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## **Capacity building for accurate economic classifications in a rapidly changing world: a European case**

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### **Abstract:**

The production of accurate economic statistics is dependent on the quality of the statistical business register. The economic activity code represents a fundamental characteristic assigned to each statistical unit in the register. It allows for correct stratification for statistical surveys and meaningful aggregation of economic data as well as international comparability.

The United Nations is revising the International Standard of Industrial Classification (ISIC) after having lived with the current one for more than 13 years. The revision process is likely to take four years which means that some 17 years will have elapsed between the revisions. Likewise, Europe is revising their corresponding classification "Nomenclature générale des Activités économiques dans les Communautés Européennes" (NACE).

On the eve of the revision, many European countries ran scarce resources on the classification work. Most experts who participated in the previous revision had retired or changed jobs. With no immediate revision in sight, statistical institutes had opted to allocate resources to more urgent activities than "mere" maintenance of a classification.

The European Task Force set to review the NACE classification is not only an expert group assessing proposed changes, but it is also about capacity building for classification work in an intensive international cooperation. The European Union and EFTA comprises nearly 30 countries and, in many of them, only few experts work in economic classifications. With the European cooperation, each country is given support by some 30 experts.

The classification also needs to be applied coherently to produce high quality economic statistics. Alongside the revision work, European countries have started to share information and seek for best practices in questions like national legislation, maintenance of language versions, resourcing, principal activity determination and non-statistical use.

Stakeholders' expectations for accurate and policy relevant economic statistics are rising. Our presentation will describe the European work towards a solution.

### **Keywords:**

international cooperation; best practices; accuracy; policy relevance; economic statistics

### **1. Introduction:**

In summer 2018, the European Standards Working Group (SWG) decided to invite members from European countries to form a Task Force to review the classification of economic activities, Nomenclature générale des Activités économiques dans les Communautés

Européennes (NACE). The Task Force met for the first time in March 2019. In May 2019 the European Statistical System Committee (ESSC) unanimously supported the review of the NACE classification.

The national and regional classifications of economic activities, or standard industrial classifications, are hierarchical systems who either are linked by the structure or referred to the United Nations' (UN) International Standard of Industrial Classification (ISIC). The European NACE is linked by the structure to the ISIC: the first two levels of the classifications are identical. The third and fourth levels are referred to the ISIC as Europe enriches those levels to better reflect the European context. By Regulation, the European countries are then mandated to produce economic statistics using the NACE or a national classification derived from it. The strong linkage between the global, regional and national classifications leads to the situation where the ISIC revision requires simultaneous revisions in European countries and, vice versa, the European countries may revise the first four levels of their national classifications only in coordination with Europe and the UN.

In 2019, the United Nations Group of Experts on International Statistical Classifications commissioned the Technical Subgroup on ISIC to investigate if issues considered relevant by Europe, the US, Canada and Mexico would justify an ISIC review. In March 2021, the United Nations Statistical Committee mandated the ISIC review. The decision leaves room for structural changes throughout all four levels of hierarchical classification in Europe.

The European Regulation on the current version of the NACE came into effect in December 2006. By the time the Task Force of the NACE review met for the first time, a good 13 years had elapsed. Many European countries ran scarce resources on the classification work as most experts who participated in the previous revision had retired or changed jobs and, with no immediate revision in sight, national statistical institutes had opted to allocate resources to more urgent activities than "mere" maintenance of a classification.

In many institutes, the tacit knowledge on how to deal with the national classification had been lost. New experts felt being left alone in their countries and were trying to put knowledge back in place again. They wished to better understand how colleagues in other European countries dealt with the issues that were not clear. The goal was to harness the network of classification experts in some 30 European countries to set benchmarks for management of the national classification on a very practical level.

This paper describes the initiatives made by Norway, Finland, France and the Netherlands to exchange views and learn from each other on themes like determination of the national classification and the policy to update it, practices to inform the European Union's statistical institute Eurostat on the national classification to enable the coordination of all national versions, coordination of different language versions, resourcing the classification work, determination of the principle activity of a statistical unit and non-statistical use of the classification intended to purely statistical use.

## **2. Methodology:**

Each initiative described in this paper was generated from a very practical need to find a solution to a topical issue. The countries chose spontaneously to consult experts in other European countries, as there were very few if any to consult in their own institute. The ones who replied did it on a purely voluntary basis.

A set of questions were either sent out on an online survey or simply in an email. The questionnaires can easily be designed using one of the many options available for free on the internet. Norway and Finland used Google Forms, and the Netherlands

EnqueteMaken.nu. Online survey applications also offer handy tools to easily and quickly compile and analyse the results.

The questions were either sent to the person responsible for the national classification in the country or to the member in the Task Force for the NACE review. Norway, Finland and the Netherlands used a list of responsible persons in thirty countries in Europe. France addressed the Task Force members in eighteen European countries.

After collecting the answers, the country who initiated the survey shared all original responses with all countries who were invited to reply in the first place. The contact information was also shared to enable countries to get in touch with the ones whose practices were found interesting. Once the survey results had been compiled and analysed, they were presented in a European Standards Working Group meeting to allow for discussion and exchange of views and ideas.

Norway and Finland searched for more information on how countries have determined their national extensions of the European NACE or whether they apply the NACE without any national extension. The survey consisted of detailed questions on the management of the national extension. The questionnaire contained five yes/no/not relevant questions and two open questions:

- Do you maintain a national extension of NACE, i.e. 5th digit (or more) for your national use?
- Is your national extension enacted by a national law?
- Standards Working Group (SWG) has annually voted for caselaws since 2015. Voting results then become rulings. Do you incorporate rulings into your national extension?
- Do you allow for updates in your national extension in-between NACE revisions/updates?
- Do you cooperate with other countries in translations of NACE into your national language(s)?
- When and how do you inform Eurostat on your national extension and its updates? What is the procedure?
- Additional comments

France wished to understand how the revision work and the maintenance of the classification was organised in different countries. They expressed their concern on the human resources issue, as the small classification team was expected to contribute to the European NACE review and at the same time prepare for the revision of the national classification and the implementation of the new one. The questions dealt with the size of the team for economic classifications and the recruitment:

- How many people work in your team dedicated to economic classifications?
- Has this team been increased since March 2019 (starting of the NACE review TF) and in anticipation of the revision of your national classification (if you have one)?
- Have there been any recruitments related to the NACE revision project in other units of your NSI? How many? What kind of profiles? What units? (e.g. project coordinator, expert for the modification of registers, surveys, etc.). Or are such recruitments planned? In what time frame?

The Netherlands had observed a growing use of the classification of economic activities for non-statistical purposes. The European Regulation states that it "shall apply only to the use of the classification for statistical purposes." The Dutch extension of the NACE does not

have any legal status, and therefore the extending use of the classification, for example, as criteria for Covid-19 subsidies led to many complications. The Netherlands posted two questions to other European countries:

- For what purposes is the classification of Economic Activities used in your country?
- What are possible issues that your country might have encountered because of the status of the classification, stated in the previous question?

In April 2021 France came up with several new questions they wanted to be answered, this time related to practices on how countries determine the principal activity to the units in the statistical business register. This is still an ongoing survey.

### 3. Result:

Out of 30 countries, 25 replied to the questionnaire on national practices sent by Norway and Finland. As expected, European countries have different ways of organising and managing their classifications:

- 6 countries use only the European NACE. One country adds some nationally defined classes to the 4th level. Most countries define a 5th level for the national use, few countries even use a 6th level.
- 13 countries have enacted the national classification by law.
- 10 countries did not update the rulings to the national classification. On Eurostat's extranet "CircaBC", there is a discussion forum on NACE interpretation cases where questions on new activities or ambiguous classification decisions are debated. The ones who fail to find a solution are forwarded to the Standard Working Group for a caselaw voting. The solutions supported by the majority become rulings and are meant to be incorporated to the classification in each country.
- 8 countries allowed for updates in their national classification in between NACE updates/revisions. Quite a few countries indicated in the free text field that they consider allowing for more frequent national updated than the NACE.
- 7 countries cooperate with other countries in NACE translations into the national language(s). Two countries mentioned having used the translation provided by Eurostat as the basis for the translation into their national language(s).
- Countries described a variety of ways of informing Eurostat or the European Commission of their national NACE extension and its updates in between the NACE updates/revisions. The NACE Regulation states that the countries "shall forward to the Commission their national classifications". Afterwards, they should also be sent out by the Commission for information to other Member States.

Out of 18 Task Force countries, 13 replied to the French survey on human resources and recruitment. In most countries, the classifications team is small, often less than three persons. In some cases, the classifications team or the NACE team is part of the national business register, or working in close cooperation with the register, and devoting only a share of the total work time on the NACE and questions related to it.

In most cases, there had been no extra recruitment for the NACE revision project running intensively since spring 2019. In some cases, one person of the NACE team was put more in charge of the project. In general, no recruitment was planned for the classifications team, but

several countries mentioned the need for additional resources in the business register team to prepare for the implementation of the new NACE, and to carry out the recodifications.

Out of 30 countries, 24 replied to the Netherlands' survey on non-statistical uses of the classification. Examples were given on fiscal purposes (17 countries), administrative purposes (21 countries) and legal purposes (17 countries).

Oliver Gallusser from Swiss Federal Statistical Office will make a presentation on the "Purpose of the classification of economic activities" and discuss the non-statistical use of the NACE classification in more detail, especially connected to Covid-19 subsidies.

#### **4. Discussion and Conclusion:**

The European case presented in this paper encourages for ambitious international cooperation. The surveys were initiated at the "grassroot level", and generated from topical practical problems encountered by persons responsible for national classifications. All these initiatives were spontaneous, not from any obligation. Also, all respondents replied on a voluntary basis, most probably because sharing information and learning from each other was considered more valuable than the time invested in replies. The pre-requisite for such cooperation is undoubtedly respect, loyalty and confidence in each other.

The discussions that took place after presenting the results were of utmost importance. The national contexts vary to such a degree that simple tick-the-box options do not sufficiently cover the reality in many countries.

The slow tempo of updates and revisions were highlighted in requirements for national laws on top of the European Union legislation, unclear procedure to inform Eurostat or the European Commission and the number of languages in which the classification is to be translated. Even updating or revising the national 5<sup>th</sup> or 6<sup>th</sup> levels were often not allowed before the NACE review.

The current update and revision frequency and process are in contradiction with the rising requirements for more agile reactions to maintain the accuracy and policy relevance of the classification of economic activities.

The production of accurate economic statistics is dependent on the quality of the statistical business register. The economic activity code represents a fundamental characteristic assigned to each statistical unit in the register. It allows for correct stratification for statistical surveys and meaningful aggregation of economic data as well as international comparability.

The economic classification is a public good that is maintained and updated, revised by international organisations and national statistical institutes. It is the whole society that benefits from an accurate classification with high policy relevance. The economic classification should be seen as an end-product of the statistical institutes just like the official statistics, serving statistical production, administration, analysis and research. The value of the activity classification is essential.