90. The 1993 SNA describes some services typically required by all units as ancillary services. These include activities such as transportation, purchasing, sales, marketing, computing, communications, cleaning, and maintenance. A unit that provides some or several of these services exclusively to its parent unit or to other units in the same group of units may be described as an ancillary unit. Ancillary units provide all of their output to their owners for use as intermediate consumption. The 1993 SNA treats these units as integral to their parent units. This practice in under review. The cases below consider units providing services (or goods) other than those considered as ancillary services. They include cases where government is purchasing services (including health services) on behalf of households or of corporations.

Only supplier

91. If a public producer is the only supplier, it is treated as a non-market unit unless it competes with a private producer in tendering for a contract to government on normally accepted commercial terms.

One of several producers

92. A public producer is considered a market producer if there is evidence that it competes with other producers in the market.

Production sold to government and others

93. Some public sector units sell some of their production to government and some to other units.

Only supplier

94. For the unit to be treated as a market producer, either the sales to non-government units is more than half of total output or the sales to government satisfies the tender condition above (see paragraph 91).

One of several producers

95. A public producer is considered a market producer if it competes with other producers in the market.

Mixed ownership

96. When there is mixed public and private ownership, the greater the degree of private ownership the greater the presumption that the output is market output, but this criterion is not definitive.

V Other relevant cases of sectoral delineation not covered in this paper

Special Purpose Vehicles

97. Special purpose vehicles (SPVs) are created for securitization, financing public private partnerships,[15] and other specialized activities where a separation from their nominal owner of assets or the right to future revenue is desired. For example, a government unit might transfer its rights to amounts equivalent to future taxes of a specified type to a SPV in exchange for a specified sum. The SPV then borrows using the rights to future government revenue as collateral and uses the funds to pay its obligation to the government. It then repays the borrowed funds using the designated taxes as they are received. The SPV usually is created as an independent entity for this single purpose and will go out of existence when the taxes have been collected and all debts liquidated. Often it is a trust under non-government administration. As such, it is a separate institutional unit, a financial corporation. Its classification depends on who controls the SPV, which could be the government unit, but more likely is an independent trustee. There are no guidelines in the SNA about how to evaluate and classify SPVs.[16] Often; they are simply methods for government units to borrow with the SPV providing a fiduciary role, which implies that the SPVs should be public units or an ancillary unit within a government unit.

Joint Ventures

98. An arrangement described as joint venture may consist of a single institutional unit in which case the existing guidance in the SNA can be followed for classifications purposes. Typically however, a joint venture arrangement may be unincorporated and may consist of several participants. Guidance in the revised SNA as to the need to identify and correctly classify the institutional units involved in joint ventures would be helpful.

Public Private Partnerships

99. This issue has not been dealt with here by the TFHPSA as it is on the agenda of the Canberra 2 group with which it is closely working.

[15] SPVs are specific to individual public private partnership (PPP) projects. An SPV for a PPP is typically a consortium of banks and other financial institutions, set up to coordinate the use of their capital and expertise.

[16] See footnote 2.