

RECORDING THE GOVERNMENT SECTOR TRANSFERS IN ESTONIA

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Introduction

The objective of this document is to explain the calculation of government sector revenues and expenditures in the framework of the European Accounting System 1995 (ESA95). For every transaction there are presented definitions according to the ESA95 as well as adjustments and special conditions applied to the government sector. Following the definition, a description of the actual calculation process applied in Estonia is presented – what kind of indicators (and why) are included, what are the data sources, calculation rules, etc.

Data sources

The main data source starting from the 2004 is Public Sector Financial Statements (PSFS), consisting of accrual bookkeeping data of public sector units. Legal basis for PSFS is General Guidance of the Public Sector Accounting (in the form of a regulation of the Minister of Finance) and PSFS is administered by the State Accounting Department in the Ministry of Finance. The current methodological description is applied to the data series starting from the year 2005.

Accounts, source codes, cash flow codes and counterpart codes indicated in this document are published in the annexes of the General Rules of State Bookkeeping. Counterpart code is a code applied to public sector units, generic codes are applied to units outside the public sector (for instance code 800399 indicates all non-profit organisations outside the public sector)

Acronyms used:

FISIM – financial intermediation services indirectly measured

NPISH – non-profit institutions serving households

PSFS – general government accounts

Methodological guidelines

- 1) European System of Accounts 1995 – ESA95,
- 2) ESA95 Manual on Government Deficit and Debt – MGDD.

Institutional unit and institutional sectors

ESA95 defines the institutional unit as elementary economic decision-making centre characterised by uniformity of behaviour and decision-making autonomy in the exercise of its principal function. A resident unit is regarded as constituting an institutional unit if it has decision-making autonomy in respect of its principal function and either keeps a complete set of account or it would be possible and meaningful, from both economic and legal viewpoint to compile a complete set of account if they were required.

Units with similar economic behaviour are grouped together as institutional sectors in ESA95. The list of sectors is the following:

- S.11 – non-financial corporations
- S.12 – financial corporations
- S.13 – general government
 - S.1311 – central government
 - S.1312 – state government
 - S.1313 – local government
 - S.1314 – social security funds
- S.14 – households
- S.15 – non-profit institutions serving households
- S.2 – rest of the world.

D.3 Subsidies

Subsidies are current unrequited payments which general government or the institutions of the European Union make to resident producers, with the objective of influencing their levels of production, their prices or the remuneration of the factors of production.

Subsidies are divided into two parts – subsidies on products (D.31) and other subsidies on production (D.39). Subsidies on products D.31 are payable per unit of a good or service produced or imported. Other subsidies on production consist of subsidies the resident producer units may receive as a consequence of engaging in production. This heading includes in particular subsidies on payroll or work force, subsidies to reduce pollution, grants for interest relief made to resident producer units, etc.

The main data sources are:

- 1) accrual based PSFS;
- 2) annual reports of Estonian Agricultural Registers and Information Board;
- 3) the data from units responsible for implementing different programmes (Enterprise Estonia, Environmental Investments Centre, Estonian Film Foundation). Additional information is used to divide expenditures between different transactions and check-up of PSFS data.

In Estonia **subsidies on products D.31** are divided into four groups:

1. transportation subsidies for conveyance of passengers;
2. subsidies on postal services;
3. subsidies on agriculture;
4. subsidies on export of agricultural goods.

Transport subsidies are paid both by the central government and local governments. Subsidies are split between four transportation types – highway transport (bus, trolley bus and tram traffic), railway transport, water-borne transport and air transport. Railway and air transport are subsidised only by the central government.

Subsidies on postal services are paid to Eesti Post Ltd. with the objective to support the delivery of periodical publications in rural areas.

Agricultural subsidies are granted on a multiple basis. Services on products consist of subsidies granted based on the number of livestock or units of the area. Until year 2006 subsidies on products consisted:

- a) additional direct payments for animal husbandry;
- b) additional direct payments for crop farming;
- c) additional direct payments for cereals;
- d) additional direct payments for hayseed.

Starting from 2007 the main principles of providing support to dairy farming were changed and therefore the corresponding subsidies were transferred to subsidies on production (D.39) (support to dairy farming was included among additional direct payments for animal husbandry).

Other subsidies on production (D.39) include different kind of support which is provided to enterprises to support their production (excluding support for purchasing capital goods which is recorded as investment grants). For example:

- subsidies on agriculture that are not recorded as subsidies on products;
- different assistance benefits provided by the Enterprise Estonia to the enterprises to cover expenditures on training, development, etc.;
- subsidies to cover the cost of labour;

- assistance to support publishing different publications (books, music, etc.), different cultural events, etc. provided by the Ministry of Culture;
- support for the development of movies and movie scenarios, distribution support and other similar support provided by the Estonian Film Foundation (support for actual production of movies does not fall in this category);
- etc.

Accounting principles for subsidies

Recording of subsidies in current quarters and later in revised calculations is different.

In current quarters:

- The data are taken directly from PSFS in the case of:
 - transportation subsidies for conveyance of passengers and for subsidies on postal services,
 - other subsidies paid by the units belonging to the central government sub-sector,
 - subsidies paid by the foundations and non-profit institutions in the local government sub-sector,
 - subsidies paid by the social insurance funds' subsector (this rule is applied starting from the year 2009 after all the labour market measures were transferred to the Estonian Unemployment Insurance Fund).
- Agricultural subsidies are recorded based on the prognoses of the overall support to be paid out during the year. The division of subsidies on products over the quarters is based on the distribution of output in the agricultural sector. Subsidies on production are divided proportionally over the quarters.
- In the case of local governments (governments as institutions, not the sub-sector S.1313) subsidies (except subsidies on transportation) are not accounted as subsidies in the current quarters, because there are often quality issues with their data. Expenditures are recorded in the transaction of miscellaneous current transfers (D.75).

In the revised versions of the accounts all subsidies (except subsidies on agriculture) are recorded in the same amount and in the same period as they are recorded in the PSFS. In the case of subsidies on agriculture the amounts of subsidies are based on the amount of the support appointed by the Estonian Agricultural Registers and Information Board (ARIB) in the specific year and the division over the quarters is based on the distribution of output in the agricultural sector.

The following transactions are recorded as subsidies based on the PSFS data:

- 1) According to the general rule all transfers made to enterprises and recorded in the account groups 4000 "Subsidies for operating expenses" and 4500 "Dedicated financing for operating expenses" and account set 452 "Non-dedicated financing" (except account 452800 "Membership fees").
In this context enterprises are defined as all resident private sector companies and credit- and financing companies (counterpart codes beginning with 8004 and 8005) and all public sector enterprises (i.e. public sector units classified into S.11 and S.12 sectors according to the ESA95 definitions).
- 2) In the case of Tallinn Transport Department (Tallinna Transpordiamet), Pärnu City Government, Tartu City Government and non-profit organisation Harju Public Transport Centre (MTÜ Harjumaa Ühistranspordikeskus) expenditures recorded in the account 554020 "Transport services" which are reduced by the revenue recorded in the account 323000 "Revenue from transport services". Both units sell tickets (revenue recorded in the account 323000) and the revenue received is carried over to transport companies and is recorded alongside with the subsidies in the account 554020.

In the case of the Tallinn Transport Department the rule applied until the end of the 3rd quarter 2009. Thereafter the recording rules were changed so that subsidies are recorded separately in the account group 4500 “Dedicated financing for operating expenses”.

In the case of the Pärnu City Government the rule is applied starting from year 2008 and in the case of Tartu City Government starting from the year 2011.

- 3) In the case of non-profit organisation Järva Public Transport Centre (MTÜ Järvamaa Ühistranspordikeskus) expenditures recorded in the account 554020 “Transport services” which are reduced by the revenue recorded in the account 323890 “Sale of the other products and services”. The unit is selling transport tickets (revenue recorded in the account 323890) and the revenue received is carried over to transport companies and is recorded alongside with the subsidies in the account 554020.

There are a number of exceptions in the general rule stated in the first item of the previous list. Those exceptional transactions are recorded under some other transfers instead of subsidies.

The main exceptions are expenditures financed from the resources of the European Union aid. Those transactions are not recorded as the expenditure of the government sector, but according to the methodological guidelines they are recorded as direct support from the EU to final beneficiary. A detailed description of the calculation methodology has been provided in the chapter “Recording of EU grants in national accounts”.

Other regular exceptions include:

- 1) support for special bus-lines for students and state-commissioned education is recorded as social benefits in kind (D.631);
- 2) support for actual production of movies provided by the Estonian Film Foundation is recorded as investment grants (for more information see chapter D.92 Investment grants);
- 3) expenditures of the Integration and Migration Foundation “Our People” are recorded as intermediate consumption (P.2), because by their nature those expenditures are purchase of services;
- 4) payments to the AS A.L.A.R.A., AS Metroselt, OÜ Eesti Proovikoda and foundation Eesti Akrediteerimiskeskus made by Ministry of Economic Affairs and Communications are recorded as intermediate consumption (P.2), because payments are made for fulfilling specific tasks and therefore their nature is considered to be purchase of services;
- 5) transfers of the Tiger Leap Foundation are recorded as investment grants (in the case of account group 4500) or as intermediate consumption (P.2) (in the case of the account group 452);
- 6) start-up support for enterprises provided by the local governments is recorded as investment grants (D.92);
- 7) etc.

In addition to regular exceptions it is necessary to inspect transactions in every period to determine if correct counterpart codes and accounts are used. There are a number of units (mostly among local governments) that use only one counterpart code indicating enterprises. At the same time, based on the information from other data sources (financial statements, council legislation, legislation of rural municipality governments and city governments, explanatory notes for budgets, etc.) it is known that in reality support was provided to different non-profit institutions.

Another quite frequent problem is that inappropriate bookkeeping account is used or treatment of transactions in national accounts differs from bookkeeping treatment. For instance Tiger Leap Foundation is providing support for buying computers (which is considered to be fixed assets), but is recording the expenditures as dedicated financing for operating expenses. Examples of the methodological diversity are supports for closing-down of waste disposal sites provided by the Environmental Investment Centre. According to ESA95 interpretation this is considered to be rather

an investment grant and not the support to cover operating expenses, as it is the case in bookkeeping (for more information see chapter D.92 Investment grants).

D.4 Property income

Property income is the income receivable by the owner of a financial asset or a tangible non-produced asset (e.g. forest, mineral resources, land) in return for providing funds to, or putting the tangible non-produced asset at the disposal of another institutional unit.

Holding gains and losses are not accounted among property income. Holding gains and losses result from changes in the prices of assets. They accrue to the owners of assets and liabilities purely as a result of holding the assets or liabilities over time, without transforming them in any way.

D.41 Interest

Under the terms of the financial instrument agreed between them, interest is the amount that the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding.

This form of property income is receivable by the owners of certain kind of assets:

- a) deposits (AF.2),
- b) securities other than shares (AF.3),
- c) loans (AF.4),
- d) other accounts receivable (AF.7).

No payments resulting from swap arrangements and transactions under forward rate agreements (FRAs) are to be considered as interest and recorded under property income. All transactions concerning those types of derivatives are recorded as financial transactions. In the case of excess deficit procedure (EDP), an exception is made and those types of interests are recorded under property income and therefore net lending / net borrowing can be different in government accounts and in EDP report.

The main data sources are the following:

- 1) accrual based PSFS,
- 2) reports for balance of payment collected by the Bank of Estonia,
- 3) information about the activities of European Financial Stability Facility (EFSF).

All interests recorded in PSFS (account set 650), except interest on discounted expenses (account 650800), capitalisation of loans (account 650990) and interest from derivatives (accounts 650110) are recorded as interest payables in government accounts. Interests on discounted expenses and capitalisation of loans are excluded because those are accounting principles employed in bookkeeping and are not to be taken into consideration in ESA95. Interests from derivatives are excluded in full amount, because it is impossible to distinguish between amounts attached to swaps and forward rate agreements. At the same time it is known that the majority of derivatives purchased by the government sector are swaps and FRAs.

Additionally, other financial expenditures (account 658950) are divided into interest expenditures, intermediate consumption (all entries where counterpart is credit- and financing units (counterpart code with the beginning 8004 and 9004) or other units belonging to financial intermediaries sector) and to other changes in volume (e.g. provisions).

Interest receivables include all interest revenues recorded in PSFS (account groups 6550 and 6580) except interest revenues unlikely to be collected and interest revenues on discounted long-term claims (account 658080). Interest revenues unlikely to be collected are recorded in ESA95 as other changes in volumes and therefore do not affect revenues and expenditures.

Additionally, other financial revenues (account 658910) are usually included into interest receivables. Permanent exceptions are payments from the Bank of Estonia which are recorded as dividends in transaction D.421.

Revenues from interest on tax-liabilities are not included into interest revenue, because they are considered to be more like fines for delay by nature and therefore recorded among fines and penalties (D.75).

European Financial Stability Facility (EFSF) was created by the agreements reached in 2010 between the members of euro area. The objective of the EFSF is to borrow from the markets to loan to Member States which are no longer able to borrow from the markets or only under too severe conditions. According to the decision of Eurostat published on 27.01.2011 EFSF was not recognised as institutional unit and therefore the borrowing and lending activities of the unit have been recorded in national accounts as activities of the member states of euro area. In order to guarantee uniform recording Eurostat is transferring data about the corresponding claims and liabilities and interest revenues and expenditures. The latter are added to the government sector interest revenues and expenditures.

Accounting principles for interest

Interest is recorded in the government sector accounts at the same time and at the same amount as in PSFS. Exceptions are the Estonian Unemployment Insurance Fund and the Estonian Health Insurance Fund for which additional interest for securities is calculated based on the information collected by the Bank of Estonia for balance of payments. The Estonian Unemployment Insurance Fund is recording revaluation of investment portfolio together with the interest earned from the portfolio as profit/losses from revaluation of securities. The Estonian Health Insurance Fund is also recording revaluation and interest together as interest revenue from securities. According to ESA95 methodology revaluation and interest on securities have to be separated, because revaluation of securities is considered to be holding gains and losses. Therefore, information from the balance of payments reports collected by the Bank of Estonia is used to adjust interest revenues, because in the balance of payments reports revaluation of securities is presented separately.

In addition, for the period 2002–2007 interest on securities issued at a discount is recorded in the system. In 2002 government issued 5-year Eurobond's with nominal value of 100 million euros, at the same time bonds were sold with the issue price of 99.18 million euros. ESA95 rules (p.4.46 b) state that interest on discounted long term bonds has two components: (1) the amount of money income receivable from coupon payments each period and (2) the amount of interest accruing each period attributable to the difference between the redemption price and the issue price.

Eurobonds were issued in the middle of the year and therefore part of the interest paid out at the specific year was accrued at the previous year. Therefore, interest payables were adjusted so that half of the interest paid out every year was recorded in previous year. This affected interest expenditures in 2002 and 2007; there was no effect on other years.

Adjustments based on the difference between the redemption price and the issue price were computed so that the difference between two prices was divided equally over 60 months and was then divided proportionally over the calendar years (i.e. in 2002 and 2007 expenditures were recorded for 6 months, in other years expenditures for 12 months were recorded).

In the case of the interest consolidation for government sector is applied, meaning that revenues and expenditures of every sub-sector include interest paid to and received from other sub-sectors but at the same time transactions between sub-sectors have been excluded from the figures of general government sector.

FISIM is added to the interest revenues and expenditures calculated according to the above mentioned rules.

D.42 Distributed income of corporations

Distributed income of corporations is divided into two parts – dividends (D.421) and withdrawals from the income of quasi-corporations (D.422). In Estonia there are no quasi-corporations owned by the government sector.

Dividends are a form of property income received by owners of shares to which they become entitled as a result of placing funds at the disposal of corporations. Raising equity capital through the issue of shares is an alternative way of raising funds to borrowing. In contrast to loan capital, however, equity capital does not give rise to a liability that is fixed in monetary terms and it does not entitle the holders of shares of a corporation to a fixed or predetermined income.

According to ESA95, dividends also include:

- a) shares issued to shareholders in payment of the dividend for the financial year;
- b) dividends received by mutual funds from the investments they have made and which are assigned to shareholders, even if they are capitalised;
- c) the income paid to general government by public enterprises which are recognised as independent legal entities although these are not formally constituted as corporate enterprises.

Payments made to the state budget by the Bank of Estonia are recorded as dividends based on the last clause. The same applied to the revenue from forests (which was a certain share of revenue from the sale of timbers) paid by the State Forest Management Centre (RMK) up until the year 2007. Starting from the year 2008, RMK is paying dividends based on the operating profit and this is the revenue described in the first item of the list.

It is important to notice that according to the definition dividends are paid on the entrepreneurial income defined in ESA95. Therefore, super-dividend test is applied to the dividends paid by the public sector enterprises. According to the super-dividend test only this part of the dividends paid that does not exceed the entrepreneurial income of the previous year can be recorded as dividends in national accounts. All amounts exceeding the entrepreneurial income are recorded in national accounts as financial transactions. Calculating entrepreneurial income for every separate unit demands a lot of resources and therefore, in practise, operating profit from financial statements could be used as the best estimate.

In Estonia dividend revenues are based solely on the PSFS accounts 655550 “Income from dividends” and account 103110 “Dividends outstanding” (entries with cash flow code 02 meaning inflow of cash). Inflow of cash is used according to the recommendation of the Eurostat in order to capture better the influence of the transaction on the balance of government sector in the situations where dividends are assigned for a certain year but are actually paid out later. In addition to dividends, payments from the Bank of Estonia are included (account 658910 “Other financial revenues” starting from the year 2007) and also revenues from forests (account 382530) where the counterpart is outside the government sector. Super-dividend test based on the operational profit taken from financial statements of enterprises is applied to dividends.

D.45 Rents

The rent received constitutes rents on land and rents on sub-soil assets. The rent on land is income received by a landowner from a tenant. This includes also rents payable to the owners of inland waters and rivers for the right to exploit such waters for recreational or other purposes, including fishing. Rents on sub-soil assets include the royalties that accrue to owners of deposits of minerals or

fossil fuels, who grant leases to other institutional units permitting them to explore or to extract such deposits over a specified period of time.

In Estonia rents are recorded solely based on the PSFS data. Rents constitute of national and local fees for mining rights at deposits (accounts 382500 and 382510), earth-material extraction charges (account 382520) and hunting charge (account 382550). According to definitions also fees for the right to fish for recreation should be recorded as rents in national accounts, but since it is not possible to distinguish those fees from overall amount of fishing charges all fishing charges are recorded as revenues from the other taxes on production (D.29).

In PSFS all fees for mining rights on deposits are recorded as revenues of the Ministry of the Environment and then as expenditures from transmitting the revenue to local governments and to the Environmental Investment Centre. In order to ensure that revenues are recorded in the correct sub-sector, revenues from rents for central government are calculated as difference between revenues of central government (account group 3825) and expenditures from transmitting the fees for mining rights to local governments (account 601581). Revenues from rents for local governments sub-sector is accounted for based on the account group 3825.

D.5 Current taxes on income, wealth, etc. (expenditures)

Current taxes on income, wealth, etc. cover all compulsory, unrequited payments, in cash or in kind, levied periodically by general government and by the rest of the world on the income and wealth of institutional units, and some periodic taxes which are assessed neither on the income nor the wealth.

In Estonia this heading includes income tax on fringe benefits paid by government sector units and the expenditures are directly based on the information recorded in PSFS account 506030 "Income tax on fringe benefits".

D.6 Social contributions and benefits

Social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and non-profit institutions serving households.

D.62 Social benefits other than social transfers in kind

D.621 Social security benefits in cash

They are payable to households by social security funds and social security schemes.

In Estonia the following expenditures are recorded under this heading:

- state pensions paid by the Social Insurance Board;
- benefits for temporary incapacity for work paid by the Estonian Health Insurance Fund;
- unemployment insurance benefits and benefits upon lay-offs paid by the Estonian Unemployment Insurance Fund.

Expenditures are recorded based on the account group 4100 "Pension insurance expenditures financed by social tax" and accounts 410500 "Benefits for temporary incapacity for work", 410800 "Unemployment insurance benefits" and 410810 "Collective redundancy benefits" in PSFS. No changes are made in the PSFS data.

D.623 Unfunded employee social benefits

They are payable to their employees, their dependants or survivors by employers administering unfunded social insurance schemes. They typically include:

- a) the continued payment of normal, or reduced, wages during periods of absence from work as a result of ill health, accident, maternity, etc.;

- b) the payment of family, education or other allowances in respect of dependants;
- c) the payment of retirement or survivors' pensions to ex-employees or their survivors, and the payment of severance allowances to workers or their survivors in the event of redundancy, incapacity, accidental death, etc. (if linked to collective agreements);
- d) general medical services not related to the employee's work;
- e) etc.

Unfunded employee social benefits payable by employers to their former employees or other eligible persons should be recorded including employers' actual social contributions (transaction D.12), i.e. payments made by the employers for the benefit of the persons concerned to insurers. Therefore expenditures of those benefits are recorded in national accounts twice – at first among uses in generation of income account as social contributions paid by employers (transaction D.122 Employers' imputed social contributions) and secondly among uses in secondary distribution of income account as social benefits (transaction D.623 Unfunded employee social benefits). In order to balance the last transaction, it is assumed that employees pay imputed social contributions (transactions D.612) back to the employers. Such an imputed circulation is similar to the circulation of actual social contributions in national accounts, which pass through households accounts and which employees themselves are supposed to pay out to insurers.

In Estonia unfunded employee social benefits in the government sector are considered to consist of special pensions and pension supplements paid on the basis of different legal acts and social benefits paid to civil servants and other employees in general government sector. The only data source is PSFS.

Until 2008, the majority of expenditures were recorded based on the entries in the account set 414. Starting from the year 2008 some special pension payments are recorded in the balance account 206040 "Provisions for pensions" (in the case of occupational pension of the President and occupational pensions of the members of Riigikogu similar accounting came into force already in 2006). Therefore starting from the year 2008 expenditures of special pensions and pension supplements are calculated based on the entries from the account set 414 "Social benefits to public sector employees" and entries from the account 206040 "Provisions for pensions" where the cash flow code is 06.

D.624 Social assistance benefits in cash

They are payable to households by government units or NPISHs to meet the same needs as social insurance benefits but which are not made under a social scheme incorporating social contributions and social insurance benefits. Such benefits do not include current transfers paid in response to events or circumstances that are not normally covered by social insurance schemes.

In Estonia this heading includes family benefits, subsistence benefits (partly), benefits to disabled persons, education allowances, etc. Benefits are recorded only based on the account class 41 "Social benefits" in PSFS data, except the following:

- a) benefits recorded among social security benefits in cash and among unfunded employee social benefits;
- b) benefits upon insolvency of the employer (account 410820), which are recorded among miscellaneous current transfers (D.75);
- c) payments of social tax on the unemployment insurance benefits (account 410830) and social tax in special cases (account 413700), which are recorded as employers' actual social contributions (D.121);
- d) expenditures of the Estonian Health Insurance Fund on the supplementary benefits for pharmaceuticals (account 410510) and on the benefits of medical devices (account 410520), which are recorded as social benefits in kind (D.631);

- e) expenditures of the Estonian Health Insurance Fund on health services (account 410530), which are divided into investment grants (D.92) and, depending on the counterpart sector, to current transfers within general government (D.73) or social benefits in kind (D.631);
- f) expenditures of the Estonian Health Insurance Fund on other health insurance benefits (account 419590), which are recorded as current transfers within general government (D.73) or social benefits in kind (D.631) depending on the counterpart sector;
- g) housing allowance which is a part of subsistence benefits (account 413100) is recorded as social benefits in kind (D.631);
- h) costs for legal assistance (account 413860) are recorded as intermediate consumption (P.2);
- i) rewards and stipends (account group 4139) are recorded as miscellaneous current transfers (D.75);
- j) estimated change in provisions for pensions (account 416000) not included in the national accounts in any way.

All social benefits are recorded in the national accounts at the same time they are recorded in the PSFS.

D.7 Other current transfers

D.73 Current transfers within general government

Current transfers within general government include transfers between the different sub-sectors of general government with the exception of taxes, subsidies, investment grants and other capital transfers. Current transfers within general government do not include transaction on behalf of another unit, these are recorded only once in the account, in the resources of the beneficiary unit on whose behalf the transaction is made. This situation arises particularly when a government agency (e.g. a central government department) collects taxes which are automatically transferred, in total or in part, to other government agency (e.g. a local authority). In this case, the tax receipts destined for the other government agency are shown as if they were collected directly by that agency and not as a current transfer within general government. For instance in Estonia recording of income tax and health insurance share of social tax is carried out according to this rule.

On the other hand, transfers of tax receipts which form a part of a block transfer from central government to another government agency are included in current transfers within general government. These transfers do not correspond to any specific category of taxes and they are not made automatically but mainly through certain funds in accordance with scales of apportionment laid down by central government. In Estonia transfers from budget equalisation fund to local governments are recorded based on this rule.

Current transfers within general government are recorded solely based on the PSFS data. The main part of current transfers within general government is recorded based on the information in the account groups 4000 and 4500 and account set 452. As a rule all expenditures in those accounts where the counterpart sector is a general government unit are recorded as current transfers within general government. Exceptions are transfers funded from the resources of the EU Structural Assistance (see chapter “Recording of EU grants in national accounts”, where the recording of EU grants is described in detail).

Additionally, the following transfers are included in current transfers within general government:

- 1) Part of the expenditures of the Estonian Health Insurance Fund on health services (account 410530), if the counterpart is general government unit. Expenditures on health services for general government units are divided into two parts – current transfers within general government (D.73) and investment grants (D.92). The reason for such division is that prices of health services consist of component meant to cover the amortisation of fixed capital. This component is meant to cover the expenses of acquisition of the fixed capital and according to ESA95 rules such support has to be recorded as investment grants. The division is based on

the information about the size of the amortisation component provided in the financial statements of the Estonian Health Insurance Fund (provided that those are available). For the period 2003–2007 the structure from the year 2003 was applied according to which 3% of expenditures on health services was recorded as investment grants. To provide the division for current periods, the structure of the previous year is used. For revision of annual data the information from financial statement for the particular year is used (provided that this is published).

- 2) Expenditures recorded in accounts 554000 “Social aid services” (until 2008), 552690 “Other social services”, 552630 “Health service”, 552620 “Care, rehabilitation and medical rehabilitation”, 552600 “Counselling” and 552460 “Nursery school services” in the case the owner of the entry and counterpart are both general government units. Counterpart entries to those accounts are usually recorded in account class 32 and are also classified as current transfers within general government.
- 3) Housing rents and other operation and maintenance costs paid to the State Real Estate Ltd (Riigi Kinnisvara AS, RKAS) by general government units. Different units are recording those expenditures in different accounts and therefore, in order to simplify computing and guarantee the correct results, expenditures are calculated based on the revenue side of the RKAS.
- 4) Transfers from the general government units to the Hoolekandeteenused Ltd. (AS Hoolekandeteenused) to cover the expenditures of the special care homes are recorded in the similar way as the payments to the RKAS.

Current transfers within general government are consolidated, meaning that transfers within sub-sector are not included into expenditures and revenues of the subsector. Also consolidation between subsectors is applied, meaning that current transfers within general government are not recorded in the expenditures and revenues of the general government sector.

In order to consolidate transactions, it is necessary that corresponding expenditures and revenues are equal. Therefore the revenue side of the PSFS is used only for checking the results and in the process of compilation of the government sector accounts expenditures are calculated in the first priority and revenues are calculated based on the expenditures (except in the cases of RKAS and Hoolekandeteenused Ltd).

Transfers are recorded in national account at the same time they are recorded in PSFS.

D.74 Current international cooperation

Current international co-operation includes all transfers in cash or in kind between general government and governments or international organisations in the rest of the world, except investment grants and other capital transfers. Exceptionally contributions to the EU budget are not included in this heading. GNP based own resources and VAT rebates are recorded among the miscellaneous current transfers (D.75) and VAT based own resource is recorded as direct tax revenue of the EU. Custom duties are recorded as direct tax revenue of the EU, the part of custom duties remaining to the Member State to cover the collection expenses is treated as sale of services to the EU and is recorded as market output (P.11) in the general government accounts. Also, according to the definition, transfers to non-government non-resident units are not included under this heading. Such transfers are recorded among miscellaneous current transfers.

In Estonia current international cooperation **expenditures** include all expenditures of account groups 4000 and 4500 and account set 452 in PSFS, where the counterpart is non-resident government unit or international organisation (except the cases where expenditures are made by the implementing agencies from the resources of the EU Structural Assistance). Excluded are payments to the EU institutions (counterpart codes with beginning 9002) made by the Ministry of Finance in account 452800 “Membership fees” that consist of contributions to the EU budget. Among those, VAT based

own resource is recorded as a direct tax revenue of the EU and the rest of the contributions are recorded among miscellaneous current transfers (D.75).

Transfers are recorded in the national accounts at the same time as in the PSFS.

Recording of the **revenues** is more complicated, because implementation of the rules for recording the EU grants. The general rule is to include all entries where counterpart is non-resident government unit or international organisation from the account 388890 “Other extraordinary revenues”, account group 3500 “Received dedicated financing for operating expenses” and account set 352 “Received non-dedicated financing” into current international co-operation revenues.

Revenues of the Ministry of Finance, the Ministry of Agriculture and the Estonian Agricultural Registers and the Information Board from the EU Structural Funds (source codes 21-32) are excluded from the revenues. Instead only the part of Structural Assistance, where final beneficiary is the government sector, is included in revenues. The revenues are calculated at the level of implementing agencies and more detailed description of the process is available in the chapter “Recording of the EU grants in national accounts”. Because of such recording practice the revenue from the EU grants is always allocated into the same subsector as the final beneficiary.

D.75 Miscellaneous current transfers

Miscellaneous current transfers include current transfers to non-profit institutions serving households (NPISHs), fines and penalties, lotteries and gambling, payments of compensation, GNP based fourth own resource, transfers to the EU budget connected with corrections in own resources (e.g. UK rebate), other revenues and expenditures. Other expenditures include for instance current transfers from general government to households in their capacity as consumers, if not recorded as social benefits; sponsoring by corporations if those payments cannot be regarded as purchases of advertising or other services; bonus payments on savings granted at intervals by general government to households in order to reward them for their saving during the period, etc.

The expenditures side of the miscellaneous current transfers includes the following in Estonia:

- dedicated financing to cover operating expenses, non-dedicated financing and membership fees to NPISHs and households;
- payable fees and penalties, recourse claims and claims ordered to be paid out by court decisions;
- payments to the EU budget (except VAT based own resource);
- benefits upon insolvency of the employer paid by the Estonian Unemployment Insurance Fund;
- dedicated financing to cover operating expenses and non-dedicated financing paid out to non-resident non-government units;
- rewards, grants and stipends (except educational stipends);
- some support provided to enterprises in the connection with projects (for instance support for organising charity events and sports competitions in case where the main activity of enterprise is not connected with competitions).

In general this heading includes all expenditures of dedicated and non-dedicated financing that is not recorded in other transactions.

Financing provided to the NPISHs, households and non-resident non-government units is based on the account groups 4000 and 4500 and account set 452. As a rule, all expenditures where the counterpart sector falls into the above mentioned group, are included. NPISHs are units with counterpart code 800399 and some units belonging to public sector (e.g. Chamber of Notaries, the Estonian Board of Auditors, etc.) and associate units. Households sector consists of the counterpart code 800699 “Residents, natural persons” and non-resident non-government units are all units for whom counterpart code starts with 9004, 9005 or 9006.

Payable fees and penalties and claims ordered to be paid out by court decisions are recorded directly based on the PSFS accounts (601090 “Fines and penalties”, 601091 “Claims ordered to be paid out by court decisions”). Heading penalties includes also recourse claims paid to the Estonian Health Insurance Fund (EHIK). Revenue part of EHIK (account 388830 “Revenues from recourse claims”) is used to estimate the expenditure side since units paying the recourse claims are recording them on different accounts. Fees and penalties paid from one government sector unit to another are consolidated in the general government figures. Therefore intra-sector fees and penalties and recourse claims paid to the EHIK affect only the balances of the sub-sectors but not the balance of general government sector.

Payments to the EU budget are covered by the entry of the Ministry of Finance in account 452800 “Membership fees”, where counterpart is EU institutions. Additional information from the Ministry of Finance is used to extract VAT based own recourse, which is recorded as direct tax-revenue to the EU. The rest of the entry is recorded as miscellaneous current transfers.

Benefits upon insolvency of the employee paid by the Estonian Unemployment Insurance Fund are recorded in the account 410820 in PSFS. Those expenditures are not recorded as social benefits because this support is not based on the unemployment insurance period but is triggered by the situation where the employer is unable to pay out wages and the government is taking over their obligations. Also rewards, grants and stipends (account group 4139) are included among miscellaneous current transfers because those payments are not connected with social risks and needs and are therefore not social benefits.

But at the same time application of general rules for this transaction and account groups in PSFS is complicated and a detailed control of entries is required, because there are a lot of exceptions. For instance, there is an occasion where support provided to non-profit institution was recorded as dedicated financing for operating expenses and was meant to cover the repayment of loan, which according to ESA95 has to be recorded as other capital transfer (D.99). Also there are quite a lot of cases where renovation grants to apartment association are recorded as dedicated financing for operating expenses; but according to ESA95 those grants had to be recorded as investment grants (D.92). Nevertheless, the major problem is the use of incorrect counterpart codes. There is a number of units which use only (or principally) one counterpart code (usually this is 800599 “Residents, other companies”), but based on the information from other sources (financial reports, legislation of rural municipality governments and city governments, explanatory notes for budgets, etc.) it is clear that all financing is provided to non-profit institutions.

Because of the high error ratio dedicated financing for operating expenses and non-dedicated financing provided by the local governments is recorded as miscellaneous current transfers regardless the counterpart sector in current quarterly accounts. Exceptions are transportation subsidies, which are recorded as subsidies right away, and membership fees paid to the corporations, which are recorded as intermediate consumption (P.2). In revised annual and quarterly accounts PSFS data are inspected and expenditures are divided between subsidies, miscellaneous current transfers and other transactions.

Also different kind of recording is applied to the support paid out from the EU Structural Assistance. If the final beneficiary for this type of support is outside the government sector, then the support is recorded as a direct grant from the EU to the final beneficiary. According to this principle entries of the implementing agencies in accounts 400030 “Foreign aid for subsidies” and 450030 “Foreign dedicated financing for operating expenses” where source codes are in interval 21–32 are not included in the government sector expenditures. A more detailed description of the process is available in the chapter “Recording of EU grants in national accounts”.

Revenues from miscellaneous current transfers include:

- fees and penalties, revenues from recourse claims and interests on tax-liabilities;
- dedicated financing received from the resident non-government sector units;
- dedicated financing received from non-resident units (except government units and international organisations), etc.

The heading fees and penalties includes revenues from the following accounts: fees and penalties (account group 3880), difference in prices acquired by violations of prices (account 388820), revenues from recourse claims (account 388830), compensation levies (account 388840), penalty payments (account 388850), opportunity fees (account 388855) (fees that have to be paid if court procedures are finished or terminated as an expression of opportunity principle) and interest on tax-liabilities. In PSFS interests on tax-liabilities are recorded with all the interest unlikely to be collected which make up quite a large share of overall revenues. Therefore cash-based data are used for recording interest on tax-liabilities. For the same reason cash-data are used to record fees and penalties (account group 3880) received by state budgetary units. Rest of the revenues are recorded based on the PSFS data. In connection with those revenues expenditures from fees unlikely to be collected (account 601290) and from impounded revenues unlikely to be collected (account 601291) are recorded as other capital transfers (D.99).

Fees and penalties contain receivables from one government sector unit to another, which are consolidated in the general government figures. In order to consolidate transactions, it is necessary that the corresponding expenditures and revenues would be equal. Therefore revenues from fees and penalties are calculated based on the expenditure side, meaning that at first expenditures are calculated and afterwards actual revenue figures are replaced with figures from the expenditure side. Exceptionally opposite approach is used for EHIK's revenue from recourse claims so that at first revenues are fixed and then in the expenditure side of other sectors data are replaced with the information from the revenue side.

Revenues from miscellaneous current transfers consist of revenues from received dedicated financing (PSFS account class 35) and other extraordinary revenues (account 388890), where the counterpart code indicates the resident non-government sector unit or non-resident non-government unit.

Additionally money from mandatory seizure (account 388870) and deposits and guarantees not reclaimed (account 388880) are included as revenues in miscellaneous current transfers.

D.9 Capital transfers

Capital transfers are different from the current transfers by the fact that they involve the acquisition or disposal of an asset by at least one of the parties of the transaction.

A capital transfer in kind consists of the transfer of ownership of an asset (other than inventories and cash), or the cancellation of a liability by a creditor, without any counterpart being received in return. A capital transfer in cash consists of the transfer in cash that the first party has raised by disposing of an asset or that the second party is expected, or required, to use for acquisition of an asset. The second party, the recipient, is often obliged to use the cash to acquire an asset, as a condition on which the transfer is made.

D.92 Investment grants

Investment grants consist of capital transfers in cash or in kind made by governments or by the rest of the world to other resident or non-resident institutional units to finance all or part of the costs of their acquirement of fixed assets.

Investment grants can be made in cash or in kind. Investment grants in kind consist of transfers of transport equipment, machinery and other equipment by governments to other resident or non-

resident units and also the direct provision of buildings or other structures for resident or non-resident units. Investment grants do not include transfers of military equipment in the form of weapons or equipment whose sole function is to fire such weapons, as they are not classified as fixed assets. Grants for interest relief made by general government are, however, excluded, even when the object of the relief is to encourage capital formation.

In Estonia **expenditures** on investment grants consist of three categories:

- 1) investment grants in cash;
- 2) equity injections in kind made to the equity capital of the public sector units;
- 3) equity injections in cash if according to ESA95 rules they have to be considered as investment grants.

Investment grants in cash include dedicated financing for acquiring fixed assets (account group 4502). Grants from the EU Structural Assistance are handled differently and those expenditures are excluded from the government sector expenditures. Additionally the following expenditures are included:

- 1) Amortisation component in the expenditures of the Estonian Health Insurance Fund on health services. Estimation of the component is based on the information presented in the financial statements of the Estonian Health Insurance Fund (in 2003–2007 the structure of the year 2003 (3% of expenditures on health services was recorded as investment grants) was applied, since information was not available for the intermediate period).
- 2) Start-up aid to enterprises paid by local governments because, as a rule, those are intended for acquisition of fixed assets or for renovation of rooms and buildings. In quarterly accounts only start-up aid provided by the Tallinn City Enterprise Department is recorded as investment grant, because these account for the largest share of local governments expenditure on start-up aid (0,35–0,65 million euros on various years) and information is available on the current basis. Expenditures of other local governments are inspected during the revision of annual statistics. In current quarterly accounts those expenditures are recorded as miscellaneous current transfers (D.75).
- 3) Grants for investments in computers and the computer networks provided by the Tiger Leap Foundation, which are recorded in PSFS in account group 4500 “Dedicated financing for operating expenses”.
- 4) Support for the creation of films and grants for the creation of the serial “Stories from Estonia” (Eesti Lood) provided by the Estonian Film Foundation (EFF), because films are considered to be fixed assets for the production company. The support for technical development of films, for writing scenarios, for distribution of films, for film education, external communication and international relationship and for other activities benefiting Estonian film life are recorded as subsidies for the production (D.39). In PSFS all types of support are recorded in account group 4500 “Dedicated financing for operating expenses”, therefore regular reports published by EFF about different types of support provided is used to break down the PSFS data. Based on this information the share of support recorded as subsidies is fixed and the rest of the expenditures in PSFS, where the counterpart is indicated to be enterprises (counterpart code 800599) are recorded as investment grants.
- 5) Support for the production of films provided by the Ministry of Culture (recorded in PSFS in account 450000 “Domestic dedicated financing for operation expenses”, code of function 08208).
- 6) Grants from the Environmental Investment Centre to Ökosil Ltd, Paikre OÜ and Uikala Prügila Ltd for closing-down the waste disposal sites and to Eesti Energia Ltd for closing-down the ash field of Balti Power Plant. Expenditures for those grants are recorded in account group 4500 “Dedicated financing for operating expenses”. Closing-down the waste disposal sites is considered to be major improvement to tangible non-produced assets (in this case to land), which according to ESA95 is recorded in gross fixed capital formation (P.51).

Therefore, grants for closing-down the waste disposal sites are recorded as investment grants on the basis of the definition of this transaction.

- 7) Grants from the Environmental Investment Centre to Võru Soojus Ltd. for dismantling oil tanks, to Hiiumaa Prügila OÜ for establishing Hiiumaa Waste Disposal Terminal (Hiiumaa Jäätmejaam) and to Loomsete Jäätmete Töötlemise AS (Processing of Animal Waste Ltd) for renovation of water treatment plants.
- 8) Grants provided to Credit and Export Guarantee Fund KredEx by Ministry of Economic Affairs and Communication (recorded in PSFS account 450000 “Dedicated financing for operating expenses”). Those resources are conveyed to apartment associations (sector S.15) by KredEx. In national accounts these grants are recorded as direct investment grants from the government sector to apartment associations (sector S.15), because KredEx is considered to be only acting on the behalf of the government sector and the objective of the grants is renovation of fixed assets.
- 9) Grants paid to telecommunication companies by the Ministry of Economic Affairs and Communication to cover expenditures made for transmissions of surveillance and security authorities. Grant is provided to cover expenditures on hardware and software, both of which are considered to be fixed assets. Therefore the grant is also considered to be investment grant. Expenditures are recorded in PSFS in account 450000 “Dedicated financing for operating expenses”.
- 10) Grants paid by the National Heritage Board (account 450000 “Dedicated financing for operating expenses”). Those grants are paid in the context of the state programme “Preservation and Development of Churches” (the aim is renovation of buildings) and for preservation of objects protected under heritage convention (mostly for renovation and restoration).
- 11) Grants paid by the Tallinn city Municipal Engineering Services Department to compensate expenditures for private households on connecting their registered immovable to public water supply and sewerage system of Tallinn (account 450000 “Dedicated financing for operating expenses”, code of function 06300).

During the revisions of annual data additional inspection is carried out for dedicated financing and recording of the transactions is corrected if necessary.

Equity injections in kind made to the equity capital of the public sector units are always recorded as investment grants in order to balance out the decrease in the government sector’s fixed assets. Government sector’s gross fixed capital formation (P.51) is calculated based solely on the PSFS data and all transfers in kind are included in P.51. Therefore all transfers in kind appear as a sale of fixed assets despite the fact that no cash revenue is received. If such a transfer takes place in the government sector, the amount of fixed assets of the receiver is increased and this is recorded as acquisition of fixed assets. Those two transactions balance each other out and therefore there is no effect on the general government sector balance.

In case the recipient of the transfer in kind is outside the general government sector, there is no such balancing transaction in the calculations of gross fixed capital formation and therefore it is necessary to record balancing transaction among investment grants.

Transfers in kind made to the equity capital of the public sector units include all transactions in account set 150 where the cash flow code is 17 and the counterpart sector is a non-government unit.

Equity injections in cash according to ESA95 rules have to be considered as investment grants

Equity injections in cash could be divided in two based on the legal form of the recipient – injections into companies in the sense of the Commercial Code and injections into non-profit-making institutions (foundations and non-profit associations). Conditionally the Estonian Development Fund, which is a public-legal institution, could be included in the last group. In certain conditions

non-profit-making units can be classified as market producers belonging to the non-financial corporations or financial corporations sector according to ESA95 methodology despite their legal form.

Acquisition of shares and other equity is recorded generally as financial transaction in national accounts. But equity injections into public corporations could be recorded as investment grants considering the specific role of the government sector. Rules specified in the MGDD chapter III.2 state that it is necessary to analyse whether the government sector acts as market investor (i.e. is expecting direct return from the investment) when making equity injection or whether the purpose of the injection is to guarantee the provision of public services. According to the rules injection into the equity of the public corporation could be recorded as financial transaction only when 1) the government provides funds while receiving contractually financial instruments of equal value in exchange and is expecting to earn a sufficient rate of return on its investments, mostly in the form of the dividends and interests or 2) when the company is governing the assets in the name of the government (the criterion is still the maximisation of the government revenue). In all the other cases injections to public corporations are considered to be investment grants.

From the practical point of view in Estonia preliminary division of injections is based on the legal form of the recipient. It is not possible to receive dividends from foundations and non-profit associations; therefore the government is not acting as market investor while injecting capital into those units. For that reason injections made to those types of institutions are always recorded as investment grants.

In the case the recipient of the injection is a company the main criterion for classification of the injection is the operating profit of the company for the last three years. When the company has had operating losses for three years during the last five year period, then injections are recorded as investment grants, otherwise injections are recorded as financial transactions. In case it is difficult to make the decision based only on the operation profit additional data sources are used: financial statements, additional information from the owner etc. When injections are made into new companies then the size of the company is a factor. If the company is of a smaller kind, then injections are recorded automatically as financial transactions and only after three years the classification of the transaction is inspected taking into account the actual operating profits or losses of the company. In case of large companies the analysis and the classification of the injection is carried out already before the actual creation of the company or directly after that.

A full-scale inspection of the equity injections is carried out during the annual revisions. In current quarterly accounts equity injections are generally recorded as financial transactions. Exceptions are:

- 1) large known injections which have already been analysed;
- 2) injections made by the Tallinn City Government into the Tallinn Tram and Trolley-bus Company (Tallinna Trammi- ja Trollibussikoondise AS) and the Tallinn Bus Company (Tallinna Autobussikoondise AS), because those two units are constantly having operation losses and the objective of the injections is to finance the acquisition of new vehicles;
- 3) injections into foundations or non-profit associations.

Equity injections in cash are recorded in PSFS in the account set 150 with cash flow code 01.

Revenues from the investment grants include investment grants from abroad and, in case of sub-sectors, grants from the other government sub-sectors, which are consolidated in the figures of general government.

Investment grants from abroad consist of grants from the EU Structural Aid, if the final beneficiary is a government sector unit, and grants from other non-resident government sector units and international organisations. This includes all revenues from PSFS recorded in the account group

3502, where the counterpart is non-resident government units (counterpart codes with the beginning 9000 and 9001), EU and European Structural Funds (counterpart codes with the beginning 9002) or other international organisations (counterpart code with the beginning 9003). Excluded are entries of the Ministry of Finance where source codes are in the interval 21–31 (except 29) and counterpart code is EU and European Structural Funds, entries of the Estonian Agricultural Registers and Information Board where source codes are 29 or 32 and the counterpart is the European Union and European Structural Funds and entries of the Ministry of Agriculture where the counterpart is European Institutions or FIFG (counterpart codes 900201 and 900226). Recording methodology of EU grants is applied to those entries and the methodology is described in the chapter “Recording of EU grants in national accounts”.

Other revenues from non-resident units recorded in the account group 3502 are not recorded as investment grants but as miscellaneous current transfers (D.75). Such classification is applied based on the definition of the investment grants, according to which investment grants are capital transfers made by governments or by the rest of the world.

Investment grants between government sector sub-sectors are calculated based on the expenditure side of the investment grants, similarly to current transfers. This kind of methodology guarantees that at the consolidation of general government figures the same amount is excluded both from the revenue and expenditure sides and there will be no effect on the government sector balance.

Investment grants within general government are consolidated, meaning that transfers between sub-sectors are included in expenditures and revenues of the subsector. But the figures of the general government transactions between sub-sectors are not recorded among the expenditures and revenues of the sector.

D.99 Other capital transfers

Other capital transfers cover transfers other than investment grants and capital taxes which do not themselves redistribute income but redistribute saving or wealth among the different sectors or sub-sectors of the economy or the rest of the world.

Other capital transfers include the following transactions:

- a) payments by general government or by the rest of the world to the owners of capital goods destroyed or damaged by acts of war, other political events or natural disasters;
- b) transfers from general government to non-financial corporate and quasi-corporate enterprises to cover losses accumulated over several financial years or exceptional losses from causes beyond the control of the enterprise;
- c) legacies, large gifts *inter vivos* and donations between units belonging into different sectors;
- d) the counterpart transactions of cancellation of debts by agreement between institutional units belonging to different sectors or subsectors and counterpart transactions of debt assumption;
- e) the part of realised capital gains (or losses) which is redistributed to another sector;
- f) etc.

On regular basis this heading includes in Estonia:

- 1) study loan guarantees called (Ministry of Finance expenditures in account 413490 “Other benefits”);
- 2) fees and penalties unlikely to be collected and claims ordered to be paid out by court decisions unlikely to be collected (accounts 601290 and 601291, except state budgetary units);
- 3) support provided by Rakvere City Government to decrease the interest rate of housing loans.

One-time transactions included in this heading are the following:

- 1) payments for third parties to compensate the damage caused to the to property during the mass breach of public order in Tallinn and Jõhvi on 26–28 April 2007;
- 2) payment to the OÜ Abja Muna to compensate the expenses made to ward off the outbreak of the Newcastle disease;
- 3) compensations to cover the claims against government corporation Ookean (RAS Ookean).

Other capital transfers are consolidated similarly to investment grants.

Recording of EU grants in national accounts

Eurostat published a decision on 15 February 2005 about treatment of EU grants in National Accounts. A chapter based on this decision was incorporated in the 2010 edition of the MGDD. The following recording rules were established with this decision:

- 1) The beneficiary of the EU grant is not a government unit. In this case government sector is considered to be acting on the behalf of the EU. Transfers from the government sector to the final beneficiary have to be recorded as expenditures of the EU and revenues of the final beneficiary and the transaction should not affect the general government balance.
- 2) The beneficiary of the EU grant is a government unit. The objective of the grant is to cover the expenditures carried out by a government unit or to increase the value of fixed assets of a government sector unit. Revenues from the transfers have to be recorded in the same time period as subsidised expenditures.
- 3) Initial advance payments by the European Commission at the inception of multi-year programme periods. Those advance payments are treated as government liabilities. Reimbursement of government expenditures are then recorded as government revenue for the same amount.

Because of those rules it is necessary to distinguish beneficiaries of the EU grants based on the institutional sector and also determine the correct period for recording expenditures (and revenues). Determining the correct period of recording is not a problem in the case of the PSFS data, because in accrual based bookkeeping expenditures of the implementing agency from transferring the EU grants are recorded in the same period the beneficiary is making subsidised expenditures. Therefore the main problem is to find out the institutional sector of the final beneficiary.

Division of EU grants by funds

Grants from the EU and other members of the European Economic Area could be divided into two:

- The first group: grants from the structural fund, from agricultural funds, from the Transition Facility and Schengen Facility;
- The second group: other grants (grants from EEA Financial Mechanism and Norwegian Financial Mechanism).

Structural funds and agricultural funds include the following funds in Estonia according to the current methodology:

- 1) European Agricultural Guidance and Guarantee Fund (EAGGF) (period 2004–2006), European Agricultural Fund for Rural Development (EAFRD) (period 2007–2013);
- 2) Financial Instrument for Fisheries Guidance (FIFG) (period 2004–2006), European Fisheries Fund (EFF) (period 2007–2013);
- 3) European Social Fund (ESF);
- 4) European Regional Development Fund (ERDF);
- 5) PHARE;
- 6) ISPA, Cohesion Fund;
- 7) SAPARD;
- 8) EQUAL;
- 9) European Agricultural Guarantee Fund (EAGF).

There is one paying authority (the Ministry of Finance) and several implementing agencies for the funds belonging to this group of grants. Exception is the European Agricultural Guarantee Fund for which paying and implementing agency is the Estonian Agricultural Registers and Information Board (ARIB). Also starting from the year 2009 paying authority for the European Fisheries Fund is the Ministry of Agriculture. The main duty of the paying authority is to certify to the European Commission the eligibility of the expenditure and to apply for structural support. Implementing agencies process support applications, check payment applications and eligibility of expenditure, make payments, exercise supervision over projects and counsel final recipients (final beneficiaries). Final beneficiaries, according to the methodology applied in Estonia, are units to whom implementing agencies make payments. In the projects with several participants the recipient might transfer part of the support to the other participants, but it is not possible to track those transfers, because PSFS covers only public sector units.

For the second group of grants there is no central paying authority and in PSFS all transactions concerned are using one common source code (code 39), which is used for all foreign grants not received from structural funds. Therefore transfers from programmes belonging to the second group could be tracked only to the first unit receiving grants from abroad. Therefore, recording rules applied to all grants received outside EU support schemes is used also for the grants from the second group. Those recording rules state that in the case the source code of the revenue is 39 and the counterpart is non-resident government sector unit or international organisation when the revenue is recorded either as international co-operation (D.74) or investment grants (D.92).

Implementing agencies

Implementing agencies for the structural fund are different for separate programming periods. Also the definition of the implementing agency used in the following methodology is somewhat different from the definition of the legal term “implementing agency” used in the context of the European Structural Assistance.

The official list of the implementing agencies for period 2004–2006 was approved by the Government of the Republic of Estonia Regulation No. 81 of 22 March 2004. the official list of the implementing agencies for period 2007–2013 was approved by the Government of the Republic of Estonia Regulation No. 111 of 19 April 2007. With those regulations for instance Tallinn Airport Ltd. was defined as implementing agency and at the same time the unit was the final recipient of the support, because grants were used to expand Tallinn Airport. The similar situation applied in the case of the Road Administration in 2004–2006.

Exceptional case is the Credit and Export Guarantee Fund KredEx, which was appointed to be an implementing agency in 2007 and is transferring grants to other units. Since KredEx itself is classified outside of the government sector (it is belonging to the non-financial corporations sector), tracking the grants provided by the unit is more complicated. As a compromise, it is taken into consideration that Kredex is transferring grants only to the non-government units and the majority of those grants is given to the non-financial corporations sector. Also expenditures made by KredEx while transferring grants are recorded at the same time as the transfer from the Ministry of the Finance to KredEx is recorded. Therefore, in practice the Ministry of Finance is considered to be an implementing agency and KredEx is considered to be the final beneficiary.

Units defined as intermediate agencies in national accounts are listed in the following table. The Ministry of Finance is regarded to be the implementing agency for all funds, except EAGF and EAFRD. In case the Ministry of Finance is, in the context of one fund, making transfers to the other implementing agencies of this fund, then the Ministry of Finance is considered to be only the mediator and not implementing agency. For instance in case of the ISPA, if the Ministry of Finance is making transfers to the Estonian Maritime Administration, this transaction is discarded and only if the Estonian Maritime Administration makes transfers to some other unit this unit is considered to be

the final beneficiary. Then again, if the Ministry of Finance makes transfers to some other unit except the Estonian Maritime Administration, the Ministry of Finance is considered to be an implementing agency and the receiver of the transfer is considered to be the final beneficiary.

Starting	Until	Unit	Counterpart code of the unit	Source code	Fund	Remarks
2004		MoF	014001	21	PHARE	
2004		MoF	014001	22	ISPA, Cohesion Fund	
2004		EIC	014301	22	ISPA, Cohesion Fund	
2004		Estonian Maritime Administration	012012	22	ISPA, Cohesion Fund	
2004	2007	Railway Administration	012010	22	ISPA, Cohesion Fund	Bookkeeping data were consolidated with MEAC in PSFS
2008		MEAC	012001	22	ISPA, Cohesion Fund	Took over the responsibilities of the Railway Administration
2007		Road Administration	012009	22	ISPA, Cohesion Fund	
2004		MoF	014001	23	SAPARD	
2004		ARIB	013002	23	SAPARD	
2004		MoF	014001	24	Schengen	
2004		MoF	014001	25	EAGGF	
2004		ARIB	013002	25	EAGGF	
2004		MoF	014001	26	FIFG and EEF	
2004		ARIB	013002	26	FIFG and EEF	
2004		MoF	014001	27	ESF	
2004		Innove	007304	27	ESF	
2007		Archimedes Foundation	007306	27	ESF	
2004		EAS	012301	27	ESF	
2004		State Chancellery	006001	27	ESF	
2004		EIC	014301	27	ESF	
2004	2008	LMB	016005	27	ESF	Implementing agency for the period 2004–2006. Transfers to beneficiaries could be carried out until two years after the end of the programming period, therefore the unit was considered to be an implementing agency up until the year 2008.
2004		MoF	014001	28	ERDF	

2004		Innove	007304	28	ERDF	
2004		EIC	014301	28	ERDF	
2007		Archimedes Foundation	007306	28	ERDF	
2004		Ministry of Social Affairs	016001	28	ERDF	
2004	2009	Estonian Informatics Centre	012014	28	ERDF	Bookkeeping data were consolidated with MEAC in PSFS
2004		EAS	012301	28	ERDF	
2004		ARIB	013002	29	EAGF	
2004		MoF	014001	30	EQUAL	
2004	2009	LMB	016005	30	EQUAL	
2004		Ministry of Social Affairs	016001	30	EQUAL	
2004		MoF	014001	31	Transition facility	
2007		ARIB	013002	32	EAFRD	

Abbreviations used in the table:

- 1) MoF – Ministry of Finance
- 2) MoSA – Ministry of Social Affairs
- 3) EIC – Environmental Investment Centre
- 4) MEAC – Ministry of Economic Affairs and Communications
- 5) ARIB – Agricultural Registers and Information Board
- 6) Innove – Foundation for Lifelong Learning Development INNOVE
- 7) EAS – Enterprise Estonia
- 8) LMB – Labour Market Board

Recording of the transactions

Revenues from the grants are recorded based on the expenditures of the implementing agencies, except in the cases where agency itself is the final beneficiary, because for the correct recording of the transfers into transactions the institutional sector of the beneficiary and objective of the support has to be taken into consideration. Implementing agencies themselves receive support from the ERDF to carry out their tasks (for instance to cover a part of the salaries, administration costs, etc.). If the unit is at the same time an implementing agency for the ERDF, then transfers from the Ministry of Finance to the implementing agency consist of both the support to the implementing agency and resources for grants transferred to final beneficiaries. Therefore, it is not possible to extract from the expenditures of the Ministry of Finance the amount of support provided to implementing agencies. At the same time implementing agencies make distinctions in the revenue side of their records.

The following transactions take place in PSFS:

- 1) The paying authority receives the revenue from the EU; the revenue is recorded in the account 350030 or 350230.
- 2) The paying authority transfers resources to the implementing agency (in case the paying authority and implementing agency are different units), expenditures are recorded in the account 450030 or 450230.
- 3) The implementing agency receives resources from the paying authority, the revenue is recorded in the accounts 350030 or 350230 in case it will be transferred to final beneficiaries or in account 350020 or 350220 in case the support is meant to cover expenditures of the implementing agency.
- 4) The implementing agency transfers grants to the final beneficiary, expenditures are recorded in account 400030, 450030 or 450230.

Only transactions described in the items 3) and 4) are taken into account in the calculation of the revenue from foreign aid.

Additionally, reimbursements of the grants, which occur in case some of the expenditures are proved to be ineligible, are recorded in separate accounts. The following transactions are recorded in PSFS in this case:

- 1) The implementing agency receives reimbursement from the final beneficiary; expenditure with positive sign is recorded in the account 450070 or 450270 (expenditures are usually recorded with the negative sign, so expenditures are diminished with the current transaction).
- 2) The implementing agency transfers reimbursement to the paying authority, revenue with negative sign is recorded in the account 350070 or 350270 (i.e. revenues are diminished).
- 3) The paying authority receives reimbursement from the implementing agency; expenditure with positive sign is recorded in the account 450070 or 450270.
- 4) The paying authority makes reimbursement to the EU; negative revenue is recorded in account 350070 or 350270.

Only reimbursements to the EU (item 4) are taken into account in the calculation of the revenue from foreign aid. Additionally reimbursements received by implementing agencies from final beneficiaries (item 1) are used to divide reimbursements for different sectors.

Division to different transactions is defined in the following way based on the sector of the final beneficiary and revenue from the Structural Aid:

- 1) Expenditure side of implementing agencies (based on the source code and list of the implementing agencies):
 - a. Account 400030 (only grants for agriculture are recorded here)
 - i. Subsidies D.3, in case the counterpart sector is S.11, S.12 or S.14
 - ii. Miscellaneous current transfers D.75, in case the counterpart sector is S.15
 - iii. International cooperation D.74, in case the counterpart sector is S.13
 - b. Account 450030
 - i. Other subsidies on production D.39, in case the counterpart sector is S.11 or S.12 or if the owner of the transaction is ARIB and the counterpart sector is S.14
 - ii. Miscellaneous current transfers D.75, in case the counterpart sector is S.14 or S.15
 - iii. International cooperation D.74, in case the counterpart sector is S.13
 - c. Account 450230
 - i. Investment grants D.92
- 2) Revenue side of implementing agencies
 - a. Account 350020 – international cooperation D.74, in case the source code is 28 and the counterpart is the Ministry of Finance
 - b. Account 350220 – investment grants D.92, in case the source code is 28 and the counterpart is the Ministry of Finance
- 3) Reimbursements recoded in the revenue side of the paying authority combined with the expenditure side of the implementing agencies
 - a. Account 340070 in the revenue side of the paying authority – the total amount is reduced by the following transactions, rest of the amount is recorded as international cooperation D.74
Account 450070
 1. other subsidies on production D.39, in case the counterpart sector is S.11 or S.12
 2. miscellaneous current transfers D.75, in case the counterpart sector is S.14 or S.15
 - b. Account 350270 in the revenue side of the paying authority – investment grants D.92. Reimbursements recorded in the account 450270 by implementing agencies, where the counterpart sector is not the government sector, are recorded as reduction of the

investment grants provided to the corresponding sector. Those amounts are subtracted from the total amount recorded in the account 350270 by the paying authority and the remnant amount is recorded as reductions of the investment grants received by the government sector.

Based on the above mentioned rules, the revenue for Estonian economy as a whole is calculated. In case the final beneficiary is a non-government unit, the corresponding transactions are recorded as direct aid from non-resident sector to the sector where the final beneficiary belongs and those transactions do not affect the government sector revenues, expenditures and balance. In case the final beneficiary is a government sector unit, revenues are recorded as government sector revenues (more specifically revenues of the sub-sector to where the final beneficiary belongs). Since implementing agencies are recording transfers to final beneficiaries at the same time the beneficiary is recording the expenditure, revenues and expenditures are recorded at the same time and there will be no effect on the government sector balance.

Example

In this example numerical explanation, how grants from the EU Structural Aid are calculated, has been presented

In 2008 the following transactions were recorded concerning ISPA:

Row	NAME	ACCOUNT	COUNTERPART UNIT	COUNTERPART SECTOR	BALANCE	TRANSACTION
1	Ministry of Finance	350030	ISPA, Cohesion Fund	S.2	72,23	
2	Ministry of Finance	350070	ISPA, Cohesion Fund	S.2	-0,07	D.74DA
3	Ministry of Finance	350230	ISPA, Cohesion Fund	S.2	1 181,72	
4	Ministry of Finance	350270	ISPA, Cohesion Fund	S.2	-1,96	D.92DA
5	Ministry of Finance	450030	Road Administration	S.1311	-0,12	
6	Ministry of Finance	450030	Estonian Maritime Administration	S.1311	-9,78	
7	Ministry of Finance	450030	EIC	S.1311	-62,34	
8	Ministry of Finance	450070	EIC	S.1311	0,07	
9	Ministry of Finance	450230	MEAC	S.1311	-13,39	
10	Ministry of Finance	450230	Road Administration	S.1311	-84,35	
11	Ministry of Finance	450230	Estonian Maritime Administration	S.1311	-61,53	
12	Ministry of Finance	450230	EIC	S.1311	-548,39	
13	Ministry of Finance	450230	Tallinn Airport Ltd.	S.11	-474,05	D.92
14	Ministry of Finance	450270	Road Administration	S.1311	1,96	
15	MEAC	350230	Ministry of Finance	S.1311	13,39	
16	Road Administration	350020	Ministry of Finance	S.1311	0,12	D.74C
17	Road Administration	350220	Ministry of Finance	S.1311	83,72	D.92C
18	Road Administration	350230	Ministry of Finance	S.1311	0,63	
19	Road Administration	350270	Ministry of Finance	S.1311	-1,96	
20	Estonian Maritime Administration	350020	Ministry of Finance	S.1311	9,78	D.74C
21	Estonian Maritime Administration	350230	Ministry of Finance	S.1311	61,53	
22	EIC	350030	Ministry of Finance	S.1311	62,34	
23	EIC	350070	Ministry of Finance	S.1311	-0,07	
24	EIC	350230	Ministry of Finance	S.1311	548,39	
25	MEAC	450230		S.1311	-13,39	D.92
26	Road Administration	450230		S.1313	-0,63	D.92
27	Estonian Maritime Administration	450230		S.11	-61,53	D.92
28	EIC	450030		S.1311	-14,35	D.74
29	EIC	450030		S.11	-43,80	D.92
30	EIC	450030		S.11	-4,19	D.39
31	EIC	450070		S.11	0,07	D.39A

32	EIC	450230		S.11	-548,26	D.92
33	EIC	450230		S.13131	-0,13	D.92

It could be seen in the table that revenues the Ministry of Finance is receiving from the EU (rows 1 and 3) are excluded from the calculations. At the same time reimbursements made to the EU (rows 2 and 4) are used in the calculations and transactions attached are D.74DA and D.92DA, respectively, where extension DA indicates that this is the total amount of reimbursements.

As a next step the Ministry of Finance transfers resources. The Road Administration, Estonian Maritime Administration, MEAC and EIC are implementing agencies for ISPA, therefore transfers to those units (rows 5–7 and 9–12) are excluded from the calculations. Tallinn Airport Ltd. is the final beneficiary (row 13), therefore the Ministry of Finance is acting as an implementing agency in this case and the transfer is recorded as investment grant D.92 to sector S.11. Entries in the reimbursement accounts between the implementing agency and payment authority (rows 8, 14, 19 and 23) are excluded from the calculations.

From the revenue side of the implementing agencies it could be seen that the Road Administration and Estonian Maritime Administration are recording revenues both in accounts 350020 and 350220 (rows 16, 17 and 20) and in accounts 350030 and 350230. The first two accounts consist of revenues the implementing agencies are using for their own purposes; therefore those resources are included in the government sector revenue.

In the expenditure side of the implementing agency it could be noted that transfers were made to different counterpart sectors and were meant both to cover operational costs and investment expenditures (rows 25–30 and 32–33). Also reimbursements were received from the S.11 sector (row 31). In row 29 a part of the transfers for covering operational costs is recorded as investment grants, reasons have been given in chapter “D.92 Investment grants”.

Revenues from the EU grants are calculated in the following way:

Transaction \ Recipient sector	S.11	S.1311	S.1313	Explanations
D.39	$-(30+31)$ $=4,12$			Subsidies paid to the corporations are adjusted based on the reimbursements collected by the EIC.
D.74		$-(28)+16+$ $+20+(2+31)$ $=24,25$		Reimbursements made to the EU by the Ministry of Finance are adjusted based on the reimbursement EIC received from the corporations.
D.92	$-(13+27+29+32)$ $=1127,64$	$-(25)+17+4$ $=95,15$	$-(26+33)$ $=0,76$	

Negative signs before the brackets are used for the final result to be positive. The left side of the equation provides the row of numbers from the previous table, the right side of the equation presents the total sum calculated based on the amounts from the previous table.