Standard Summary Project Fiche – IPA centralised programmes

Project number 4: Support to the Ministry of Finance - Treasury Administration capacity building

1. Basic information

1.1 CRIS Number: 2009/021-765

1.2 Title: Support to the Ministry of Finance - Treasury Administration capacity building

1.3 ELARG statistical code: 01.33

1.4 Location: Republic of Serbia

Implementing arrangements:

1.5 Contracting Authority: EU Delegation to the Republic of Serbia

1.6 Implementing Agency: EU Delegation to the Republic of Serbia

1.7 Beneficiary (including details of project manager)

The beneficiary is the Ministry of Finance. The Project Manager for the project is Mrs. Ljubicic Svetlana, Treasury Administration Assistant Director.

1.8 Overall cost: 2.000.000 EUR

1.9 EU contribution: 2.000.000 EUR

1.10 Final date for contracting: 2 years after the signature of the Financing Agreement (FA)

1.11 Final date for execution of contracts: 4 years after the signature of the FA

1.12 Final date for disbursements: 5 years after the signature of the FA

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective of the project is to improve the efficiency, effectiveness and transparency in the expenditure of public funds.

2.2 Project purpose:

The purpose of the project is to build sustainable capacities in the Treasury Administration for efficient budget execution, financial planning, budget accounting, reporting and debt management according to the best practice in the respective areas.

2.3 Link with AP/NPAA / EP/ SAA

European Partnership[1] emphasizes the importance of further of improving of the Public Finance Management (PFM) System in Serbia from several aspects, both within short and medium term priorities. Obviously, financial control is recognized as crucial field for assistance interventions, particularly given the importance of ensuring the effective protection of EU's financial interests and stepping up the fight against corruption (short term priorities - European standards - Sectoral policies - Financial control, page 10). Essentially, quests for public administration reform always relate to a great extent to the reform of PFM, and consequently, one of the key short term priorities insists upon development of "a comprehensive public system of financial control to increase transparency and accountability in use of public finances" (page 5.). An important priority under short term Economic criteria is the continuation "of reforms of public finance management in order to strengthen control, transparency, accountability and efficiency", as well as the continuation of efforts to "implement a public expenditure management system and tax reforms" (page 7).

Following Articles of the **Stabilization and Association Agreement** link with objectives underlying the present Project:

- *Article 89* within the chapter of Cooperation Policies, envisages exchange of information between Serbia and the European Communities on macroeconomic projections and development strategies; joint shaping of economic policies, exchange of know-how and accelerated access to advanced technologies; acquiring knowledge o-n principles and practices of European Economic and Monetary Union, etc.

- *Article 114* of the SAA relates to Public administration and aims at ensuring the development of an efficient and accountable public administration in Serbia, notably to support rule of law implementation, the proper functioning of the state institutions for the benefit of the entire population of Serbia as a whole and the smooth development of the relations between the EU and Serbia.

Cooperation in this area shall mainly focus on institution building, including the development and implementation of transparent and impartial recruitment procedures, human resources management, and career development for the public service, continued training and the promotion of ethics within the public administration. Cooperation shall cover all levels of public administration, including local administration.

The project directly addresses the issue of development of an efficient and accountable public finance administration, as set out in this fiche and, in particular, is focused on the adoption of practices that are consistent both with EU standards and with those of other appropriate international bodies including the International Public Sector Accounting Standards (IPSAS), ESA 95 statistic framework and best practice in EU countries.

National Plan for integration of the Republic of Serbia into the European Union (NPI): According to the NPI, monetary and economic policies of the Republic of Serbia both on the short and medium term, will be tailored to gradually meet the requirements of EU approximation. This will be reflected through the Memorandum on budget, Law on budgetary system as well as through other official documents subject to approval by the GoS and the Monetary Board of the NBS

---

[1] Official Journal of the European Union, L 80/46, 19. March 2008 - COUNCIL DECISION of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Serbia including Kosovo as defined by United Nations Security Council Resolution 1244 of 10 June 1999 and repealing Decision 2006/56/EC

From the general point of view, the economic policy in the short run perspective will be targeted at macroeconomic stability and establishment of a functional market economy, while in the medium run perspective-to the liberalization and structural changes and creation of competitive economy capable of competing at EU market. (chapter 3.17.3. page 492.)

Accelerating the dynamics of the EU integrations of Serbia and laying the foundations for EMU membership, require the fulfillment of the Maastricht criteria: low inflation rates, low share of budget deficit in BDP, sustainable share of public debt in BDP, stabile foreign exchange rate. In this respect, attaining ambitious objectives within the scope of the Public Finance Management is considered to be of the utmost importance. To mention only some of them envisaged for the medium run perspective: introduction of program budget; introduction of medium-term framework for expenditures from the budget of the Republic; formation of the Public Debt Administration and enhanced public debt management; improved public investment management; adjustment of the policy of state assistance to EU principles; strengthening of internal auditing and budget inspection; sound management of EU funds (IPA, assessment of funds for co-financing of development programs, ...); (page 495.)

The present project directly addresses some important aspects of the PFM reform, namely the improvement of the budget execution, adjusting the accounting function to international standards and fostering debt and liquidity management, thus contributing to concretization of the priorities set by the NPI. This in particular refers to the heading 3.33 *Financial and budgetary provisions*, which clearly emphasizes the importance of further backing the performance of the Treasury Administration with regards to all the aforementioned aspects.

2.4 Link with MIPD[2]

Under the **Multi-annual Indicative Planning Document for Serbia** 2009-2011, Strategic Objectives for, EC assistance aim to support the public administration reform and to strengthen the rule of law. The support to the public finance management and increasing transparency in that area is an important objective (Section 2.2.1 Political Criteria).

Furthermore, points 5) and 6) of the *Objectives and choices* within the scope of the chapter on *Political Criteria 2.3.1.1.*, address issues of ensuring transparency, efficiency, economy and effectiveness of public finances, as well as improving budget and fiscal management.

Throughout the project, the technical assistance will provide policy recommendations to the Treasury Administration for the continued improvement of public expenditure management. A significant element of training is targeted at the Treasury Administration and other participants and stakeholders in public expenditure process, thus contributing directly to the MIPD objectives mentioned above.

2.5 Link with National Development Plan (where applicable)

Not Applicable

2.6 Link with national / sectoral plans

Strategy for the Reform of the Public Administration in the Republic of Serbia: Reform of the public finance management contributes to the realisation of the major principles outlined in this Strategy, namely: decentralization, de-politization, professionalization, rationalization and modernization. According to the Strategy, steps towards decentralization require at the same time some big changes in the system of public revenues and in the system of financial balance, but also taking measures directed towards limitation of risks of over-

[2] Multi-Annual Indicative Planning Document

indebtedness of local self-government from violation of total budgetary balance at the state level etc. (chapter 4.1.2.)

Needs of the Republic of Serbia for International Assistance in the period 2008-2010 (NAD): within the chapter 3.1 this document recognizes the impact of the already introduced reforms of public finances - Serbia saw reforms in the budget planning and execution system, establishment of the Treasury at national and local levels, reforms in the tax system (to make it more transparent and efficient), improved public revenue control and collection and initiation of pension and health insurance reform. Notwithstanding all these reform efforts, public spending remains high and the government still intervenes heavily in business and social funds. For these reasons, fiscal sustainability remains a huge challenge. NAD outlines objectives that the Ministry of Finance strives to achieve, among which: improvement of the budget preparation and implementation and the necessity of continuing investment in human resources and capacity building of staff

responsible for analysis, planning, monitoring and evaluation of budget allocations (page 71.)

The Memorandum on the Budget and Economic and Fiscal Policy including the Debt Management Strategy[3]: enacted every year by the GoS, this document provides a basis for defining the entire economic policies, by setting out the main goals and fiscal guidelines for public finance management and efficient control of budget spending. The Memorandum incorporates a logic of medium term (three years) planning of public finance and represents the first stage in a comprehensive planning process of the budget, comprising the macro economic and fiscal assumptions for the budget of the Republic, Province and local governments. When referring to the improvement of the public finance management, the Memorandum particularly emphasizes the importance of the new Budget System Law that is expected to be adopted by the end of 2009. The new Budget System Law will introduce modern and efficient instruments, a mid-term framework for expenditures and public investment, three-year budget, estimation of fiscal risks in concessions etc. Public finance management based on these institutes is necessary in order to attain the defined budget goals – macroeconomic stability, low inflation, economic development and lower financial risk of the Republic. The new Law simplifies legislative provisions in the field of public finance and introduces certain organizational changes as well[4] (page 58.). Therefore, an EU funded project that will assist Treasury Administration in assuming modified competences and improving the already existing ones, gains further in importance.

<u>Debt Management Strategy</u> forms an integral part of the Memorandum on Budget and its goal is to set out key guidelines and priorities of the long-term policy of debt. The principles on which the Public Debt Management Strategy is based are very important for maintaining financial system stability and for sustainability of fiscal position of the public sector. According to the Strategy, in the following period capacities of the Ministry of Finance in the field of public debt management should be built and an organizational system which will guarantee successful implementation of the main goals of public finances in the area of public debt should be developed (see footnote no.4). In the medium-term perspective, Serbian public

---

[3] Revised Memorandum on Budget, Economic and Monetary Policy for year 2009. with projections for years 2010. and 2011; dated June 2009.

[4] For example, the function of budget drafting, currently the responsibility the Treasury Administration, will return to the Ministry of Finance, while the budget inspection function will be delegated by the Ministry of Finance to the Treasury. The budget inspection function is scheduled for HR and equipment upgrading to be able to supervise the spending of budget resources. The existing Public Debt Department within the Treasury Administration will be transformed into a Public Debt Administration within the Ministry of Finance and it will have to receive a significant portion of trainings in the field of active debt management in accordance with positive practices in the world.

debt management system should reach the level of the developed European countries as one of the priorities of Serbian public finance reform (page 81.).

The National Investment Plan: The implementation of NIP is in line with the basic priorities of economic policy in Serbia, and in that sense it is strongly influenced by the projections and restrictions set within the Memorandum on the Budget. For example, the Memorandum envisages introduction of the mid-term framework in investment planning, as a necessary condition in the process of defining strategic development projects. In addition to budget sources, funds needed for NIP implementation include unused resources from previous years, privatization proceeds, loan resources and donations. Priority projects within NIP are mostly be funded from one-off privatization proceeds, loans and donations. Given the impact of public investment on aggregate demand, it is necessary to evaluate its effects on macroeconomic and fiscal stability. To improve the public investment management and monitoring-the National Infrastructure Council has been set up. National Investment Plan is not presented within one overarching document, but a Decision on Strategic Priorities of NIP is being adopted annually, complementing the Decision on the Criteria for the Selection of NIP Projects[5].

3. Description of project

3.1 Background and justification:

The economic policies and reforms implemented by the Republic of Serbia during the 2001-2007 period of transition have produced considerable results in economic performance. In this period, the Republic of Serbia attained a high GDP growth amounting to an average of 5.6% per annum. This growth was relatively broadly dispersed by activity, with services at the forefront. This dynamic economic growth has primarily been driven by the growth of domestic demand and exports. As a result, GDP per capita more than doubled from €1,750 in 2001 to €3,970 in 2007, due to the high rates of real growth of GDP and the real appreciation of the dinar.

During this 2001-2007 transition period, the Government also managed to keep **inflation** under control. Fiscal and monetary policies, and a stable exchange rate for the dinar against the euro, played a key role in reducing inflation. The combination of economic policy measures and implementation of economic reforms brought down the inflation rate from 40.7% in 2001 to 10.1% in 2007.

However, the high increase in GDP was accompanied by occasional deficits in public finances and increased foreign trade deficit and current balance of payments deficits. As such, the high level of the current account deficit makes the Serbian economy vulnerable to sharp decline in foreign capital inflows.

The global economic and financial crisis creates a downfall in exports and production, creating a substantial financial gap of about 3% of GDP. The Government of Serbia successfully finalized negotiations with the IMF for a full-fledged stand-by agreement. Serbia will cut expenditures further and raise additional taxes, yet a financial gap will remain. Within this framework the Government proposed to allocate 100 million euro from the IPA 2009 National Programme as targeted budgetary support. Budgetary support will contribute to the preservation of a stability-oriented macroeconomic framework and implementation of key reform strategies. The remaining 2009 budgetary financial gap will be covered through loans from the World Bank, commercial banks and privatisation receipts.

[5] Official Gazette of the Republic of Serbia no 78/07

Public administration reform and good governance remain key priorities of the Serbian government. In recent years, particularly with the on-going financial crisis, there has been a growing awareness for the need to improve public expenditure management to international standards and EU expectations contained in the *acquis communautaire*.

The overall public administration reform is oriented towards building the capacity of public authorities (including the setting-up of an appropriate institutional and legal framework) so that these are in a position to (1) deliver their services in an efficient, effective and accountable fashion, and (2) redress a working culture dominated by bureaucratic rather than service-oriented requirements.

While progress has been made in Public Finance Reform (PFR), to meet the annual cash-based fiscal targets of the Maastricht Treaty requirements and to maintain fiscal balance without breaking policy commitments, Serbia needs to monitor more closely the overall fiscal position of public sector expenditure. Moreover, the government needs to foster public awareness about public finance affairs, and its transparency and accountability, as required by the EU. This will require the government to consider any spending commitments, guarantees, and possible fiscal risks strictly within the medium-term expenditure framework. To analyze and show expenditures with their medium-term fiscal effects, fiscal risks, liabilities and contingent liabilities in a transparent balance sheet, the government needs to further improve its institutional, accounting, and reporting systems.

The Serbian government will only be able to manage fiscal risks soundly—to insure both predictability of actions and fiscal balance— if explicit limits of the role and responsibilities of the state are clearly demarcated, and specific fiscal risks and contingent liabilities are properly integrated into the medium-term budgetary decision-making process.

A key development in Public Finance Reform was the adoption of the **2002 Law on Budget System**, which regulates the planning, preparation, adoption, execution and reporting of the budget for the Republic, provinces and local self-government. The law defines clear roles and responsibilities, and ensures high levels of transparency by presenting gross budgets and removing extra-budgetary funds from the system. The law also lays down the underlying objectives of the budget as macroeconomic stability, sustainable and stable economic development, and the minimisation of financial risk to the Republic. The national budgets have to be prepared according to the principles of efficiency and cost-effectiveness, completeness, accuracy and unique budget classification. Finally the Law on Budget System introduced Medium-Term Expenditure Planning, with a three-year framework for expenditure and revenues, based on a Budget Memorandum which sets the context for public finance policy, and an annual Budget Law, which projects forward for the subsequent two years.

As well as the Law on Budget system, since 2002 the Treasury system has been modernised to improve **budget execution and management,** ensuring timely and accurate reporting of revenues and spending, and high standards of transparency of budget plans, receipts, commitments and expenditure. The changes include:

- Creating the Treasury in 2002 as a new Administration of the Ministry, responsible for cash management, budget accounting and reporting and budget control;
- Creating the Public Payment Agency (PPA) in 2003, to support the Treasury, with the transfer of the payment transaction system to commercial banks;
- Establishing a Single Treasury Account (STA) in 2003, and gradually extending the inclusion of budget beneficiaries in the STA, until full coverage was reached in 2004;
- Publishing a monthly ‘Bulletin on Public Finance’ since September 2004, which sets out macro-economic and fiscal trends, including reports on revenues and expenditure;

- Development of the Treasury's IT system, with the launch of the Financial Management Information System (FMIS), which has been extended so that every direct budget beneficiary has on-line access to the budget system;
- Strengthening of financial controls, beyond basic documentary checks of the accounting and reporting of spending units, with improvements to Public Internal Financial Control (PIFC), and the role of the MoF in leading the introduction of internal audit through the Budget Inspectorates (BIs) of budget beneficiaries;
- Establishing a Supreme Audit Institution (SAI) to carry out external audits in the public sector.

In the field of public finance, the most significant innovations have been the establishment of the Supreme Audit Institution, and the **introduction of programme budgeting**, which have been implemented since 2005. To date, there have been two complete budget cycles (2007 and 2008) for which budgets have been prepared in the programme format in several pilot ministries. The budget system was organised on a new foundation and regulated in a new manner, especially in the field of public finance management. The changes introduced were uniform planning, preparation, adoption and implementation of the budget.

The aim of this project is to support the Government to build efficient and sustainable budget execution, financial planning, budget accounting, reporting and debt management system according to European standards. Further improvement of the budgetary procedures and training, are two key elements which must be successfully implemented in order to provide sustainability of enhanced developments within the Treasury Administration of the Ministry of Finance.

The project aims to deliver a comprehensive programme, which will cover not only technical but also management issues that need to address the transition from a purely producer-led culture to a client-oriented culture, with administrators needing to develop management skills. This project aims at delivering a broad training programme to a wide range of existing Ministry of Finance and Treasury personnel.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

<u>Project Impact</u>

The key area of impact for the project will be improved effectiveness and efficiency in the use of the public budget. This will be achieved through increasing the skills of those responsible for budgetary management and reporting and by establishing procedures which ensure a greater clarity and transparency in the decision making process.

The project will ensure that politicians and senior civil servants and the general public are aware of the reforms being introduced and of the improved use of public funds so that the public gains greater confidence in the government to utilise the budget effectively.

The project will also support improved policy making and reduce the risks associated with excessive national debts by connecting budget parameters to policy objectives and budgetary discipline

<u>Catalytic effect</u>

A key output from the project will be increased capacity of Treasury Administration to manage a public expenditure process in transparent manner. The training courses and guidance materials developed under this programme will then be utilised in building the capacities of Local Government administrations. In order to achieve better aid effectiveness, following the principles of the Paris Declaration, the alignment of IPA assistance with

Serbia's own strategic planning should be further improved, in particular helping Serbian government's planning, budgeting and performance management systems. Improved budget planning will support the DIS process in Serbia by ensuring adequate co-financing is made available to draw done pre-accession and full structural funding.

Sustainability

Institutional sustainability will be encouraged through the mentoring, training and support given to the staff of the Treasury Administration in carrying out the internationally recognised tasks of this type of organisation. Through its ongoing roll out of implementation of standards and best practice for budget execution, accounting, reporting and debt management, it will contribute to the Governments policy for a more transparent and focussed use of public funds. In terms of budgetary and human resources, the Ministry of Finance is committed to making the necessary funding available to ensure the outputs of this project are sustainable.

3.3 Results and measurable indicators

Result 1 – Improved Financial Planning and Budget Management

Indicators

- New policy and Operational Recommendations are prepared and distributed
- Number of new procedures and processes for Financial Planning, Budget management and payments
- Number of new Financial planning methodologies and manuals prepared
- Training Needs Assessments Carried Out
- Number of Operational tests carried out with new methodologies
- Number of new Payment procedures designed
- Reduction in average number of payment delay days due to administrative procedure problems
- Participants' evaluation of Training modules delivered for Ministry of Finance Staff in Public Financial Planning and Budget Management

Result 2 – Improved Public Accounting system complying with EU standards

Indicators

- Policy and Operational Reviews of existing accounting system
- Number of policy and operational recommendations
- Design of new systems, rules and procedures
- Number of new laws or by-laws drafted to comply with EU standards
- Training Needs Assessments carried out
- Number of Training modules delivered
- Number of Financial Reports fully in line with GFS 2000 and ESA 95 standards

Result 3 – Improved National Debt and Liquidity Management

Indicators

- Policy and Operational Reviews of Debt Management System
- Design of new methodologies and processes for debt and risk management
- Concept of integrated debt and cash management information system designed
- Integration strategy of debt and cash management system within the Treasury system
- Reports on review and testing of systems for optimum debt and cash management functionality
- Number of procedure manuals for the operation of the debt and cash management system prepared
- Number of benchmarks with other international Public debt and cash management systems.
- Reports by Rating Agencies on Serbian Debt Management
- Projections and actual budgetary savings due to efficient cash management
- Training modules prepared and delivered
- Participants' evaluation of Training modules delivered

3.4 Activities:

Activities related to Result 1 – Improved Financial Planning and Budget Management:

- Ensure that there is an operational legal environment for FMIS procedures
- Set up efficient planning system, taking into account the existing FMIS arrangements
- Obtain detailed procedural user manual with standard and exceptional procedures
- Develop adequate budget execution reporting system
- Assess missing functionalities in FMIS
- Develop and carry out training

Activities related to Result 2 – Improved Public Accounting system complying with EU standards:

- Creation of accounting regulation framework which will enable introducing of International Public Sector Accounting Standards (IPSAS)
- Build staff competencies in auditing procedures
- Improve data and document flows
- Increase internal and external reporting capabilities
- Develop a methodology for consolidated reporting on Public Sector, including full harmonization with international statistical reporting frameworks (ESA 95 and GFS 2000)
- Develop and carry out training

Activities related to Result 3 – Improved National Debt and Liquidity Management:

- Preparation of a fully integrated debt and cash management system concept and implementation strategy, consistent with the FMIS and taking into account already developed documents, results and outputs of the project “Support to FMIS”.
- Gap analysis and drafting of new laws if required
- Further development of government securities market
- Development of sound debt management strategy according to international best practice
- Development of standard reporting on debt related transactions for international institutions and budget preparation
- Develop and carry out training
- Assess missing functionalities in FMIS

3.5 Conditionality and sequencing:

During the implementation of the project the key conditionality will be to maintain the existing political consensus which is supportive and committed to giving public expenditure management reforms a higher priority and as such, create the opportunity to move from concepts to realities.

The Ministry of Finance is committed to making the necessary human and budgetary resources available for the full implementation of the project

The Ministry of Finance is committed to working with other key line ministries and building inter-ministerial relations in terms of linking programmatic budgeting with national policy objectives.

The Ministry of Finance is committed to fully support Treasury Administration in its efforts to fully utilise FMIS and roll it out to Indirect Budget Beneficiaries.

There are no issues of sequencing since all the activities required under this fiche can be delivered through one contract. The timing for the initiation of the tendering procedure is given in Section 5.

3.6 Linked activities

In 2002, USAID funded a project to build the Interim Treasury Ledger System (ITLS) through which the Budget was executed until the introduction of a new Financial Management Information System (FMIS) financed by the EU. This involved the adjustment of the Budget System Law in July 2005 to merge the Public Payment Agency and Treasury Department within the MoF into a new institution - the Treasury Administration.

The FMIS consists of three major modules: budget execution, general ledger and debt and liquidity management. The FMIS is designed to enable Direct and Indirect Budget Beneficiaries to execute their budgets through the FMIS online. All bank accounts of Direct Budget Beneficiaries had to be closed, and execution of the state money performed through one Treasury Single Account (TSA). The cash balance of the TSA and liquidity of account are to be managed through the debt and liquidity module of FMIS. Previously, the Debt and Liquidity Department of Treasury Administration had to manage financial assets by borrowing funds if there is a insufficient balance on TSA for budget execution in order to enable execution on the due date, or alternatively invest funds if there was a surplus on the TSA. In that sense, the debt and liquidity module of FMIS software should enable risk management and make use of the financial instruments to trade on the money markets.

By government decree in May 2006, the Government of Serbia accepted the project for the FMIS which introduces new features such as: Financial Planning, Execution of Budget of all DBBs and IBBs from the TSA (which will consolidate all public revenues and expenditures) payments on due date through improved debt and liquidity management. By this decree, program budgeting and a centralised payroll system are introduced, together with further changes in the Budget System Law. In June 2006 the Budget Preparation Department became part of the Treasury Administration. The new system was launched in January 2008, with one year delay from the original time table.

A parallel project named “Support to the Financial Management Information System for the Ministry of Finance in Serbia”, began in 2007. The purpose of the project was to provide technical support to the Ministry of Finance to complete the implementation of the FMIS project and to ensure the successful use of the system, especially in the debt management area, as well post-implementation follow up support. This project is expected to end in 2009, and due to the one year delay in the roll out of the FMIS there will be a gap in technical assistance provision to ensure the full system implementation. Furthermore, the capacities of the Treasury Administration departments to acquire and implement modern public expenditure management skills, have substantially decreased due to excessive engagement with the implementation of FMIS system (especially during stabilisation of newly introduced system), support to Budget Beneficiaries in accepting new procedures and regular work obligations.

In short, the FMIS implementation, so far, has mainly supplied the technical infrastructure as a precondition for implementation of modern public expenditure management techniques, which will remain unutilised without adequate capacity building of the Treasury staff and further activities on development of adequate legal environment, harmonised with EU standards.

The 'Support to National Investment Planning and Implementation Project', approved under CARDS 2006,is launched for the implementation in 2009 and is designed to improve national resource planning and allocation by improving the budget (including capital budget) planning process through sound policy and socio-economic analysis of sectoral budgets and national development priorities (e.g. education, health, agriculture and transport sectors). The project will also support the development of systems and capacities for sound policy and socio-economic analysis underpinning expenditure planning and the integration of the national public investments priorities into the financial and policy frameworks of the Serbian Government.

The purpose of IPA 2008 PIFC project is to implement a public internal financial control system covering decentralised internal audit and financial management control arrangements within the Ministry of Finance and a minimum of ten line ministries. It is expected that this project by the end of its lifetime produces the following results:

- The Central Harmonisation Unit (CHU) is a fully functional institution, working in line with EU and internationally accepted requirements for harmonisation bodies.
- Decentralised units for internal audit are established, trained, supported and working in line with internationally accepted standards for internal audit in mandatory social security organisations (MSSO's), at least ten line Ministries, City of Belgrade and City of Novi Sad on a pilot basis
- Management and relevant staff are trained on Financial Management and Control (FMC) requirements and basic FMC structures and procedures are introduced in participating institutions;
- Certification scheme for internal auditors is set up;
- Comprehensive legal framework for PIFC developed and submitted for the Government for approval.

It is expected that this project will start in the third quarter of 2010.

3.7 Lessons learned

PFM and PA reform projects implemented so far, offer a number of lessons learnt In the first place, it is evident that implementing PFM projects in Serbia is a major challenge and requires the full commitment and support of the Minister of Finance and other key LMs.

There is a need to achieve a step-change in the reform of Serbia's national public investment and expenditure, by helping the Government to develop a management system that follows the full-cycle, starting from planning of public expenditure and investment on the basis of the most realistic assessment and forecasts, followed by allocating finite public resources to programmes and projects where they can have the greatest potential benefit, monitoring, controlling and evaluating the impact and re-directing resources accordingly.

This, on the other hand, requires availability and the commitment of the staff to work with provided technical assistance, and their release to a certain extent, from the day-to-day duties, as a means of gaining ownership and the responsibility over the results.

The legislative framework for PFM is usually estimated as fairly advanced and largely harmonized with *acquis communauaire*, particularly if the assumption of the adoption of the new Law on Budget System is included. However, enforcement of the relevant regulations is not of the same quality, and this can only be addressed through trainings, additional controls and additional regulations, including sanctions[6]. The same goes for building capacities for introduction of IPSAS, in the Treasury and in the DBBs.

In the area of debt management and meeting liquidity needs, there is no proper strategy and most commonly, expected borrowing requirements are not being analysed. Thus, the development of an adequate risk management strategy and respective tools for debt management should be prioritised. In addition, cooperation and consultation between Ministry of Finance and NBS is often of the utmost importance in pursuing the objectives of the public finances in Serbia.

No TA effort in PFM have accomplished significant result without ownership and full support by the top MoF hierarchy, and clear further link into Government of Serbia priorities.

[6] For example, for the Direct Budgetary Beneficiaries, not performing as prescribed in submitting their commitments.

4. Indicative Budget (amounts in EUR)

				SOURCES OF FUNDING								
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1	x	–	2,000,000	2,000,000	100							–
TOTAL IB			2,000,000	2,000,000	100							
TOTAL INV												
TOTAL PROJECT			2,000,000	2,000,000	100							

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the Total Expenditure (column (a))

5. Indicative Implementation Schedule

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	T + 1Q	T + 2 Q	T + 10 Q

6. Cross cutting issues

6.1 Equal Opportunity

The project will be implemented in a way which provides equal opportunities for participation for those within the Ministry of Finance and those in Line Ministries. No discrimination will be made on the basis of gender and activities such as training will be organised in a way which makes them accessible for both men and women. The number of men and women participating in training events will be monitored during the project and this information will be used to identify any potential discrimination.

6.2 Environment

The project has no negative impact on the environment and no significant positive impact either. The project will be implemented in a way which is as environmentally friendly as possible and this includes the use of re-cycled paper and the advanced use of electronic filing rather than paper based systems.

6.3 Minorities

The project will be implemented in a way which does not discriminate against any individual on the grounds of their gender, ethnic origin, race or religion. Training will be organised in a way which makes events accessible for all potential participants. Information on the individuals receiving support under the project will be monitored during the project and this information will be used to identify any potential discrimination.

ANNEX I: Logical framework matrix

Treasury Administration capacity building	**Programme name and number:**	
	Contracting period expires: 2 years after signature of FA	Disbursement period expires: 5 years after signature of FA
	Total budget : 2,000,000 EUR	IPA budget : 2,000,000 EUR

LOGICAL FRAMEWORK

Overall objective	**Objectively verifiable indicators**	**Sources of Verification**	
Improving the efficiency, effectiveness and transparency in the expenditure of public funds.	• Annual cash-based fiscal targets of Maastricht met • Maintained fiscal balance	• Ministry of Finance reports • EC Progress reports • Reports of DG Audit	
Specific objective	**Objectively verifiable indicators**	**Sources of Verification**	**Assumptions**
Build sustainable capacities in the Treasury Administration for efficient budget execution, financial planning, budget accounting, reporting and debt management according to the best practice in the respective areas.	• New organizational setup reflecting competences for budget planning, execution, accounting and debt management formalized within the Treasury Administration and the Ministry of Finance • Adjusted procedural descriptions and mechanisms with training needs for the Treasury staff defined accordingly.	• Ministry of Finance reports • EC Progress reports • Reports of DG Audit	• Continued government commitment to public administration reform • Ensured de-centralisation of financial management and control by approval and implementation of PIFC Strategy • the Government's ability to meet the goals of macroeconomic stability

Results	**Objectively verifiable indicators**	**Sources of Verification**	**Assumptions**
Result 1. Improved Financial Planning and Budget Management	• New policy and Operational Recommendations are prepared and distributed • Number of new procedures and processes for Financial Planning, Budget management and payments • Number of new Financial planning methodologies and manuals prepared • Training Needs Assessments Carried Out • Number of Operational tests carried out with new methodologies • Number of new Payment procedures designed • Reduction in average number of payment delay days due to administrative procedure problems • Participants' evaluation of Training modules delivered for Ministry of Finance Staff in Public Financial Planning and Budget Management	• Documents of policy and operational recommendations • Documents on procedures and processes • Financial planning manuals • TNA report • Regular Treasury Administration reports • Training reports and evaluations	• The Ministry of Finance is able to champion good planning practice within Budget Beneficiaries
Result 2. Improved Public Accounting system Complying with EU standards	• Policy and Operational Reviews of existing accounting system • Number of policy and operational recommendations • Design of new systems, rules and procedures • Number of new laws or by-laws drafted to comply with EU standards • Training Needs Assessments carried out • Number of Training modules delivered Number of Financial Reports fully in line with GFS 2000 and ESA 95 standard	• Financial reports • Drafted legal documents • Training reports and evaluations • Training manuals • Policy and procedure papers and guidelines • Regular Treasury Administration reports	

Results	**Objectively verifiable indicators**	**Sources of Verification**	**Assumptions**
Result 3 Improved National Debt and Liquidity Management	• Policy and Operational Reviews of Debt Management System • Design of new methodologies and processes for debt and risk management • Concept of integrated debt and cash management information system designed • Integration strategy of debt and cash management system within the Treasury system • Reports on review and testing of systems for optimum debt and cash management functionality • Number of procedure manuals for the operation of the debt and cash management system prepared • Number of benchmarks with other international Public debt and cash management systems. • Reports by Rating Agencies on Serbian Debt Management • Projections and actual budgetary savings due to efficient cash management • Training modules prepared and delivered • Participants' evaluation of Training modules delivered	• Reports on reviews of Debt Management System • Policy and procedure papers and guidelines • Document of concept of integrated debt and cash management information system • Regular Treasury Administration and MoF reports • Rating Agencies reports • Training reports and evaluations • Training manuals	

Activities	Means & Costs	Assumptions
Result 1: 1.1.Ensure that there is an operational legal environment for FMIS procedures 1.2.Set up efficient planning system, taking into account the existing FMIS arrangements 1.3.Obtain detailed procedural user manual with standard and exceptional procedures 1.4.Develop adequate budget execution reporting system 1.5.Assess missing functionalities in FMIS 1.6.Develop and carry out training Result 2: 2.1.Creation of accounting regulation framework which will enable introducing of International 2.2.Public Sector Accounting Standards (IPSAS) 2.3.Build staff competencies in auditing procedures 2.4.Improve data and document flows 2.5.Increase internal and external reporting capabilities 2.6.Develop a methodology for consolidated reporting on Public Sector, including full harmonization 2.7.with international statistical reporting frameworks (ESA 95 and GFS 2000) 2.8.Develop and carry out training Result 3: 3.1.Preparation of a fully integrated debt and cash management system concept and implementation 3.2.strategy, consistent with the FMIS and taking into account already developed documents, results 3.3.and outputs of the project “Support to FMIS”. 3.4.Gap analysis and drafting of new laws if required 3.5.Further development of government securities market 3.6.Development of sound debt management strategy according to international best practice 3.7.Development of standard reporting on debt related transactions for international institutions and 3.8.budget preparation 3.9.Develop and carry out training 3.10.Assess missing functionalities in FMIS	1 Service Contract 2,000,000 €	• Adequate software solutions as elements of FMIS completely installed • Sufficient human resources from the Treasury Administration assigned to the activities • Authorise relevant organisational changes within the Finance Ministry

Activities	Means & Costs	Assumptions
Preconditions		
➢ The Ministry of Finance remains committed to the reforms of public finance system Strategy for training of civil servants is prepared and passed on time;		

ANNEX II: amounts (in million €) Contracted and disbursed by quarter for the project

(IPA contribution only)

Contracted	N+1Q	N+2Q	N+3Q	N+4Q	N+5Q	N+6Q	N+7Q	N+8Q	N+9Q	N+10Q	Total
Contract 1		2.0									2.00
Cumulated		2.0									2.00
Disbursed											
Contract 1		0.6		0.4		0.4		0.4		0.2	2.00
Cumulated		**0.6**	**0.6**	**1.0**	**1.0**	**1.4**	**1.4**	**1.8**	**1.8**	**2.0**	**2.00**

ANNEX III: Institutional Framework – legal responsibilities and statutes

The Ministry of Finance is in charge of implementation and monitoring of this project. The work, mandate and authorisations of the Ministry are regulated by the Law on Ministries (adopted on May 15, 2007 (Official Gazette of Republic of Serbia no. 48/07)) – i.e. Article 6. Organisational chart of the Ministry of Finance is given below.

Minister of Finance

State Secretaries

Secretariat

Minister's Cabinet

<u>Department</u>

Department of Economy and Public Enterprises	Department of Macroeconomic and Fiscal Analyses and Projections	Budget Inspection and Audit Department	Fiscal System Department	Property and Legal Affairs Department
Financial System Department	Customs System and Policy Department	Department of Appeals for Misdemeanour Proceedings	International Financial Relations Department	Department for Programming & Management of EU Funds and Development Assistance
Department for Extra-Departmental Legislation				

<u>Administrations within the Ministry</u>

Tax Administration	Treasury Administration	Public Debt Administration	Customs Administration	Games of Chance Administration
Tobacco Administration	Anti-Money Laundering Administration	Free Economic Zones Administration	Foreign Exchange Inspectorate	

ANNEX IV: Reference to laws, regulations and strategic documents:

Budget system Law

By-Law on Budget Accounting

Rulebook on common basis, criteria and working tasks of financial department in DBBs

Rulebook on standard classification framework (Chart of Accounts)

Rulebook on standard classification scheme and economic classification for budget system

Rulebook on preparation, formulation and submitting of closing accounts.

Rulebook on preparation, formulation and submitting of financial statements for budget beneficiaries and organization and compulsory social security

Rulebook on joint criteria and standards for setting up and functioning of the financial management and control system in the public sector

Rulebook on joint criteria for organising and the standards and methodological instructions for performing internal audit in the public sector

ANNEX V: Details per EU-funded contract (*) where applicable:

Activities will be carried out through one technical assistance service contract.

Contract # and Name	**Description**	**Cost Estimates (EUR m)**
Service contract 1	One service contract to realise : • Improved Financial Planning and Budget Management • Improved Public Accounting system Complying with EU standards • Improved National Debt and Liquidity Management	**2 Million**