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TECHNICAL ASSISTANCE REPORT—GOVERNMENT FINANCE STATISTICS TECHNICAL ASSISTANCE MISSION

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BOSNIA AND HERZEGOVINA

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REPORT ON THE GOVERNMENT FINANCE STATISTICS TECHNICAL ASSISTANCE MISSION (MAY 28–JUNE 1, 2018)

Prepared by Deon Tanzer

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs (SECO)

CONTENTS

Glossary

BHAS	Agency for Statistics of Bosnia and Herzegovina
COA	Chart of accounts
ESA 2010	*European System of National and Regional Accounts 2010*
ETP	*ESA 2010* Transmission Programme of Data
EU	European Union
GFS	Government finance statistics
GFSM 2001	*Government Finance Statistics Manual 2001*
GFSM 2014	*Government Finance Statistics Manual 2014*
GTL	General Treasury Ledger
HRT	Harmonized Reporting Template
MOF RS	Ministry of Finance of the Republic of Srpska
RZS	Republic of Srpska Institute of Statistics
SECO	Swiss State Secretariat for Economic Affairs
TA	Technical assistance

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. **A technical assistance (TA) mission was conducted by Mr. Deon Tanzer, the government finance statistics (GFS) advisor[1] for South East Europe during the period of May 28–June 1, 2018, to support the Bosnia and Herzegovina authorities, with a specific focus on the Republic of Srpska (RS), in improving GFS for decision making.** This mission was conducted within the context of the second phase of the Swiss State Secretariat for Economic Affairs (SECO) GFS capacity building project. The mission met with officials from the Ministry of Finance of the Republic of Srpska (MOF RS) and the Republic of Srpska Institute of Statistics (RZS).

2. **The mission would like to thank the staff of the Republic of Srpska Authorities for their courtesy and willingness to share their knowledge.** The mission is especially grateful to the staff of the MOF RS for their invaluable assistance in organizing the mission (see Appendix I for the list of officials met during the mission).

3. **The mission was a follow-up to the February 2018 GFS TA mission, conducted by the GFS advisor.** This mission's focus was to continue developing reconciliation processes, to develop a compilation process for nonbudgetary public sector units, and to discuss classification questions in context of GFS compilation per the *European System of National and Regional Accounts 2010* (*ESA 2010*) and the *Government Finance Statistics Manual 2014* (*GFSM 2014*).

4. **On developing reconciliation processes,** work was continued on reconciling the financial result with relevant items in the balance sheet **[A]** and on reconciling stock and flows of groups of balance sheet items **[B]**. Both serve as fundamental steps in GFS compilation. **[A]** is required to ensure that fiscal balance reconciles with financing, whereby the statistical discrepancy[2] can be eliminated or minimized. **[B]** aims to clearly explain changes in the value of assets and liabilities through registered transactions and other economic flows (without any differences), further ensuring consistency in the GFS framework. Significant steps were taken to establish appropriate reconciliation procedures. The goal is to use the compilation and reconciliation procedures for quarterly and annual GFS reporting to Eurostat and the IMF Statistics Department. As an extension to this, the next step could be to incorporate this into the compilation of quarterly fiscal surveillance files sent to the IMF European Department (EUR). See Section A. 'Reconciliation Processes.'

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[1] The GFS advisor for South East Europe is hosted by the Center for Excellence in Finance, Ljubljana, Slovenia.

[2] In the sequence of accounts as described by the System of National Accounts 2008 (SNA 2008), *ESA 2010*, and the GFSM 2014 framework, the government deficit or surplus is equivalent to the concept 'net lending (+)/net borrowing (–)' (NLB). In fiscal analysis, NLB is also referred to as the fiscal balance. Conceptually, the deficit or surplus should equal the concept financing—the net acquisition of financial assets minus the net incurrence of liabilities. Any difference between these two concepts is called the statistical discrepancy.

5. On compiling the nonbudgetary public sector units, the mission initiated the development of compilation processes. These processes are being developed by translating financial statements of these entities into the *GFSM 2014* and *ESA 2010* frameworks. All nonbudgetary entities (of the real sector) in the Republic of Srpska are obliged to report these financial statements to the Agency for Intermediation, Informatics and Finance (APIF), using a standardized Chart of Accounts (COA). This allows for developing a standardized compiling procedure for all units, that can potentially be extended as input for the wider system of accounts compilation. See section B. 'Compilation of Nonbudgetary Public Sector Units.'

6. On classification questions, work was continued on bridging from the real sector COA to *ESA 2010* and *GFSM 2014*. Since August 2017 mission, RZS researched some COA items at the three-digit level and clarified outstanding questions. Where needed, it supplemented the COA list with four-digit items. The bridge is ready for experimental implementation, whereby outcomes will be reviewed to validate or revise classifications. The goal is to finalize the bridge and to implement it when compiling for the fiscal year 2017 and a time series. Additionally, the mission reviewed the Classification of Functions of Government (COFOG) of 18 extrabudgetary units on the basis of description, mandate, and/or activities. See Section C. 'Classification Issues.'

7. On other developments, the advisor again addressed the publication of general government list and public sector units per *ESA 2010* and *GFSM 2014*. The publication remains pending, although a list has been prepared and a preliminary classification has been drafted in cooperation with the Bosnia-wide statistical authorities (see the February 2018 report DM 6418039). RZS indicated that it was resolving technical issues in finalizing whole economy sector classification and, thereby, could not commit to a target date. During the previous mission, September 2018 was drafted as a target date, while now this has been indefinitely postponed.

Table 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institutions
TBD	*Publish the list of general government and public sector units, with a note that the subsector classification is pending.*[3]	**BHAS, RZS RS**
October 2018	*Finalize procedure to compile annual budgetary units compilation, in parallel with fiscal surveillance reporting to the EUR.*	**MOF RS**
June 2018	*Implement the bridge from the real sector COA to ESA 2010 and GFSM 2014 on an experimental basis, starting with the fiscal year 2017.*	**RZS RS, MOF RS**

[3] This recommendation is contingent on completion of Phase 1 of the SECO-funded GFS implementation project.

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Reconciliation Processes

8. **Reconciliation is a fundamental step in the compilation of GFS.** The process entails translating the logic of accounting frameworks into the logic of the GFS framework. First, by verifying the link between revenue and expense flows with reciprocate balance sheet flows **[A]**. Second, by separately identifying, from accounting records, transactions and other economic flows, and thereafter verifying the link of these flows with the changes in the stock of the related balance sheet account **[B]**.

Reconciliation Process [A]

9. **The goal of reconciliation process [A] is to ensure that net lending (+)/net borrowing (-), also known as the fiscal balance, links with financing with the minimum difference possible, and thereby minimizing the so-called statistical difference.** The Republic of Srpska uses accrual accounting, whereby the financial result from the income statement is reconciled against a related account in the balance sheet, the 'Own Sources and Funds' account.

Reconciliation Step [B]

10. **The goal of reconciliation process [B] is to ensure that recorded transactions can be linked up with recorded stock values for distinct balance sheet items.** In the context of accrual accounting reporting used in the Republic of Srpska, recording per the double accounting principle, this link should be discerned directly from the accounting records. This is because all transactions, such as albeit revenue, expenses, acquisitions, repayments, provisions, revaluations, are recorded with an exact counterpart in the balance sheet. GFS would require revaluations to be recorded as other economic flows; unwind transactions like provisions and reserve accounting; and adjust valuations, if the accounting standards differ with GFS in this respect.

Continued Research

11. **During the August 2017 mission, the advisor and the RS authorities developed a reconciliation process [A] and [B] with encouraging results.** The difference between the Financial Result in the Income Statement and flows the Financial Result from the Current Year, as recorded in the Sources of Funds account, was reduced to below KM1 million, after unravelling some items. The flows and stocks were linked on a rudimentary level and relied to some extent on specific information derived from the notes in the Financial Statements. However, subsequent research into reconciliation step **[B]** indicated a different approach was

needed to reconcile comprehensively per processes **[A]** and **[B]**. See the August 2017 (DM 6379732) and the February 2018 (DM 6418039) report on more details.

12. The advisor and the authorities noted that the annual financial statements being used for the reconciliation processes require unravelling into components. Hereby the budget and other components can be individually presented in separate integrated financial statements and the aligned *GFSM 2014* framework presentations, as illustrated in Figure 1.

13. Unravelling the financial statement improves the ability to distill reconciliation processes [A] and [B] per component. For instance, as theoretically illustrated in Figure 1, it is evident that extrabudgetary unit 1 lacks information on revenue and expense, which also partially explains where additional data is required in the consolidated financial statement reconciliation process **[A]**. Also, extrabudgetary unit 2 is consolidated as part of the financial statement for the first time this year. Unravelling the components reveals that the opening balances of extrabudgetary unit 2 in the consolidated financial statement need to be recorded as Other Volume Changes to indicate that this unit was included for the first time this year.

Figure 1. Illustration Step-by-Step Unravelling Annual Financial Statement into Entity Components

	Consolidated financial statement			
	OB	TR	OEF	CB
Revenue		27		
Expense		24		
NLB		**3**		
NF Assets	410	+35	-2	443
F Assets	73	+1	+3	77
Liabilities	381	+30	+4	415
Own Funds	102	**+5**	-2	105

	Budget			
	OB	TR	OEF	CB
Revenue		24		
Expense		22		
NLB		**2**		
NF Assets	100	+10	-2	108
F Assets	50	+5	+3	58
Liabilities	120	+12	+2	134
Own Funds	30	**+2**	0	32

	Extrabudgetary unit 1			
	OB	TR	OEF	CB
Revenue				
Expense				
NLB				
NF Assets	300	+20	0	320
F Assets	20	-3	0	17
Liabilities	250	+15	+2	267
Own Funds	70	**+2**	-2	70

	Extrabudgetary unit 2			
	OB	TR	OEF	CB
Revenue		3		
Expense		2		
NLB		**1**		
NF Assets		+5	+10	15
F Assets		-1	+3	2
Liabilities		+3	+11	14
Own Funds		**+1**	+2	3

Legend
OB: Opening balance
TR: Transactions
OEF: Other economic flows
CB: Closing balnce

14. During this mission, the authorities and the advisor adopted an alternative approach to simplify and coordinate reconciliation processes [A] and [B]. The GFS compilation process remains based on the financial statements and follows the below procedure:

- **a.** Some entities are consolidated into the financial statement with only a balance sheet. This step structurally unwinds all balance sheet items of the Investment-Development Bank of the Republic of Srpska (IRB RS); and Roads, Highways, and Forests. As a verification, total assets should equal total liabilities for each unit after unwinding.

- **b.** Reconcile net result with the relevant balance sheet items, as described in reconciliation process **[A].**

- **c.** Determine the opening balance of assets and liabilities (to determine other volume changes) of new units—such as National Parks in 2015 or Pension Funds in 2016.

- **d.** Adjust remaining items from reconciliation.

- **e.** Identify all other price change, other volume change, and time of recording items in income statement, and unwind per the double accounting method with a requisite balance item.

- **f.** Identify the remaining flows from the Source of Funds account (to complete reconciliation process **[A]**). These identified flows will lead to adjustments of items in the income statement or balance sheet.

15. This procedure is in line with the compilation of nonbudgetary public sector units (See Section I. B 'Compilation of Nonbudgetary Public Sector Units'). Following the same procedure allows for some efficiency gains. First, once the compiler understands the concepts and the approach, the compiler will be able to universally apply the procedure. Further, with aligned procedures, the compilation processes of budgetary and nonbudgetary units can also be standardized to a large extent. The main differences being the need to unravel the budget financial statement, the differing COAs used, and a different set of adjustments required for each institutional unit.

16. The MOF prepared data to unwind the balance sheets IRB; and Roads, Highways, and Forests for 2014-2016.[4] Hereby the balance sheet is reduced to the budget and is, therefore, directly comparable with the income statement (see DM 6482709).

17. Further, the MOF prepared data of new units the National Parks (2015), the Pension Fund (2016), the Fund for Professional Rehabilitation (2016), and the Innovation Center Banja Luka (2016). The appearance of assets and liabilities are treated as other volume changes in the year the unit is consolidated into the financial statement for the first time.

[4] These units also require unwinding depreciation from the Income Statement

18. The Republic of Srpska budget accounting regulations record some accrual concepts as revenue and expense that are not aligned with the methodology in the *ESA 2010* and *GFSM 2014* frameworks. These mainly concern items recorded under COA items 47 and 77. A number of these items—such as provisions, or amortization—have a different time of recording, methodology than in the *GFSM 2014* framework. Other items—such as gains/losses, or financial revenue/expense—relate to value changes of assets and are recorded as other economic flows in the *GFSM 2014* framework. The mission allocated COA items 47 and 77 to GFS transactions or other economic flows codes (per *GFSM 2014*) as presented in Table 2.

Table 2. Adjustments on Revenue and Expense per *GFSM 2014* and *ESA 2010*

Economic code description	Economic code		Flow type	GFSM 2014 Code	ESA 2010 Code
	Inflow	Outflow			
Income from effective positive exchange rate differentials	7216		OPC	4323	K72
Expenses on the basis of effective negative exchange rate differences		4138	OPC	4323	K72
Revenue / costs from inventory *	7711	4711	TR	22	P2
Amortization expenses *		4712	TR	23	P51C
Revenue adjustment for gains in inventory value	7712		OPC	412	K72
Revenue from the release / accrual expense of provisions	7713	4713	#	#	#
Financial revenue / expense of the accounting character	7714	4714	OPC	4304	K72
Gains / losses on value adjustments of property	7715	4715	OPC	411	K72
Gains / losses the disposal of assets	7716	4716	OPC	411	K72
Assistance in kind revenue / expense *	7717	4717	TR	2822	D92
Other revenue / expense of the accounting character *	7719	4719	TR	22	P2

Legend
OPC Other price changes
TR Transactions
Provisions require adjustments to reflect time of recording
* Recorded as revenue / expense transactions per *GFSM 2014*

19. The revised list of adjustments has implications for the compilation of the fiscal surveillance tables sent to EUR. Currently most of these items are excluded from revenue and expense, whereas some (denoted *) are recommended to be included in revenue and expense. The items excluded from revenue and expenditure lead to an adjustment, whereby other price changes are recorded with the requisite asset or liability classification. The inclusion of the *Consumption of fixed capital* [23] or *Amortization expenses* [*4712*] does not impact the outcome of NLB. A counter transaction used to determine the *Net acquisition of nonfinancial assets* [*31.3*] nullifies the impact on expenditure.

20. Provisions require a custom adjustment. In financial accounting, provisions are recorded by following the continuity principle for accrual accounting, whereby provisions are recorded as current obligations underpinned by probable future outflows or service potential. The timing and amount of these obligations is uncertain, yet an estimate of future payments is accrued to the current fiscal year's expense. On the other hand, *ESA 2010* and *GFSM 2014* use the actual time of economic event as a key principle for accrual accounting. Hereby a transaction is recorded when economic value is created, transformed, or extinguished, and/or when claims and obligations arise, are transferred or cancelled.

21. This means that the recording of provisions in financial accounting needs to be translated into the *ESA 2010* and *GFSM 2014* methodology. Table 3 provides a fictive example of how a provision recording would be adjusted to follow GFS methodology. It uses a (nonexhaustive) list of economic codes from the Republic of Srpska financial statements to illustrate, and in parallel presents the impact of the adjustments to the *GFSM 2014* framework. The below procedure steps are followed:

a. Accrued provision expenses (4713) are excluded from GFS expense

b. Outflows[5] from the provision account in the balance sheet (liability) are recorded as expense in the current fiscal year

c. Releases of provisions (7713) are excluded from GFS revenue

Table 3. Table Adjusting Provisions Recording to the *GFSM 2014* and *ESA 2010* Methodology

Financial Statement

Code	AOP	Economic code description	Amount
7	201	Revenue	268
4	269	Expense	280
	330	**Financial result**	**-12**
1212	005	Change in current account	-27
2171_{OB}	142_{OB}	*Provisions opening balance*	125
4713	314	Accrued	19
2171_{FL}	142_{FL}	Outflows	-27
7713	253	Releases	-7
2171_{CB}	142_{OB}	*Provisions closing balance*	105
		Financing	**-12**

GFSM 2014 Framework

GFSM 2014	GFSM 2014 code description	Adjustments	Amount
1	Revenue	=268 - 7	261
2	Expense	=280 + 27 - 19	288
NLB	**Net-lending/Net-borrowing**		**-27**
3202	Change in current account		-27
	Provisions opening balance		
	Accrued		
	Outflows		
	Releases		
	Provisions closing balance		
FIN	**Financing**		**-27**

22. With the adjusted procedure and the revised adjustments, the mission compiled preliminary data for 2014–2016. The outcomes have led to improvements in the combined reconciliation processes **[A]** and **[B]** (see Table 5). However, further research is required to iron out the derived statistical discrepancy. Although the estimation of revenue, expenditure, and financing transactions have improved, and the link between stocks and flows are well made, full reconciliation has not yet been achieved. While 2014 and 2016 show relatively low statistical discrepancies (less than 1 percent of total revenue), 2015 still shows a substantial discrepancy (almost 5 percent of total revenue) (see DM 6482720).

23. A comparison between the current fiscal surveillance reporting, conform the 'old' so-called Harmonized Reporting Template (HRT), and the preliminary data in the 'new' *GFSM 2014* framework, can provide insights into the quality of the outcomes. In many cases revenue and expenditure compare adequately—either aligning perfectly or showing relatively consistent differences each year. Key differences relate to *Grants* (13), *Use of goods and services* (22), and *Net investment in nonfinancial assets* (31). However, financing data do not compare well between 'new' and 'old data. Further research is thus required to eliminate the statistical

[5] Outflows are derived by calculating outflows=net flow in the provision accounts (217 and 227)—accrued provisions (positive amount) minus releases (negative amount).

discrepancy—perhaps further unwinding of the balance sheet is required, most ostensibly for 2015.

Table 4. Additional Recommendations

Target Date	Recommendation	Responsible Institutions
October 2018	*Further refine the GFS compilation and reconciliation process to eliminate the statistical discrepancy*	**MOF RS**

Table 5. Comparison Concept 'New' *GFSM 2014* Framework Data and 'Old' HRT Data

		2016		
		Financial statements	HRT	Difference
1	**Revenue**	**2,635.0**	**2,619.4**	**15.6**
11	Taxes	1,568.1	1,568.1	0.0
12	Social contributions	779.6	779.4	0.2
13	Grants	5.8	15.0	-9.2
14	Other revenue	281.6	257.0	24.6
2	**Expense**	**2,638.7**	**2,511.7**	**127.0**
21	Compensation of employees	742.0	746.8	-4.8
22	Use of goods and services	218.5	148.3	70.2
23	Consumption of fixed capital	65.7		65.7
24	Interest	73.8	94.5	-20.7
25	Subsidies	98.9	98.9	0.0
26	Grants	153.5	156.6	-3.1
27	Social benefits	1,208.8	1,227.6	-18.8
28	Other expense	77.5	39.0	38.5
GOB	Gross operating balance (1-2+23)	62.0	107.7	-45.7
NOB	Net operating balance (1-2)	-3.7	107.7	-111.4
31	**Net/gross investment in nonfinancial assets**	**79.6**	**137.8**	**-58.3**
2M	Expeniditure	2,718.3	2,649.6	68.7
NLB	Net lending (+) / Net borrowing (-) (1-2-31) or (1-	-83.3	-30.2	-53.1
FIN	Financing (32-33)	-86.4	-29.0	-57.3
32	**Net acquisition of financial assets**	**13.6**	**89.7**	**-76.1**
33	**Net incurrence of liabilities**	**99.9**	**118.7**	**-18.8**
NLBz	Overall statistical discrepancy (NLB-FIN)	3.0	-1.2	4.2

B. Compilation of Nonbudgetary Public Sector Units

24. Several public sector units form part of general government, but not the budget, per *ESA 2010* and *GFSM 2014*. These extrabudgetary units therefore need to be compiled as part of GFS from financial statements that are reported to the Agency for Intermediation, Informatics and Finance (APIF).

25. This requires a procedure to translate accounting financial statements into the *ESA 2010* and *GFSM 2014* frameworks. The advisor provided a brief overview of such a compilation procedure, as discussed during March 2018 SECO-funded GFS workshop held in Ljubljana, Slovenia. The procedure follows a systematic approach to unravel an audited financial statement and translate line-by-line income statement and balance sheet items into the *ESA 2010* and *GFSM 2014* frameworks. It aligns fundamental accounting principles with the frameworks in a step-by-step approach. For instance, it adjusts for provisions, exchange rate gains, and impairments that are treated differently in accounting and in GFS. See Appendix I 'Proposed Compilation Process for Extrabudgetary Units' for a wider explanation.

26. The Republic of Srpska has a COA covering all real sector corporations in the Republic. This COA applies to the extrabudgetary units in question. This is convenient, because only a single translation of financial accounting to the *ESA 2010* and *GFSM 2014* frameworks is needed. It's important to keep in mind that this allows a generic translation, but a case-by-case analysis may be needed for some units. For instance, some units may require additional detail to split up certain line items into different classifications. Otherwise, the adjustments that lead to other economic flows require tailored allocations to assets and liabilities related to the underlying instruments, where exchange rate gains, revaluations, impairments materialize. Where feasible, notes from the published financial statements can support classification.

27. RZS receives all data from all real sector units conforming with the standardized format. These include public sector nonfinancial corporations, nonprofit entities, and agencies. Financial institutions report separately with a custom accounting framework and COA. Per Republic of Srpska legislation, RZS receives annual financial statements between t+4 and t+6 months. Approximately 1% of all the units report after the required data. In any case, the most important units always report on time.

28. The financial statements reported per the standardized format are comprehensive and align with audited financial statements—especially the larger entities. The statements include an income statement and a balance sheet, followed by accrual accounting concepts. These statements also include additional line items required for national accounts (production approach) compilation. The potential is, therefore, to develop consistent macroeconomics accounting for both GFS and GDP purposes. Importantly, the financial statements allow for comprehensive system of accounts compilation.

29. With this backdrop, this mission initiated the development of a standardized compilation procedure for nonbudgetary public sector units, and, more specifically,

extrabudgetary units. The procedure uses the updated bridge from the real sector COA to *ESA 2010* and *GFSM 2014* at the four-digit level. Over time, the bridge will require further review based on the outcomes and new insights. In certain circumstances, data with greater level of detail (six-digit level) may be needed—whereby multiple GFS transactions or balance sheet items can be identified under the three-digit level COA item. This will be especially the case for large units.

30. The development of the compilation process started with a high-level compilation of four extrabudgetary units. These units are Radio Television Republic of Srpska, Institute of Dentistry, Health Center Celinac, and the Investment-Development Bank of the Republic of Srpska; they cover 2016 and 2017. Each unit was reconciled following reconciliation processes **[A]** and **[B]**. In each case the procedure outlined in Appendix I was followed. In each case, requisite assets and liabilities were allocated to record other economic flows, when revenue and expense were adjusted for items like value change, foreign exchange losses, and write-offs. The mission also included a temporary module to calculate the adjustments associated with provisions.

31. The financial statements were translated into the *GFS Yearbook* presentation and *ESA 2010* Transmission Programme Table 0200—covering revenue and expenditure. Additional work is required to refine the compilation process and investigate possibilities into incorporating these compilation files into the wider GFS and macroeconomic statistics compilation. In addition, follow-up missions will investigate compilation procedures for quarterly data.

Table 6. Additional Recommendations

Target Date	Recommendation	Responsible Institutions
October 2018	*Compile five extrabudgetary units conforming with the developed procedure*	**RZS RS**

C. Classification Issues

Real Sector COA

32. Work was continued on bridging from the real sector COA to *ESA 2010* and *GFSM 2014*. Since the August 2017 mission, RZS researched some COA items at the three-digit level and clarified outstanding questions. Where needed, it supplemented the COA list with four-digit items. The bridge is ready for experimental implementation, whereby outcomes will be reviewed to validate or revise classifications. The goal is to finalize the bridge and implement the bridge when compiling for the fiscal year 2017 and a time series. See DM6418692 for a draft version of the bridge.

Classifying Units per COFOG

33. COFOG is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditure. COFOG provides a classification of government outlays by functions that experiences have shown to be of general interest and useful to a wider variety of analytic applications. Statistics on health, education, social protection, and environmental protection, for example, can be used to study the effectiveness of government programs in those areas.

34. The advisor and the authorities reviewed COFOG classification of 18 extrabudgetary units based on their description, mandate, and/or activities. Each unit can be assigned a single COFOG classification, as their activities are narrowly defined. As part of this exercise, Eurostat's *'Manual on sources and methods for the compilation of COFOG Statistics'* was consulted. The manual is a useful resource to assess appropriate classifications of expenditure by project, program, or organization. It provides distinguishing descriptions of COFOG classes up to the third level. However, manual does not always provide descriptions that are perfectly aligned with a program, project, or organization's mandate and/or activities. These classifications require 'expert' judgement, and may, thus, be subject to review, as new insights become available.

35. Often COFOG compilation does not receive the highest priority, because macroeconomic analysis is often based on economic transactions and balance sheet data. Even so, COFOG tables reported to Eurostat (ETP Table 1100) are compiled in a matrix form, whereby functional expenditure categories are broken down according to economic transactions. It is, thus, useful to integrate COFOG compilation into the wider GFS compilation.

36. Institutional units may fulfil multiple policy functions. This is especially true for budgetary units. For budgetary units, it is best to classify COFOG at program or project level, rather than department level. It is also important to assign the task of allocating COFOG codes to a GFS compiler or, at least, review all classifications. In some cases, organizations cover narrowly defined policy functions, whereby it is realistic to assign a single COFOG classification for that organization. The more material an organization, program, or project represent, the more research the GFS compiler should conduct to classify per COFOG.

37. The MOF informed that it has been compiling COFOG data covering the budgetary governments for several years. These data form part of annual internal reporting and are available publicly on the MOF website,[6] included among the Framework Budget Document.

38. The mission discussed the complicated issue of health care institutions in the Republic of Srpska and how these impacted COFOG classification. Two issues are at play—(i) the distinction between the provision of health care insurance through a social

[6] http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mf/PPP/Pages/Dokument_okvirnog_budzeta.aspx

security fund and the provision of health care itself and (ii) the future integration of health care institutions into the budget.

39. The August 2017 mission mapped out flows between the budget, the health fund, the health institutions, and patients (household), concerning the provision of health care and its funding. This mapping can also help serve the classification of functional expenditure of the health fund and the health care providers (that are classified as part of the government sector). Table 7 illustrates various expense and revenue flows between the various actors. The cells highlighted in yellow are relevant to classify per COFOG.

Table 7. Illustration of Health Care Funding and Provision Flows Four Subsectors of the Economy

	Budget	Health Fund	Health institution	Patient
Contributions		+80		-80
Grants	-15	+15		
Co-pay treatment			+10	-10
Treatment—social benefit received		-30		+30
Treatment—pay from social benefit			+30	-30
Treatment—expense			-35	
Total revenue minus expense	**-15**	**+65**	**+5**	**-90**

40. When classifying expenditure per program, project, and organization, it becomes relevant to discern the purpose of this expenditure. In some cases (i), expenditure relates to administering hospital care or providing medication, in other cases, it may concern developing general healthcare policy or engaging in research and development. Here, the distinction between the provision of individual and collective services becomes apparent. Collective services cover activities like formulation and administration of policy; setting and enforcing standards; regulation and licensing; applied research. In other cases (ii), expenditure relates to health care and convalescence; albeit providing grants, paying social benefits, or actually providing health care services are distinct from social protection covering sickness (whereby loss of income due to sickness is compensated). For (i) this covers COFOG Division *07 Health* and for (ii) this covers COFOG division *10 Social Benefits*.

D. Officials Met During the Mission

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Appendix I. Proposed Compilation Process for Extrabudgetary Units

42. The advisor presented a procedure to translate financial statements into GFS. This procedure was covered during the SECO-funded GFS workshop held in Ljubljana in March 2018. The procedure follows a systematic approach to unravel an audited financial statement and translate line-by-line income statement and balance sheet items into the *GFSM 2014* and *ESA 2010* framework. It aligns fundamental accounting principles with the frameworks in a step-by-step approach. See also DM 6466270 for a sample procedure as explained during the GFS workshop.

a. Step **[A]** verifies that the 'net income' or 'net profit' (as reported in the Financial Statement) is linked with the balance sheet in the line item 'retained earnings' or 'profit of the year' in the 'capital account' or 'own funds account'.[7]

b. In a similar fashion NLB is linked with financing in the *GFSM 2014* and *ESA 2010* frameworks. Step **[A]** verifies that 'net income' can be linked with the balance sheet. See also Figure 1.

c. Step **[B]** estimates net flows by calculating the difference between closing and opening balances of each balance sheet item (as reported in the Financial Statement). See also Figure 2.

d. The *GFSM 2014* and *ESA 2010* frameworks go further to distinguish net flows into transactions and 'other economic flows'.

e. The *GFSM 2014* and *ESA 2010* frameworks sometimes also record gross transactions (i.e. separating the acquisition and disposal of assets, and the incurrence and repayment of liabilities).

f. To determine 'other economic flows', step **[C]** identifies (1) revaluations; (2) foreign exchange gains and losses; and (3) impairments and write-offs. In addition, step **[C]** unravels (4) 'provisions' recording in financial statements and adjusts revenue and expenditure recording to ensure that expenses are recorded in the period they are actually spent. Items (1)–(4) are, thus, treated differently in the *GFSM 2014* and *ESA 2010* frameworks than in accounting. See also Table 2 and Figure 3.

g. Step **[D]** allocates all flows and stocks to the *GFSM 2010* and *ESA 2010* classifications, whereby data can be presented in these frameworks—step **[E]**. With step **[E]**, the balancing items NLB and Financing are also calculated. If need be, the financial statements are further scrutinized for adjustments (as described in step **[C]**) that will lead to the statistical discrepancy to be reduced to zero. See also Figure 4 and Figure 5.

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[7] The accounting terminology used in financial statements varies per corporation. Here, generic terms are used.

43. The translation process generally is an iterative process and requires researching the notes of the financial statements. Because the income statement and balance sheet mainly provide a summarized view, notes support the process of classifying stocks and flows at the most detailed level possible. In addition, the notes of a financial statement can help provide key information to interpret economic events and thereby correctly classify transactions per *GFSM 2010* and *ESA 2010*.

44. In the case supporting information is not available within financial statements or other administrative documentation, the compiler makes assumptions on the economic nature of transactions. These assumptions are based on the economic activity and/or objectives of an institutional unit. For instance, annual transfers received by an extrabudgetary unit from a government unit are classified as grants; salaries and wages can be divided pro rata into compensation of employees and social contributions, benchmarked against a similar unit; and extrabudgetary units generally do not collect taxes as revenue. The underlying rationale of each assumption needs to be documented and, where feasible, supported with references to *GFSM 2014* and *ESA 2010*. Importantly, the more material the unit, the more the compiler should use an evidence-based approach in classifying transactions, rather than following assumptions.

45. Once following through the process, a complete list of transactions, OEFs, and closing balances will be available for each unit, including all balancing items in the systems of accounts and with a reconciliation between NLB and financing. These data can be used for compiling a broad set of GFS and related macroeconomic statistics tables. Considering that financial statements are compiled per national business accounting standards, the compiled data will follow accrual accounting and follow balance sheet valuations aligned with fair value. This will concurrently serve as a best possible proxy for market, nominal and face value in the *ESA 2010*, *GFSM 2014*, and *PSDS CG* frameworks, including revenue, functional expenditure, and financial balance sheet data. If units have a significantly material impact on select balance sheet items, additional valuation methods may be considered to align better with reporting standards on a case-by-case basis.

Figure 2. Step [A]—Verifying Net Income

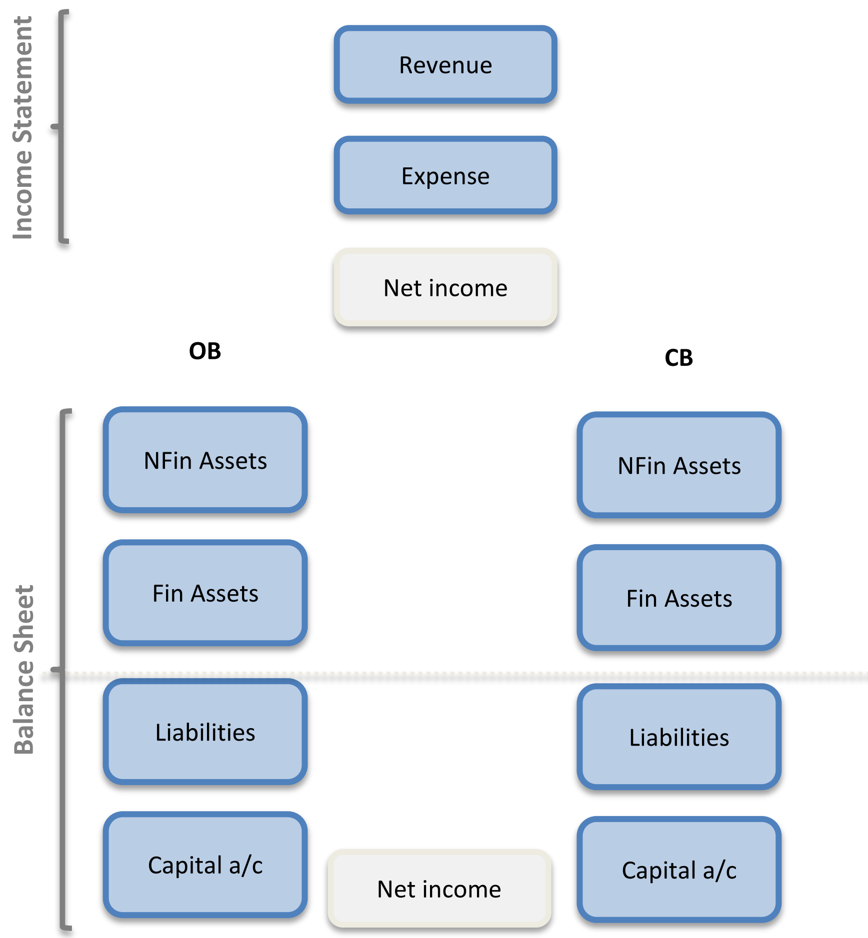

Figure 3. Step [B]—Estimating Net Flows

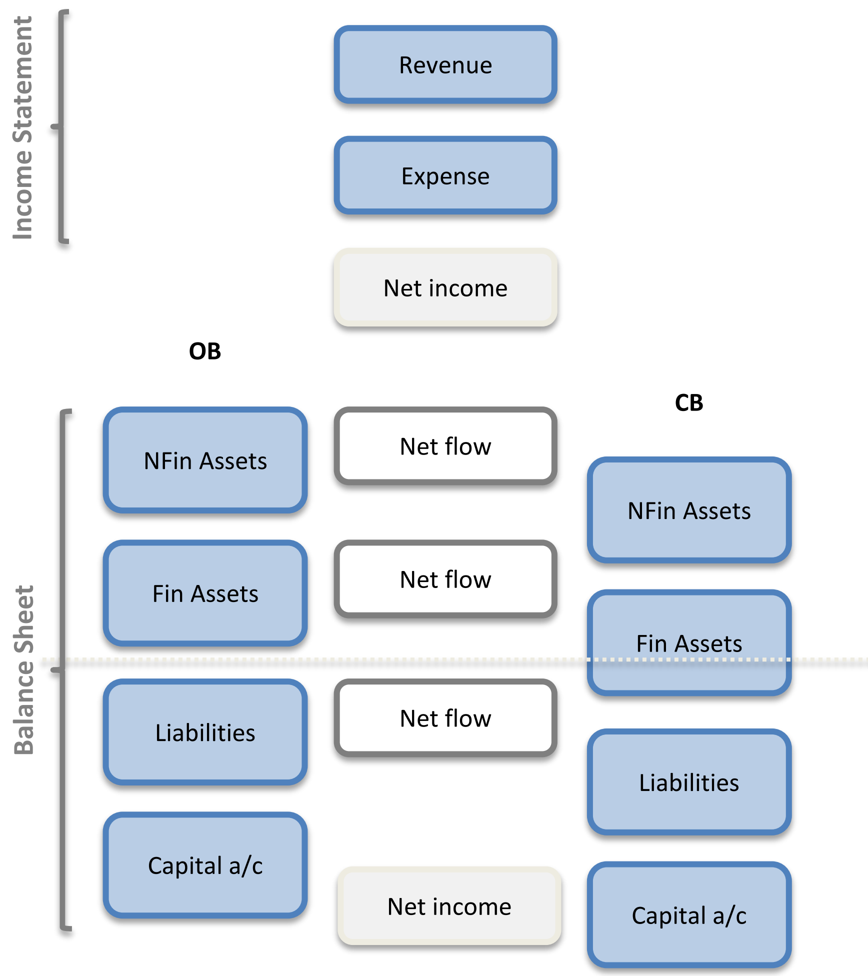

Table 8. Generic Business Accounting Standards and GFS Recording Standards Compared
(Treatment of Specific Concepts in the *GFSM 2014* and *ESA 2010* Frameworks)

	Accounting	*GFSM 2014/ESA 2010*
(1) Provisions	Expenses is accrued in the period when it becomes highly likely an outflow of resources will be required to settle an obligation, and a reliable estimate can be made of the amount, even if the timing for when the obligation will be settled is unknown	Expense is only recorded when the actual economic event takes place.
	A counter-transaction is recorded in the 'provisions' line item of the 'Capital Account'.	No provision item on the balance sheet.
	When actual expense event takes place—an outflow is recorded from the 'provisions' account—impacts only the balance sheet.	When actual expense event takes place—expense is recorded.
	Income is accrued when provisions are 'released'—i.e. it is no longer likely the 'provisioned' expense will be spent.	The release is not recorded as income.
(2) Revaluations	A revaluation of an asset is recorded as income or expense, thus, impacting the 'net income'. The value of the requisite asset item increases or decreases accordingly.	A revaluation of an asset is not recorded as part of revenue or expense, it is recorded as an 'other economic flow' and thereby the value of the requisite asset item increases or decreases accordingly.
(3) Foreign exchange losses or gains	A foreign exchange loss or gain on an asset or liability is recorded as income or expense, thus, impacting the 'net income'. The value of the requisite balance sheet item increases or decreases accordingly.	A foreign exchange loss or gain of an asset or liability is not recorded as part of revenue or expense, it is recorded as an 'other economic flow' and thereby the value of the requisite balance sheet item increases or decreases accordingly.

	Accounting	*GFSM 2014/ESA 2010*
(4) Impairments or write-offs	An impairment and a write-off of debt receivable is recorded as an expense, thus, impacting the 'net income'. The value of the requisite financial asset item decreases accordingly.	An impairment and a write-off of debt receivable is recorded as an 'other economic flow,' thus, impacting the 'net income'. The value of the requisite financial asset item decreases accordingly. However, if an agreement is reached with the debtor, the write-off will be recorded as a 'capital transfer' expense.

Figure 4. Step [C]—Determine 'Other Economic Flows' and Unravelling Provisions

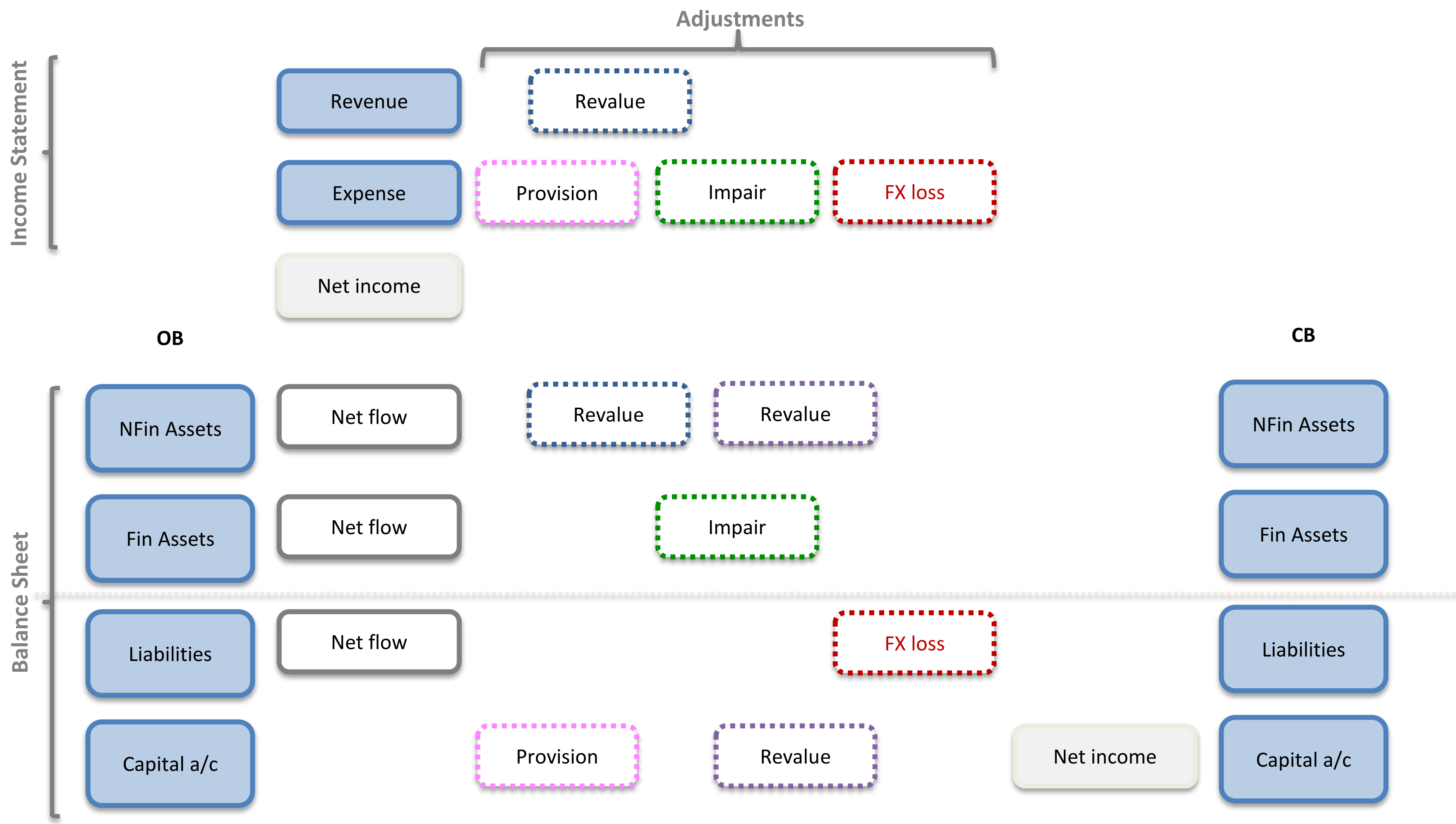

Figure 5. Step [D]—Allocating GFS Transactions, OEFs and Stocks

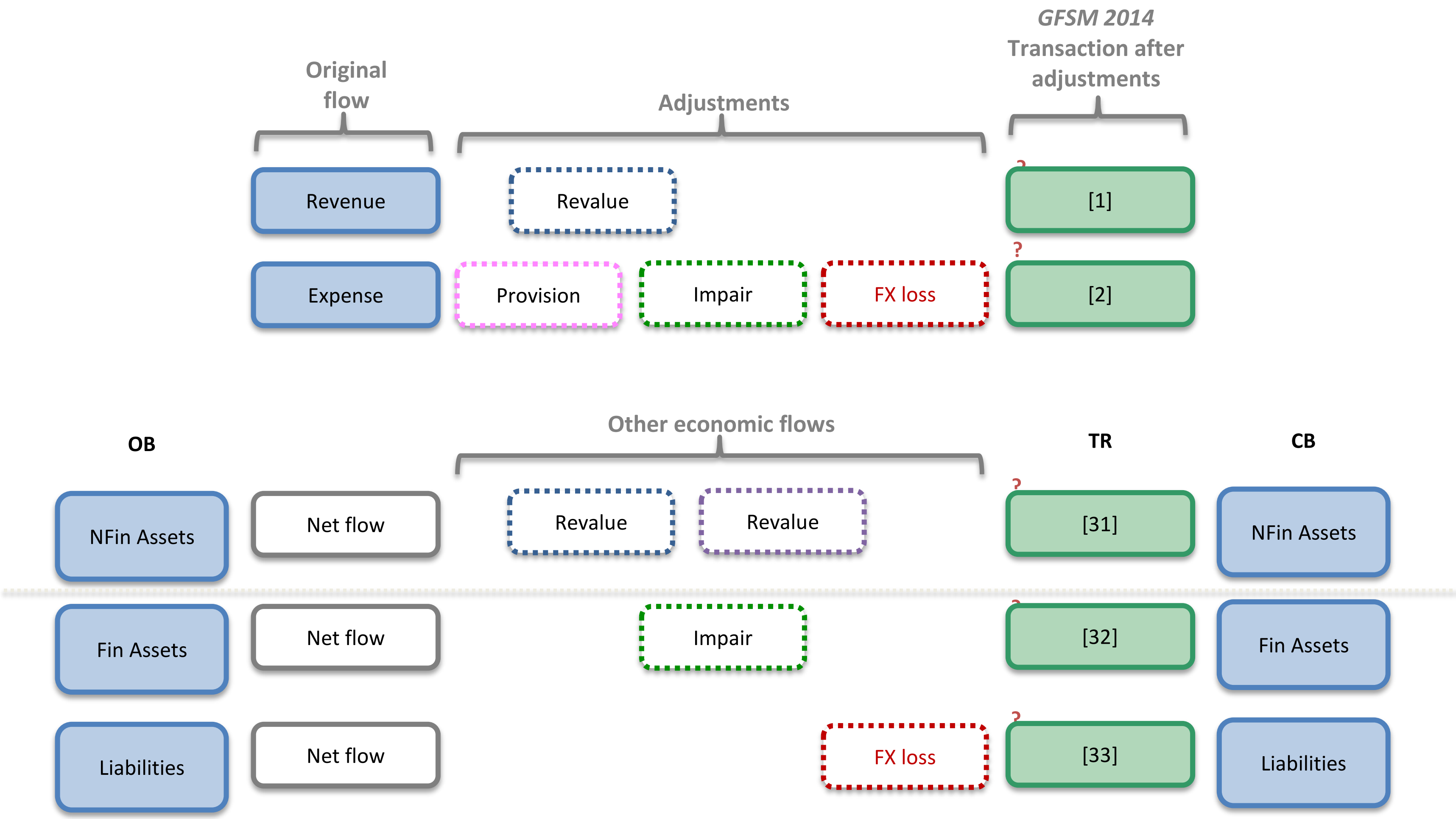

Figure 6. Step [E]—Finalizing GFS Framework, and Calculating NLB and Financing