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MINISTRY of FINANCE of the REPUBLIC of ESTONIA

Experience of Estonia in reforming public sector accounting and reporting in the context of broader public finance management reforms

6th of February 2013

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Topics

- Role of Ministry of Finance
- Fiscal Policy
- Public Finance Management Reforms

Estonia (Population 1,3 million)

- 1991 – Regaining independence
- 1992 – Monetary reform and a new Constitution
- 1997 – EU membership negotiations
- 2004 – Member of EU and NATO
- 2011 – Joined the Euro-zone

Public Sector Structure

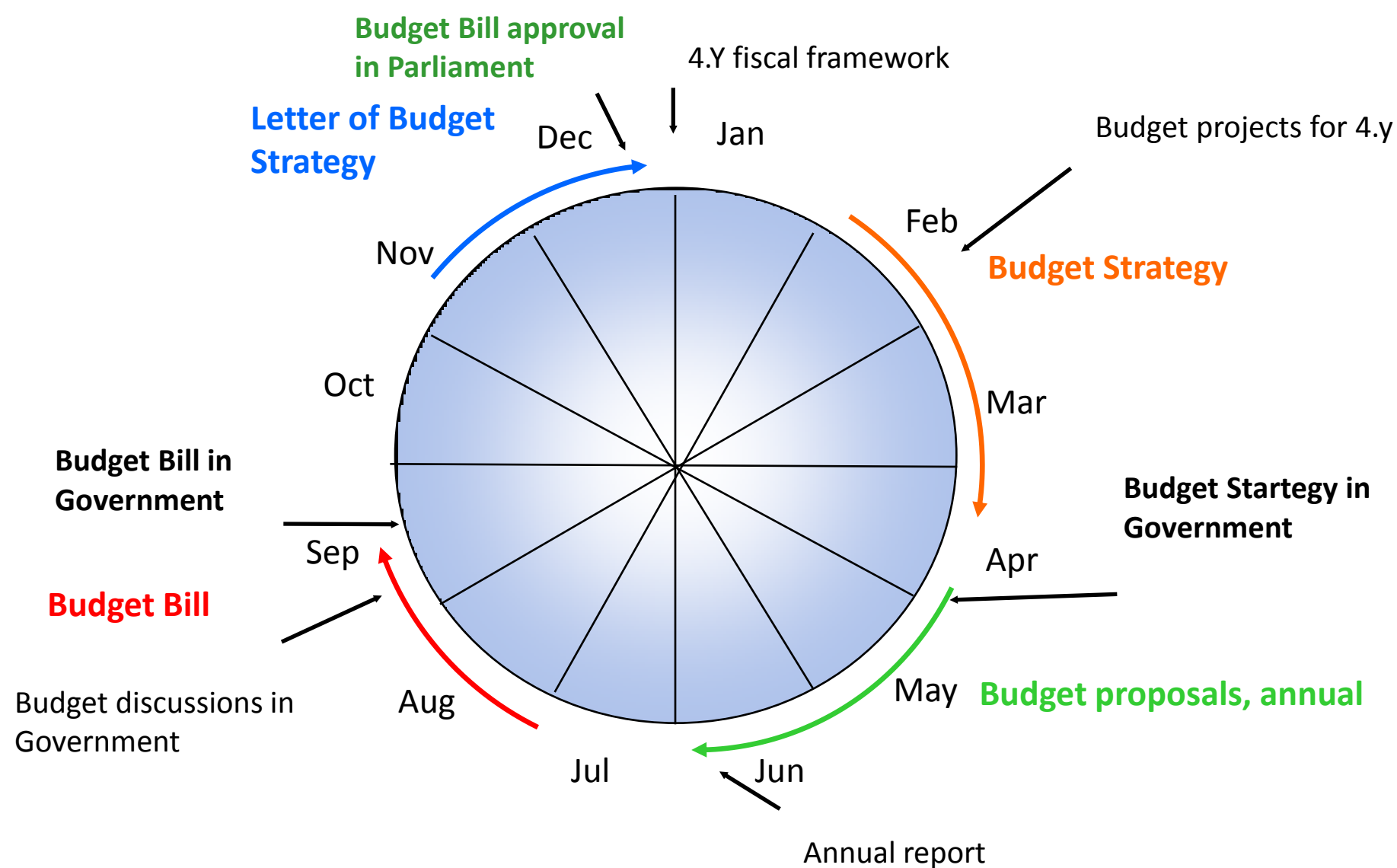
<i>Public sector</i>			
<i>General Government</i>			Other Public Sector institutions, not part of General Government
<i>Central government</i>	<i>Local government</i>	<i>Social security funds</i>	
State Agencies	City- and rural institutions	Health Fund	Central Bank
Central Government Institutions - foundations, companies and non-profit organizations	Local Government institutions - foundations, companies and non-profit organizations	Estonian Unemployment Insurance Fund	Public Sector Companies: Eesti Energia, Tallinna Sadam, Estonian Air; Eesti Raudtee; jm
Central Government Institutions – public institutions (Public Broadcasting)			



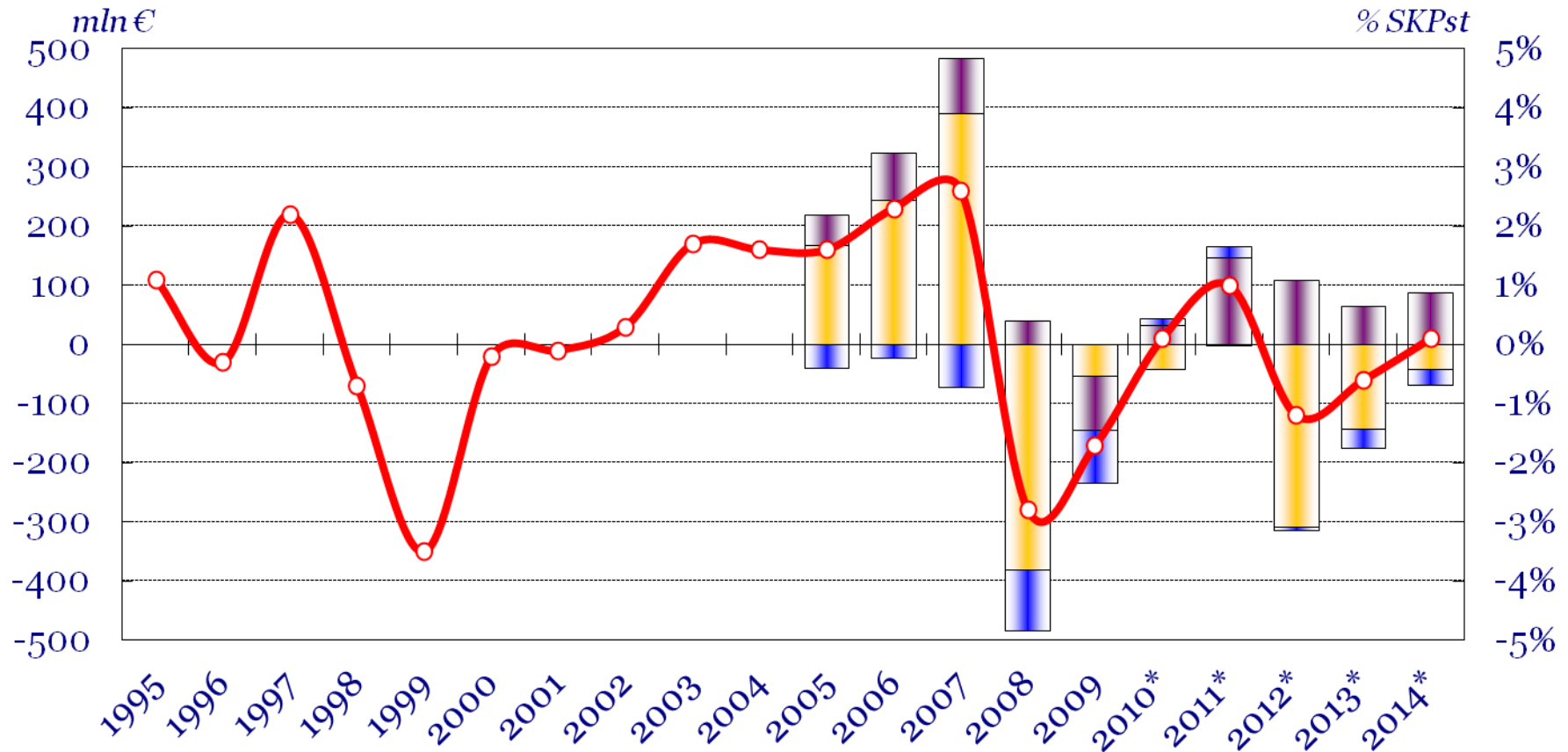
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Fiscal Policy

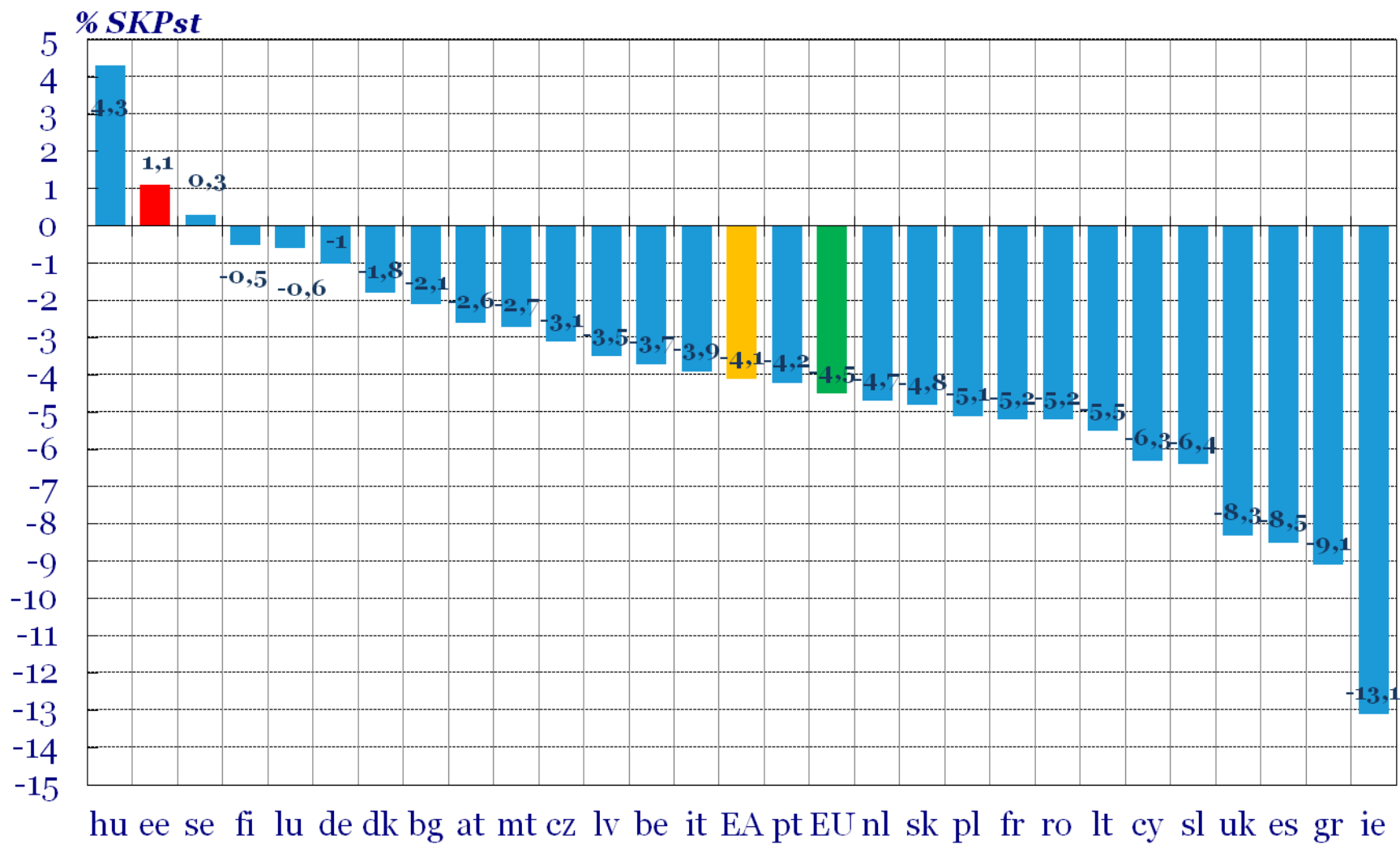


General Government Budget position (aug 2012)

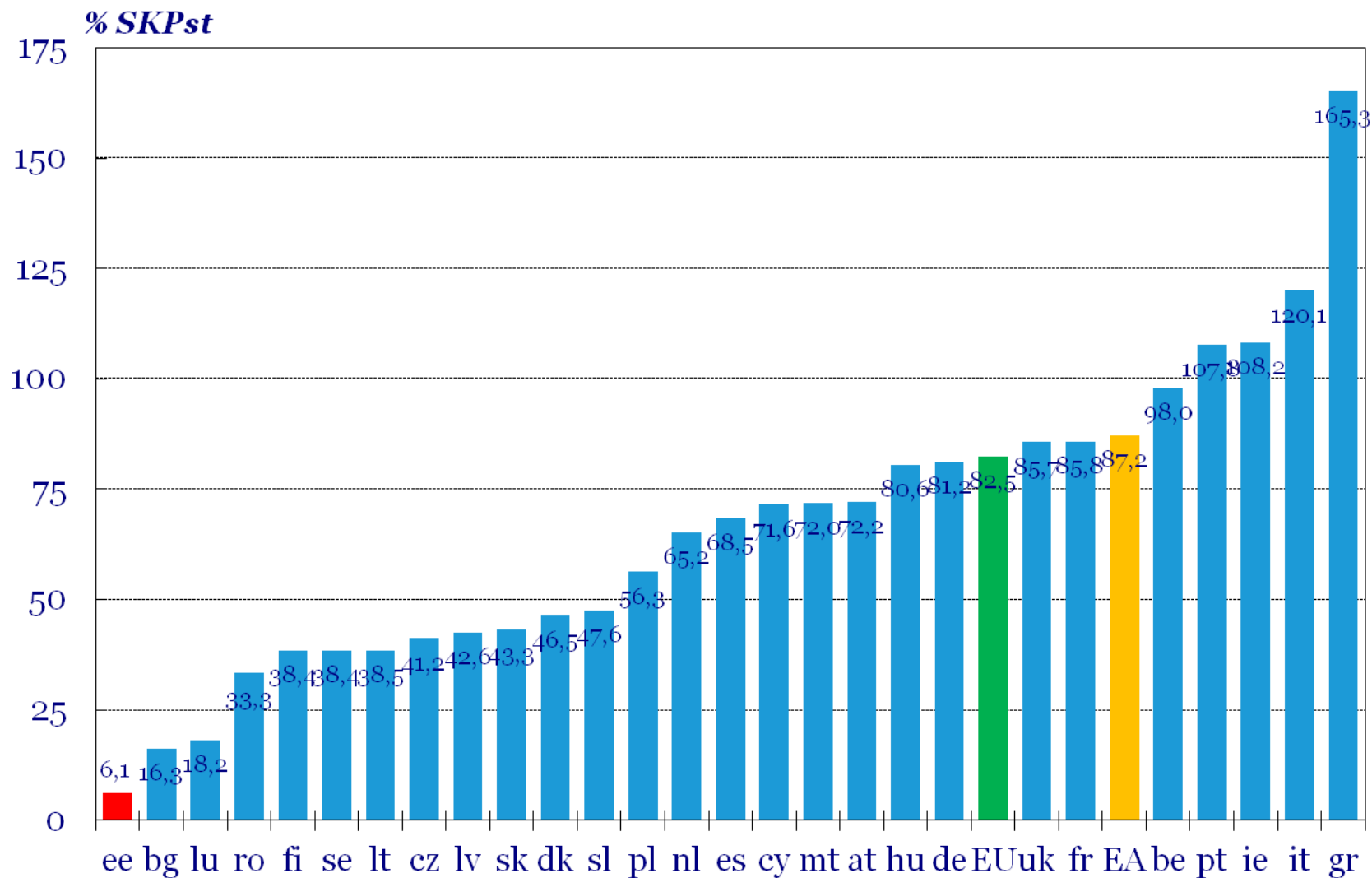


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Budget position in EU2011



General Government Debt in EU 2011



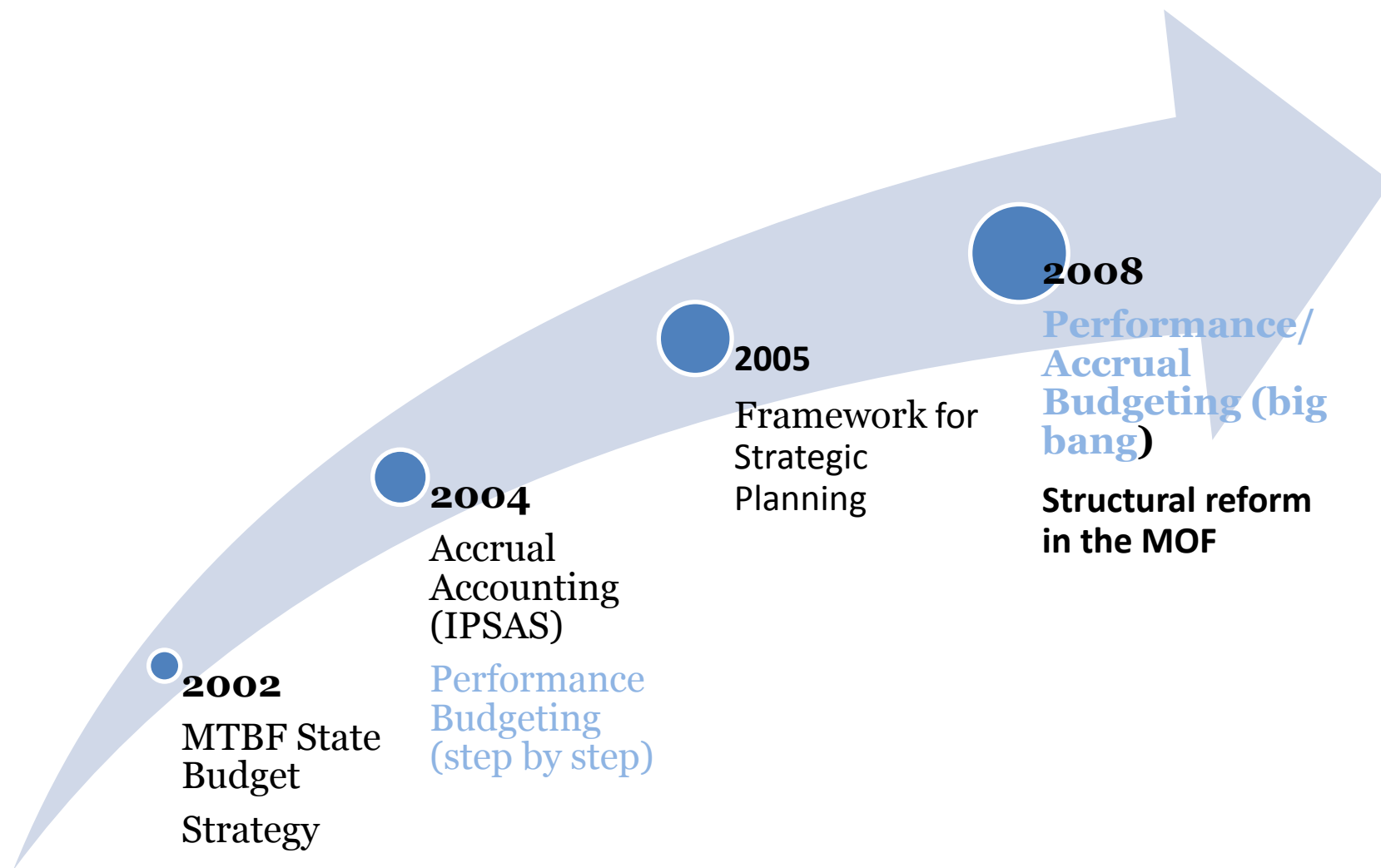


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Public finance reforms

History of public finance reforms before the crisis



Budgeting principles and budget structure

Stage 1- State Budget Strategy- approved by Government

- Strategic planning, based on a medium-term budgeting framework

Stage 2- Annual budget-approved by the Parliament

- Line-item cash-basis budgeting in practice
- The budget law contains only appropriations for the budget year
- Explanatory notes of the budget include also programs and related annual estimates

Reports from accrual accounting

To whom?

- International organisations
- Politicians; Managers

What for?

- Transparency
- Information about assets and liabilities
- Precondition to calculate cost of services

How to put into practice?

- Evoke demand
- Establish preconditions to change the system (capacity)

Lessons learned from the crises - lack of data and knowledge

- Lack of accrual-basis budget information
- Need for performance information
- Lack of skills and knowledge:
 - how to use available accrual-basis financial reports
 - how is possible and reasonable to link non-financial performance objectives with funds

Public finance reforms on the way

- Mapping shortages in current system, simplifications

- **Centralizing support services**

- *Building capacity to work out and implement changes (networks, pilot, projects, methodology, trainings, IT, systems)*

2009

2010

- Performance Management framework and implementation plan (10y)

- **Centralizing support services**

- building capacity
- pilots in accrual budgeting and performance management

- Standardizing financial data

- Regular networks (FM, SM, ABB)

2011

- Harmonization of budgeting and accounting

- Standardizing management accounting

- **Centralizing support services**

- building capacity

- Pilots in accrual budgeting and performance management

- Trainings to rise the competence about basics of financial management (220)

- IT systems for strategic planning and budgeting

2012

- Harmonized principles in FM and new budget structure in annual budget law

- **Centralizing support services**

- *preparing standard SAP system for all central government agencies*

- Building capacity

- Trainings to change the budget systems in agencies

- Training plans for 2013 cooperation with university how to make budget in accrual basis (300)

Public finance reforms on the way

- Accrual basis budgeting step by step (45%)

- **Centralizing support services (45%)**

- Building capacity
- *trainings for accrual basis budgeting*
- *trainings to change the budget systems in agencies*
- *New IT system for budgeting*
- *pilot projects in PM and budgeting*

2013

2014

- Accrual basis budgeting step by step (64%)

- **Centralizing support services (64%)**

- *Building capacity*
- *Trainings to change the budget systems in agencies*
- *Trainings for accrual basis budgeting*
- *New IT system for budgeting*
- *Pilot projects in PM and budgeting*

2015

- Accrual basis budgeting step by step (100%)

- **Centralizing support services (100%)**

- Program budgeting step by step (0,5%)
- *Building capacity -pilot projects in PM and budgeting*

Lessons learned (1)

- **Performance management framework and implementation plan give the vision and help to set reform priorities**
- **Changes in accounting system should be harmonized with budgeting system – financial management cycle**
- **Budget negotiations – importance of accrual information**
- **Accrual accounting reform brings more transparency and information – accrual budgeting reform is the change of the culture**

Lessons learned (2)

- **Standards for accounting objects and financial reports** for internal users are essential for IT developments
- **User-friendly reports for decision makers and for citizens** - less tables and more graphs
- Accrual budgeting and accounting reform is **precondition for performance budgeting**



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Thank You!

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