

## DAC sector classification: rules on the frequency of updates to purpose codes



This note presents rules on the frequency of updates to purpose codes as agreed by the DAC Working Party on Statistics (WP-STAT) at its meeting on 12-13 June 2008. Their objective is to maintain a minimum stability in the statistical series on aid by sector (too frequent changes obstruct analyses) and ensure the comparability of members' reporting (lost if all members do not implement the changes at the same time). Another objective is to clarify the procedure to follow when making proposals, including the timetable for submitting them for approval by the WP-STAT. A ruling on this helps to ensure members have sufficient time to consider the proposals together with the sector experts of their agencies. It also helps to explain the implementation process to the authors of the proposals (e.g. representatives of DAC subsidiary bodies or other international organisations), and encourage them to thoroughly consider the consequences the change they envisage may have on the rest of the classification.

### *Agreed principles for updating purpose codes*

- Proposals by DAC members or DAC bodies for updates to purpose codes are considered by WP-STAT as and when the need arises.
- For a proposal to be submitted for approval in a formal meeting of WP-STAT in June, it should be transmitted to the Secretariat by 31 January at the latest. The proposal should clearly justify the need for change and examine the impact of the change on time series, so as to provide sufficient information to the WP-STAT for assessing the net cost-benefit. Proposals must include an exact identification of changes to codes and clarification notes, and a mapping from existing to proposed new codes.
- Purpose codes should normally not be moved from one sector to another. Changes that affect the sector code structure should remain exceptional.
- When approving a proposal, the WP-STAT decides on its date of effect. In general, this will be 1 January of the following year, except for changes that affect the structure of the list that can be implemented less frequently (normally every three years).
- The WP-STAT will periodically review the list of purpose codes to ensure that all codes are still useful and justified.

### *Role of the DAC Working Party on Statistics (WP-STAT)*

The sector classification used in CRS/DAC reporting, agreed upon by DAC members through consensus, forms part of the Reporting Directives: see CRS Directives (Annex 5) at [www.oecd.org/dac/stats/crs/directives](http://www.oecd.org/dac/stats/crs/directives) and DAC Directives (paragraphs 5.1 to 5.4) at [www.oecd.org/dac/stats/dac/directives](http://www.oecd.org/dac/stats/dac/directives). Therefore, any change to the classification needs to be approved by the DAC WP-STAT and endorsed by the DAC.

Members of the WP-STAT are responsible for implementing the changes in their CRS/DAC reporting. This often necessitates prior modifications to members' internal reporting systems and procedures. On the one hand, changes to the sector classification need to be carefully explained to desk officers in charge of project coding, covering all ministries and agencies from which data are collected. On the other hand, there are technical implications (e.g. need to amend data processing scripts or redesign statistical outputs). Involving WP-STAT in the preparation of proposals at an early stage helps to verify their feasibility and estimate the time lag required for their implementation.

### *Time lag in implementing changes*

The WP-STAT meets officially once a year in June. A change to the sector classification agreed in June of year  $n$  cannot be implemented immediately after approval because data collection for that year is already ongoing. (Activities committed during the first five months of the year have already been assigned sector codes.) In general, implementation cannot start before January the following year  $n+1$ , with data reported to CRS/DAC in year  $n+2$ . The time lag in implementing changes in disbursement data may be longer, as it depends on whether members are in a position to re-code all active projects. (Sector codes are assigned at the activity level at the commitment stage. Subsequent disbursements are usually not coded in members' systems but can be assigned to sectors as disbursements can be linked to the original commitment through the project number.)

### *Impact on historical time series*

Updates to the sector classification have an impact on the consistency of historical series on aid by sector. The impact is more or less significant depending on the type of update as follows:

Type of update	Impact on time series
1. Renumbering of an existing purpose code	None
2. Modifying clarification notes to existing purpose codes	Minimal
3. Introducing new purpose codes within existing DAC5 sectors, or merging two or more purpose codes	No impact on DAC5, break in series on purpose codes
4. Moving existing purpose codes from one DAC5 sector to another	Changes coverage of DAC5 sectors, no impact on purpose codes
5. Creating new DAC5 sectors	Break in DAC5 series

Increasing impact

Structural changes

Updates of types 1 to 3 are relatively easy to implement in members' and Secretariat's systems. (This is true from a technical point of view. However, repeated updates of types 1 to 3 are likely to cause confusion in agencies, in particular when the task of sector coding is decentralised to desk officers, and result in degradation in data quality in the medium term.) Types 4 and 5 affect the consistency of sectoral time series. Type 5 also changes the structure of the purpose code list and Table DAC5. These cases (types 4 and 5) should remain exceptional, and a decision has to be made on how to deal with the break to statistical series (revise past data or assess the extent to which the break will affect analyses).

### *Timetable*

Proposals for updates to purpose codes can be considered by WP-STAT as and when the need arises. However, for a proposal to be submitted for approval in a formal meeting of WP-STAT in June, it should be transmitted to the Secretariat by 31 January at the latest. This is to ensure members have sufficient time for consultations in their agencies and to provide the opportunity for the WP-STAT to discuss the proposal at its informal meeting (usually February) with a view to examining related implementation issues. The WP-STAT decides on the exact date of implementation when approving the proposal, taking into account its impact on the sector classification in general and the objective of all members implementing the changes at the same time.

#### **Example:**

A proposal for new codes for a specific sector is submitted to approval by the WP-STAT in June 2008. If approved, implementation would be as follows:

- CRS/DAC 2008 reporting on 2007 flows remains unchanged;
- CRS/DAC 2009 reporting on 2008 flows also remains on the old basis;
- CRS/DAC 2010 reporting on 2009 flows is made according to the new classification: new commitments for 2009 are reported according to the new classification; if possible, new disbursements on projects committed earlier are also reported according to the new classification (which means members will have to internally recode currently active projects).