

# Role of Accounting and Data in costing of Structural Reforms

Saša Jazbec,  
CEF Expert



Ljubljana, May 2021

# Preface

Important decisions in any business, including running a country, cannot be done without reliable (financial) data.

With standardized financial real-time reporting, governments can react to public finance trends and justify the structural reform needs or any other reform requirements.

Data also basis for ex-post analysis → as indicators of effectiveness of existing policies and orientation for further policy making

Taxpayer's perspective: what do I get for my taxes?



# Agenda

(1st part: costing examples of structural reforms from ERP

why it is hard to cost SRs)

What would it take to be easier to cost? →

What kind of data, what format of data, what frequency needed for costing?

Connection to performance budgeting (data on key performance indicators).



# Government accounting

- **Government Accounting** : all financial documents and records of public institutions that relate to collection of taxpayers' money, and analysis, control of expenditure, administration of trust funds, and all financial responsibilities and duties of relevant organs.
- Includes process of recording, analysing, classifying, summarising, communicating and interpreting financial information about Government in aggregate and in details, recording all transactions involving the receipt, transfer and disposition of public funds and property.

# Role of accounting and budgeting 1

Sound and transparent budgeting and accounting structure: fundamental building block for good public sector governance.

Good governance of public resources should be based on continuous assessment of effects of different policies related to financial inputs.

Trend to reform accounting practices to improve management and decision-making in government institutions through accrual accounting, especially based on IPSAS, started around 2000.



# Role of accounting and budgeting 2

- Reforms: adjusting accrual accounting and budgeting implementation to requirements of government finance statistics (**GFS**) and harmonizing the national accounting frameworks with international standards.
- Central role: **state budget** - instrument of fiscal policy on revenue and spending to achieve macroeconomic objectives, which should provide benchmarks for performance measured partly by accounting system.
- close relationship: difficult to tell where budgeting ends and accounting begins

# Role of accounting and budgeting 3

role of accounting system in the budgetary cycle of central government

government accounting system should provide information that serves governmental decision making on one hand and accountability to voters and taxpayers on the other.

→ It seems that (accounting) data and performance-based budgeting are really connected!



# Different approaches to budgeting

## “LINE ITEM BUDGETING”

### Ministry of environment

- Salaries 30 mio EUR
- Goods & services 80 mio EUR
- Investments 100 mio EUR



## “PROGRAM/ PERFORMANCE BUDGETING”

### Ministry of environment

- Clean water 35 mio EUR

*Goal: To provide clean drinking water to 99% households.*

- Parks&green areas 15 mio EUR

*Goal: 75% of citizens have access to green area in the distance of less than 1 km from home.*





# Performance (based) budgeting (PBB)

Systematic use of **performance information** to instil greater transparency and accountability in budget process by providing info to legislators and public on purposes of spending and results achieved.

## PREREQUISITES

- Program classification
- Clear goals – what we want to achieve
- KPIs as basis for efficiency monitoring and greater responsibility
- IT support
- Strong will of MoF (or some other „maintenance team“), hand in hand with LMs, support from PMO helps

# Setting the goals

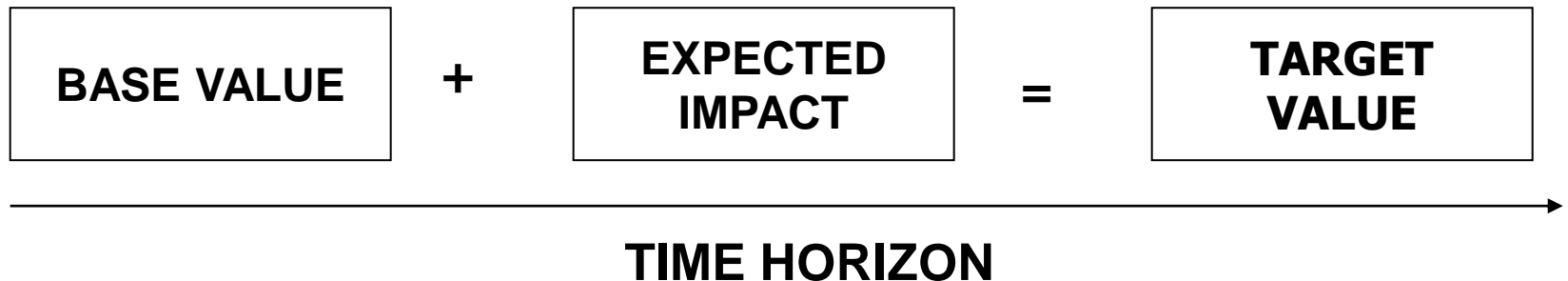
The taxpayers perspective: »What do I get for my money which does not end up in my wallet but in the state budget?«

- provision of supporting functions **X**
- provision of personnel and financial activities **X**
- provision of logistical support **X**
- provision of highspeed internet across 90 % of the country



# Setting the goals

- **Base value: 40% of country covered by HS internet (2019)**
- **Expected impact, achieved by activities defined and money invested (xxx mio EUR)**
- **Target value: 90% of country covered by HS internet by 2022**



# European digital KPIs, examples

By 2025:

- 90% of people without formal education should be regular internet users (2019: 68%)

- European companies should provide ICT training for 70% of their employees (2019: 24%)

- 6% of employed women should be ICT professionals (2017: 1%)

- 200 million people should have access to 5G

- 70% of European households should have broadband connection with a speed of 100 Mbps or more (2019: 33%)

- 15% of all material used in economy should be recycled & reused (2019: 12%)

- 30% of EU citizens should be able and willing to make an appointment with a doctor online (2019: 17%)

- 50% of SMEs should use big data analytics (2020: 12%)

- European countries should spend 3% of their GDP on research and innovation (currently 2%)

- 10% of R&D expenditure should be ICT-oriented (currently 6.9%)



# EU 2019 budget, per budget heading

The total amount of commitments implemented from the EU budget in 2019 amounted to EUR 161 billion <sup>(11)</sup>. Around half of this (EUR 81 billion) was allocated to Heading 1 'Smart and inclusive growth', split between Heading 1a 'Competitiveness for growth and jobs' (14%) and Heading 1b 'Economic, social and territorial cohesion' (35%). Heading 2 'Sustainable growth: natural resources' was the second-largest area of the budget, with EUR 59 billion (37%). EUR 4 billion was allocated to Heading 3 'Security and citizenship', including for reinforcing the external borders of the EU and addressing the refugee crisis and irregular migration. EUR 12 billion was allocated to Heading 4 'Global Europe', and EUR 6 billion was spent on the 'Commission's administrative expenditure' under Heading 5.








The 2019 EU budget, commitment appropriations, per budget heading. All amounts in million EUR.

Source: European Commission.



# EU 2019 budget with results

Natural resources	Cohesion	Research, industry, space, energy and transport	External relations	Other internal policies	Other services and administration EUR 7 billion (5%)
EUR 59 billion (40%)	EUR 47 billion (32%)	EUR 15 billion (10%)	EUR 12 billion (8%)	EUR 7 billion (5%)	
					
<b>6.2 million farms</b> supported out of 10.5 million	Regions and cities Almost <b>500 000 enterprises</b> supported since 2014	More than <b>12 000 small and medium-sized enterprises</b> supported, as well as researchers, laboratories and large organisations	<b>90 non-EU countries</b> and territories receiving direct support, as well as numerous international and non-governmental organisations	Erasmus+: almost <b>360 000 students</b> supported in 2019 (more than <b>4.6 million participants</b> since 2014)	

Relevant expenditure of the EU budget implemented by the Commission in 2019, per policy area, in % and billion EUR

Source: European Commission annual activity reports.

Source: Annual Management and Performance Report for the EU Budget





# EU 2019 budget with SDGs



In 2018 the **Asylum, Migration and Integration Fund** awarded over EUR 194 million for a cash assistance and accommodation scheme in Greece, providing approximately 25 000 places in apartments and suitable shelters to the most vulnerable migrants.



The **Spotlight Initiative's** 'safe and fair' programme (EUR 25 million), aims at ensuring that labour migration is safe and fair for all women in the region covered by the Association of Southeast Asian Nations.



Food assistance reached 12.6 million people in 2018 through the **Fund for European Aid to the Most Deprived**.



By the end of 2018, the **European Regional Development Fund and Cohesion Fund** financing had resulted in an increase in waste-recycling capacity to 765 000 tonnes per year, compared to 48 000 tonnes per year at the end of 2017.



27.5 million people had benefited from improved health services financed by the **European Regional Development Fund** by the end of 2018.



With financing from the **Development Cooperation Instrument**, **Switch Africa Green** provides funding to green business projects in Africa. In its first phase, it supported 3 000 micro, small and medium-sized enterprises and contributed to creating or securing 10 000 green jobs.



In 2019, under the Africa–Europe Alliance, over 8 000 African students and staff were granted scholarships in EU universities by **Erasmus+**, bringing the total to over 26 000 since 2014.



**Humanitarian aid** provided financing to 24 countries and for six regional interventions in 2019 to strengthen the disaster preparedness of national response systems and mitigate the impact of climate-induced disasters on humanitarian needs.

Source: Annual Management and Performance Report for the EU Budget



# To sum up 1

**Limited fiscal space** (never enough money for all needs and desires) calls for need to **channel the public funds** to more efficient and effective uses **by (hopefully) answering the questions:**

- What do we want to achieve in mid / long term?
- What do we have to do to achieve this goal?
- How much does it cost?

## **ACCOUNTING – BUDGETING CONNECTION**

**in order to be able to show the taxpayers** where money was used instead of wondering where it had gone

**→ CITIZENS' BUDGET**





## To sum up 2

- **No single recipe** to answer Q from start: „What kind & what format of data, what frequency needed to ease costing of SRs?“ due to **various areas of SRs**.
- Precondition for effective and efficient government accounting and budgeting : sound political support, commitment and collaboration of all stakeholders.
- Regulation, criteria and recommendations, as well as resources (material, human &IT) for implementation and utilization of accounting and budgeting data should be established at beginning of any reform process.
- **Public and appropriate professional supervision is vital.**

# What can you do?

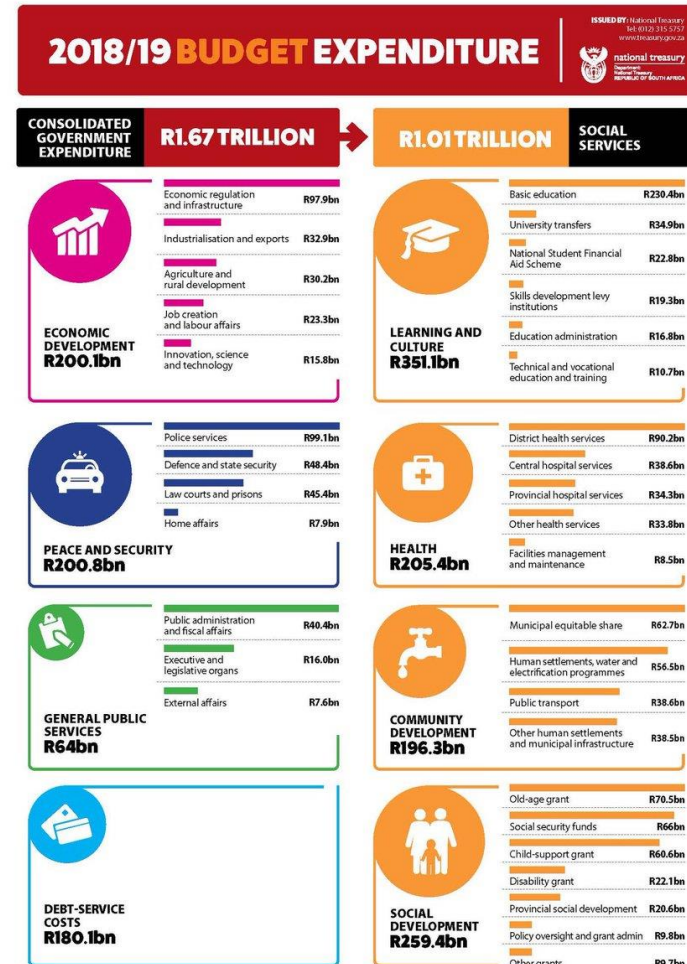
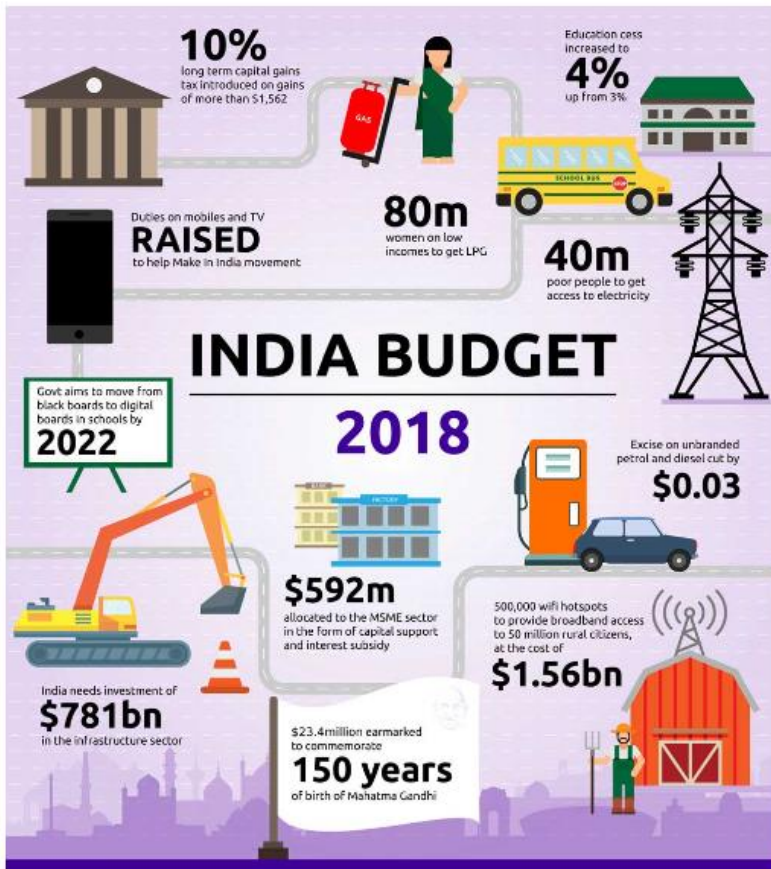
LMs should get together with MoF and other stakeholders at early stage of reform formulation

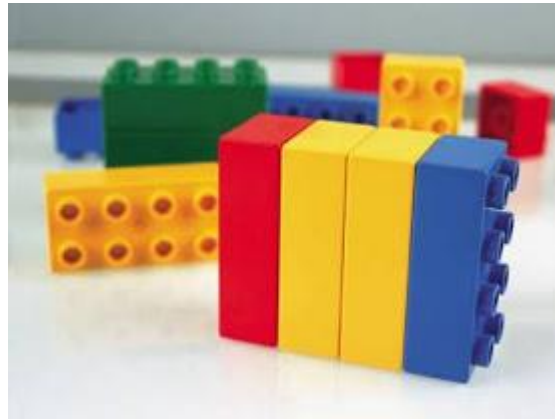
Work closely together to determine measures, goals, KPIs and appropriate connection between accounting entries into program classification

This way, you realise what data you need, what data is available and what data needs to be collected, in LMs or outside

The data collections should be „nourished“ / maintained / updated properly

# Result of right data and IT





## Webinar #2: hand-on experience of Slovenia's way of collecting data for SR assessment

