



**BCoP REPORT TO PEMPAL:
STUDY VISIT *BUDGET PLANNING AND MANAGEMENT OF THE EU FUNDS IN SLOVENIA*
NOVEMBER 18-21, 2014**

Distribution: PEMPAL website, PEMPAL Steering Committee, participants' governments.

Each participating country provided written inputs for this Report during the last wrap-up session of the Study Visit in Slovenia. The inputs were collated and consolidated into one Draft Report by the BCoP Resource Team who coordinated this Study Visit (Naida Čaršimamović Vukotić).

Background

a. Purpose of Study Visit

Based on interest expressed during the Antalya 2014 BCoP plenary meeting, budget planning and management of the EU funds emerged as a priority topic for the Western Balkans countries. Consequently, within the adopted BCoP Action Plan for 2014/2015 the BCoP Executive Committee decided to plan this Study Visit.

The Western Balkans countries expressed their interest in this Study Visit given the fact that all of them are in the process of EU integration (candidates or potential candidates) or have just recently become a member of the EU (Croatia). All of the countries are the recipients of different types of the funds from the EU, which all are subject to often complex special procedures and audits from the EU side. Furthermore, given that in many cases, the EU does not have one specific prescribed way of dealing with a financial transaction/procedure/recording, the Western Balkan countries are interested in exchanging views and learning lessons from a country which is a current EU member.

Since the Western Balkan countries share some commonalities with the Slovenian public finance system given their common past and Slovenia has relatively recently gone through similar phases of the EU integrations and the subsequent adjustments of their public finance system/financial recording system, Slovenia has been chosen as the host country for this Study Visit.

The visiting PEMPAL countries were interested to exchange information and lessons learnt from their Slovenian colleagues in the area of planning, executing, and recording of the EU funds, including issues of financial reporting and statistical reporting.

In order to ensure the maximum effectiveness of this Study Visit, prior to the study visit, the participants (led by the member of the BCoP Executive Committee from Croatia, who was acting as the coordinator for this Study Visit on behalf of the Executive Committee) drafted specific questions they would like their Slovenian colleagues to answer/discuss. This ensured relevance of the agenda (refer to Annex 1 for Agenda), presentations and discussions for the participants. Summary of the questionnaire is enclosed in Annex 2 to this report.

Thus, the Study Visit was arranged specifically to familiarize BCoP member government officials with Slovenian experiences in managing EU funds at all stages – budget planning, execution, and recording of the EU funds, including issues of financial reporting and statistical reporting. Rather than just listening to lectures, the Study Visit was facilitated so that the participants were able to engage in technical discussion with their colleagues from the hosting Ministry of Finance.

b. Participants

Fourteen participants from six PEMPAL countries took part in this Study Visit – Albania, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro, and Serbia. They were accompanied by two interpreters and one Resource Team expert. Technical support was provided by the Secretariat and the event took place in Center for Excellence in Finance (CEF) premises.

c. Overview of Agenda and Specific Status/Interests of the Participating Countries¹

The first day of the workshop was devoted to learning about Slovenian budget planning system with the focus on the EU funds in every budget stage, and to the presentation of the certifying authority for the EU funds – the Sector for Management of the EU Funds within the Ministry of Finance of Slovenia.

Based on the BCoP members' feedback from previous events, the introductory session included participants' presentations of the overall status in their countries in the area of planning and managing EU funds. Participants also specified particular aspects of the Slovenian system they were interested to learn about from this Study Visit. The objective of this session was to i) capture main interests of the participants in order to facilitate discussion with the speakers around these interests and ii) give a chance to participants to ask questions to colleagues from other countries.

Given that Serbia will start EU screenings soon and that the negotiation chapters most relevant for the Ministry of Finance have been/will be opened, Serbian representatives noted that their main interest was to learn about the financial controls in regards to the EU funds in Slovenia, including different stakeholders and institutional organization and cooperation in this area. Furthermore, interests of Serbian representatives included learning about the managing authority for the EU funds in Slovenia and the plans for preparation of the public finance reform, which would be required by the EU from all of the countries. Representatives from the other five countries also noted their interest in these topics, especially in terms of the institutional organization and cooperation of numerous bodies in charge of different aspects which affect managing of the EU funds, since for all of the countries, the current status reflects fragmentation of relevant bodies/departments and the lack of close cooperation with the budget planning sectors in the Finance Ministries.

Croatia joined the EU in 2013, and has been the most advanced in terms of usage of the EU funds and necessary relevant procedures and reporting to the EU. Participants from Croatia also touched upon the need for better coordination of the Finance Ministry's units working on the different aspects of the EU funds, since at times, different units spoke in "different languages". Furthermore, there were problems in terms of Ministry of Finance/government and Statistics Agencies reporting the same things differently due to

¹ Agenda is included in Annex 1. All Power Point presentations and two additional Word background documents from this Study Visit are available for BCoP membership at <http://www.pempal.org/event/read/126>, this Report just gives a short overview of the presentations.

different methodologies. Other more detailed questions developed by the representative from Croatia is included as Annex 2.

Remaining participating countries (Albania, Bosnia and Herzegovina, Kosovo and Montenegro) agreed with the issues raised by Croatia and Serbia as being important, while additional concerns/issues to be discussed were also raised, such as reflection of the EU-related revenues and expenditures within the budget instructions, legislative basis for both planning and executing EU funds, the need for budget sectors to be more involved in programming of the EU funds, reporting of the EU funds in terms of distinguishing between grants and earmarked revenues, the role and duties of the EU fund auditing body, procedures and recording of the transfers of the EU funds to lower government levels and bodies outside of the government sector (e.g. NGO or private sector). At the end of this session, the participating countries had a Q&A session in terms of dealing with similar issues in different countries. Most of the discussions were centered around questions to Croatia, given that this country was most advanced in terms of the EU-integrations.

Following this introductory session, overview of the budget system of Slovenia was given by the Head of Department of the Budget System Development. The main elements of the presentation included: i) the overview of the organization structure and responsibilities within the Ministry of Finance of Slovenia, with the focus on the Budget Directorate and the Department for Budget System Development; ii) overview of the budget system in Slovenia, including the legislation, budget classification, budget structure and the organization and responsibilities; iii) budget preparation procedures in Slovenia, iv) role of the parliament, v) main points about budget execution, and vi) information system. Throughout the presentation, the specific treatment of the EU funds was described. The speaker also explained the evolution of the budget system of Slovenia in the last two decades and informed the participants about the on-going current changes and planned changes based on the lessons-learnt.

The final session of the first day focused on how the system of managing the EU funds in Slovenia works, including the institutional set-up. It was delivered by the Head of the Department of the Sector for Managing EU Funds in the Ministry of Finance. This Department performs the duties of the Certifying Authority for EU funds in Slovenia. The speaker explained the organizational structure of the Department, the specificities and the amounts all of the different EU funds in Slovenia, as well as the key players in terms of the EU plans and the flows of documents and payments among them - Managing Authority and Intermediate Bodies-ministries, Certifying Authority, and Audit Authority, as well as the EU Commission and the Slovenian Treasury. The presentation also focused on the main tasks of the Certifying Authority, including the forecasts sent to the EC. Finally, lessons learnt and major challenges were discussed.

The second day included three sessions.

The first presentation was on the role of the Managing Authority in the implementation of the structural and cohesion funds and its operations. It was made by the Deputy Director of the Government Office for Development and European Cohesion Policies, which is the Managing Authority in Slovenia. The presentation included overview of the regional divisions based on which the EU Cohesion Funds are received and trans-national program overview. Within the overview of the current responsibilities of the Managing Authority, the speaker also explained the evolution of the institutional organization related to Managing Authority duties in Slovenia, which changed several times during the last decade. Detailed information about the funding and national co-financing was given for different types of EU funds and programs, as well as the overview of key documents. The speaker also showed detailed data on payment schedule in terms of budget flows related to the EU programs and explained the issues, the Ministry of

Finance deals with (including the impact on fiscal position). Finally, detailed review of the challenges and lessons learnt were provided, along with the current plans for improvement (new regulation) and concrete recommendations to the participants.

The second presentation was on auditing Cohesion and Structural Funds in Slovenia. It was delivered by the Director of the Budget Supervision Office, which operates within the Slovenian Ministry of Finance and represents Audit Authority for the EU funds in Slovenia. The presentation included overview of the organizational structure of the Audit Authority, basis for its work, main tasks (system audits and project audits), and main deliverables. Key requirements of the auditing in terms of both Managing Authority/Intermediary Bodies and Certifying Authority were given, as well as the main components of both system audits and project audits (areas covered). The speaker also explained the most frequent findings of the audits with specific examples.

The final presentation on the methodological issues related to recording and reporting was given by the Head of Sector for Public Finance Analyses and Economic Policy Coordination. The speaker explained in detail the process of changing and harmonizing all of the previously different charts of accounts of the general government sector two decades ago and all of the subsequent changes (including those with the purpose of the reporting to the EU) and bridging tables prepared between the charts of accounts, GFS and ESA methodologies. In addition, the speaker showed detailed report on budget receipts from the EU budget and expenditure from the EU funds. Finally, the speaker also discussed methodological missions of Eurostat, and gave specific advice to the participants in terms of specificities of the recording and reporting of the EU funds and similar issues.

During the two days of the Study Visit, participants took the opportunity to engage in detailed technical discussions with all of the speakers through Q&A sessions after each presentation.

A wrap-up meeting was organized on the last day of the visit, where the participants discussed lessons learnt in Slovenia and other feedback from the Study Visit. They also provided written input for this Study Visit Report to be shared with wider BCoP audience.

Main Elements of the Slovenian System for Planning, Managing and Recording of the EU Funds and Recommendations from the Speakers

All Power Point presentations and two additional Word background documents from this Study Visit are available at <http://www.pempal.org/event/read/126>. This Report just gives a short overview of main elements of the Slovenian system.

Slovenia captures all of the receipts from the EU budget and the expenditures from the EU funds within the state budget. They have expanded their charts of accounts to capture all different types of the EU-related transactions, with the goal of maximum transparency. The Ministry of Finance leads the Methodological Committee which also includes the representatives from the other parts of the general government sector. This Committee makes decisions on adjusting/changing the recording and reporting when needed, which included numerous changes to account for the EU-related transactions (down to analytical level). In terms of recording transactions, Slovenian Ministry of Finance has a very detailed charts of accounts to accommodate all of the needs of EU-transaction recording (with matching fund/source for each type of expenditure), as well as bridging tables prepared between the charts of accounts, GFS and ESA methodologies. This ensures highest level of transparency and avoids inconsistencies in recording. Furthermore, given the differences

between the ESA and GFS, it is important to have comparative overview in one place (e.g. EU funds whose final user is outside of the public sector – e.g. in agriculture – needs to be excluded according to ESA methodology). In terms of the specific recordings, EU funds were recorded as donations in the pre-accession period and receipts since the accession. The Ministry of Finance published detailed execution data on monthly level on its website.

All Slovenian budget legislation includes specific provisions to deal with the specificities of the EU funds (e.g. carry-overs of the unspent earmarked funds) including annual Budget Acts and Public Finance Act. Source of funds classification has five parts, one of which is the EU funds and another one is for SI participation in EU budget. In terms of the budget classifications, each recording of an EU-related transactions starts from budget item through source of funds classifications to functional, program and institutional classifications. In terms of budget planning, special Part III of the budget includes Development Programs Plan, which discloses in detail projects for investments, EU funds and state aid, broken by the program and source of financing for full duration of the program, at the level of activity. Information system used for budget planning (which is integrated with budget execution) is also customized to reflect the EU-related transactions.

The main EU-fund management bodies in Slovenia (Managing Authority and Intermediary bodies, Certifying Authority, and Audit Authority), Certifying Authority (EU Fund Management Department of the Ministry of Finance) and the Audit Authority (Budget Supervision Office of the Ministry of Finance) are placed in the Ministry of Finance, while the Managing Authority (Government Office for Development and European Cohesion Policies) is attached to the Cabinet. These bodies, along with the Budget Department, are in constant contact, however, there is still space for cooperation improvement, which is the reason why currently Slovenia is working on the new regulation, aimed to strengthen the institutional cooperation and overall planning and management system for the EU funds in order to increase absorption and further simplify the implementation system. Some of the main elements of the anticipated improved system will be to include EU project in the budget at a more advanced stage of the project, to integrate IT systems for EU funds with the budgeting IT system, same level of control for national and EU funds, and starting the budget planning in early stages by planning of overall EU funds right after the debt level targets are identified by the Ministry of Finance.

Lessons Learned

a. Summary of Reform Lessons Learnt as Identified by Presenters from Slovenia

Some of the lessons learnt identified by presenters from Slovenia include:

1. It is useful to have a detailed charts of accounts to accommodate all of the needs of EU-transaction recording (with matching fund/source for each type of expenditure) as well as bridge tables prepared between the charts of accounts, GFS and ESA methodologies.
2. It is important to have integrated and clear legislative base for the procedures related to EU-related transactions harmonized with the procedures related to national budget planning and management.
3. Managing Authority is located to be attached to the Cabinet rather than the Ministry of Finance (to balance focus on fiscal position versus development).
4. Function for developing development strategies is placed within the Managing Authority.
5. It is necessary to ensure stability of staffing and institutions involved in EU fund programming.

6. Good cooperation between various institutions dealing with the management of the EU funds is essential.
7. It is important to have an open argument-based dialogue with the EC.
8. Responsibilities of the persons in charge for planning of the projects in the Intermediary Bodies (Ministries) needs to be set at a high level.
9. IT systems should include major controls.
10. Clear deadlines need to be established for all bodies involved in the planning and execution of the EU-related transactions.
11. Attention needs to be paid to clerical errors, since they represent up to 85% of the reasons for the final costs not being reimbursed by the EU, which has negative consequences for the national budget.
12. It needs to be clear what happens when the irregularities are found in terms of expenses – who finds irregularities and who is responsible for the corrective measures.
13. Most frequent audit finding of the EU-fund audits include
 - Public procurement irregularities
 - Irregularities in relation to selection of projects
 - Ineligible expenditure
 - Insufficient audit trail
 - Incompliance with information and publicity rules
 - Incompliance with Community policies
 - Fraud suspicions.

b. Summary of Lessons Learnt/Useful Slovenian Experiences as Identified by PEMPAL BCoP Participants to this Study Visit

1. Well conceptualized and institutionalized system with minimal number of laws and regulations which decreases bureaucracy and is focused on functionality for budget users.
2. While Slovenia opted for centralized Managing Authority, other countries successfully implement de-centralized functions in this area, which can be beneficial in terms of increased ownership by the implementing bodies. At the same time, some participants were especially impressed by the plans to place the function of development strategies into the Managing Authority to improve the inter-connection and integration of the EU fund programming and national priorities.
3. In financial control, in addition to specific bodies such as Budget Supervision Office (which functions as Audit Authority), the Slovenian system benefits from the leading role of the Ministry of Finance in this area.
4. Slovenian example shows the importance of establishing a competent team of experts in government administration who are able to negotiate with the EU on equal terms.
5. In order to have high absorption of the funds, it is important to plan adequately and timely the use of EU funds, based on good analyses and evaluation.
6. It is important to follow simple logic in terms of institutionalization of the functional requirements of the EU and using current capacities to the maximum (rather than starting from the scratch and establishing new institutions/units). Furthermore, functions needed for the EU integrations should be integrated into the national system, legislation and institutions in a simple manner. Final pre-

condition for success is having “the right people in the right positions” at continuous basis (as opposed to high turnover of higher-level positions in the administration).

7. In terms of the current status of the budget planning and management of the EU funds, most participating countries underlined the following common issues which, based on the experience and lessons learnt from Slovenia, they need to improve on:
 - a. Institutional and functional dichotomy
 - b. Lack of harmonized calendar for EU fund programming and national budget planning
 - c. Sub-par involvement of the Ministry of Finance in programming of the EU funds
 - d. Lack of political support as pre-condition for implementation of reforms
8. It is important to have clear system for flow of documents and flow of payments within the key stakeholders in the EU fund management, as demonstrated by Slovenian case.
9. Establishing competition between different projects for EU funds is beneficial to promote higher quality and better implementation and absorption.
10. Hearing about the most common findings of audits was seen as extremely useful for all of the participants.

In the follow-up from the Study Visit, additional materials from the Slovenian authorities will be collected and shared with the Study Visit participants, which the participants themselves identified as key additional documents during the wrap-up Study Visit session.

It is suggested that this Study Visit Report and all of the materials from the Slovenian Study Visit are shared with the wider BCoP audience.

Annex 1:

AGENDA FOR STUDY TRIP ON BUDGET PLANNING AND MANAGEMENT OF THE EU FUNDS IN SLOVENIA (November 18th – 21st, 2014)

Day 1 – Tuesday, November 18th – Arrival of PEMPAL participants.

Day 2 – Wednesday, November 19th

9:00-9:30	Registration and distribution of materials
9:30-9:45	Welcome, Introduction to the Logistics and the Agenda <i>Naida Carsimamovic Vukotic, BCoP Resource Team</i> <i>Ziva Lautar, PEMPAL Secretariat</i>
9:45-10:30	INTRODUCTORY SESSION: Sharing of the Experiences and Interests of the PEMPAL participants (to set the scene for the Study Visit program and ensure that the sessions address specific interests of the participants) <i>PEMPAL participants (a 5-7 minute presentation on their country situation in terms of EU funds and what they are mostly looking to learn from the Study Visit), facilitated by Naida Carsimamovic Vukotic</i>
10:30-11:00	Coffee break
11.00 – 13.00	SESSION 1: General Overview of the Budget System in Slovenia <i>Ministry of Finance of Slovenia, Ms Mojca Voljč, Head of the Department for Budget System Development</i> Questions and Answers
13.00 - 14.00	Lunch (Canteen of the Ministry of Finance)
14:00-15.30	SESSION 2: How the System of Managing the EU Funds in Slovenia Works (including the institutional set-up) <i>Ministry of Finance of Slovenia, Ms Mateja Mahkovec, Head of Department in Sector for Managing EU Funds</i>
15.30 – 15.45	Coffee break
15.45-17.00	SESSION 2: CONT. How the System of Managing the EU Funds in Slovenia Works (including the institutional set-up) <i>Ministry of Finance of Slovenia, Ms Mateja Mahkovec, Head of Department in Sector for Managing EU Funds</i> Questions and Answers
18:00-19.00	City Tour
20:00	Dinner outside of the hotel, with the hosts

Day 3 – Thursday, November 20th

9:00-10.30	SESSION 3: The Role of the Managing Authority in the Implementation of the Structural and Cohesion Funds and its Operation <i>Government Office for Development and European Cohesion Policy, Mr Andrej Engelman, Deputy Director</i> Questions and Answers
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10.30-11.00	<i>Coffee break</i>
11.00-12.30	SESSION 4: Work of the Budget Supervision Office: Independent Control of the Expenditures from EU Funds, Reporting to the EC, and the Main Audit Findings <i>Ministry of Finance of Slovenia, Ms. Natasa Prah, Director of Budget Supervision Office</i> Questions and Answers
12.30-14.00	Lunch (Canteen of the Ministry of Finance)
14.00-16:00	SESSION 5: Methodological Issues Related to Recording and Reporting <i>Ministry of Finance of Slovenia, Mr. Stane Vencelj, Head of Sector for Public Finance Analysis and Economic Policy Coordination</i> Questions and Answers
19:00	Dinner (free afternoon, dinner provided)

Day 4 – Friday, November 21st (for the PEMPAL participants only)

9:00-12:00	Follow-up meeting of the PEMPAL participants <ul style="list-style-type: none"> • Discussion on lessons learnt from the Slovenian system • Preparations on input on preparation of Study Visit report and dissemination to the BCoP membership
12:00	Lunch

Departures in the afternoon of November 21st.

Detailed information in the INFO Letter.

Annex 2:

PROBLEMS/QUESTIONS FOR DISCUSSIONS IN THE AREA OF PLANNING, EXECUTING, AND RECORDING OF THE EU FUNDS (including financial reporting and statistical reporting issues) – for the PEMPAL STUDY VISIT OF THE WESTERN BALKANS COUNTRIES TO SLOVENIA

1. **How much the budget calendar and budget preparation process needs to change for a country when it becomes an EU members** (including all specificities in terms of materials needed to be sent to the EU in regards to the national budget in the planning and execution process)?
2. **Should funds from the EU (all different types) be planned within the budget (pros and cons and specificities of each approach and the procedure for planning within the budget)?** Some countries decide to do so, some do not. Croatia, for example, is opting to include the funds from the EU in the budgeting at both planning and execution stages. Impact on fiscal position (deficit/surplus) matters from the budget-planning perspective.
3. **How to assess cost effectiveness of the funds for “tickets” for programs such as FP7 or Horizon 2020? And role of the MF.**
4. **How to record unspent EU funds in the next fiscal year (representing deficit financing)?**
5. **What if the funds from the EU were not planned but they are received? Treatment of carry-overs.**
6. **Received funds from the EU should not influence fiscal position – revenues should be recognized only up to the level of expenditures.** Accounting-wise, this can pose problems with (pre-accession, structural, cohesion) EU funds (especially in the case of the countries which use modified accrual accounting)
7. **Treatment of the funds received for liquidity assistance.** Given that these funds are not earmarked, revenue/expenditure matching principle cannot be applied in true nature?
8. **How to plan and record received advances?** Impact on fiscal position. Transfer of the funds between the budget users (e.g. between the EU Agency and the final Ministry which implements the projects).
9. **What if some of the expenses of implemented project are not approved by the EU (after audit), although they were already paid? And what if this is the case after the closure of the fiscal year?** Impact on fiscal position.
10. **How to plan and execute the projects which are pre-financed (and only later refunded by the EU, often not until the next fiscal year)?** Impact on fiscal position.
11. **Where are revenues from the EU funds planned and shown in terms of different government levels?** Should it be in the State budget or, in the case of the projects implemented by the municipalities and/or regional governments, in the budget of the lower government level? **Revenue/expenditure matching principle** – problems in terms of consolidating general government financial reports when the money is transferred from the state to the lower-government levels. **And how the funds should be planned if the final user is outside of the general government (e.g. non-profit organization or business association or craftsmen)?**
12. **How to best treat the cases when based on a call for application for EU projects another budget user applies?** In this case, EU funds which will be spent by the final budget should be planned, but this is not possible due to fact that at the time budget is being drafted the final decision on who will get the funds is not known. On the revenue side, the user which is planning for the project would

need to also plan for the co-financing component and later this cannot be done without a budget rebalance.

13. **How much MF should be involved in the process before signing of the financial agreements with the EU, from the perspectives of the impact on fiscal position, co-financing obligations, pre-financings and bridging resources, and payments of the errors?**
14. **How are the funds planned and at which budget positions for pre-financing and bridging in the cases of centralized and decentralized payment systems under IPA? Funds planned at the general level in MF or by users? Also, if the non-profit organization or a municipality makes a mistake, does the State need to pay?**