



Report on Implementation of the Public Financial
Management Reform Program 2016 – 2020 for the
period December 2015 - June 2017

Ministry of Finance

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ACRONYMS AND ABBREVIATIONS

AES & AIS	Automated Export and Import Systems
AFCOS	Anti-Fraud Coordination Service in dealing with EU Funds
BIS	Budget information system
BRA	Business Registers Agency
BSL	Budget System Law
CAAT	Computer Assisted Audit Tools
CHU	Central Harmonization Unit
DBB	Direct Budget Beneficiaries
EC	European Commission
ERP	Economic Reform Program
ESA	European System of National and Regional Accounts
EU	European Union
DEU	The Delegation of the European Union Delegation to the Republic of Serbia
FAD	Fiscal Affairs Department (IMF)
FMC	Financial Management and Control
FMIS	Financial Management Information System
GAO	Governmental Audit Office of EU Funds
GFSM	Government Finance Statistics Manual
HRMS	Human Resource Management Service
IA	Internal Audit
IBB	Indirect Budget Beneficiaries
ICT	Information and Communications Technology
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
IV	Initializing Value
MA	Managerial Accountability
MEFP	Memorandum of Economic and Financial Policies
MTBF	Medium-Term Budgetary Framework
NCTS	New Computerized Transit System
NPAA	National Programme for the Adoption of the EU Acquis
OECD	Organization for Economic Co-operation and Development
OLAF	European Anti-Fraud Office
PAR	Public Administration Reform
PDA	Public Debt Administration
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PEP	Pre-Accession Economic Program
PFM	Public Financial Management
PIFC	Public Internal Financial Control
PPO	Public Procurement Office
SAA	Stabilization and Association Agreement
SAI	State Audit Institution
SBA	Stand By Arrangement
SBS	Sector Budget Support
SIGMA	Support for Improvement in Governance and Management
SOE	State Owned Enterprises
TA	Tax Administration
UNDP	United Nations Development Program
USAID	US Agency for International Development
WB	World Bank

Introduction

The monitoring report on implementation of the Public Financial Management Reform Program 2016 -2020 (hereinafter: Report on implementation of the Program) was prepared by the Ministry of Finance (MoF) of the Republic of Serbia with active participation of other ministries and institutions represented in the Working Group for preparation and monitoring of the implementation of the Public Financial Management Reform Program (herein after: Program Working Group).

Improved Report on implementation of the Program, covers timeframe from December 2015 till June 2017, providing information on results achieved during the one and half year Program implementation.

Taking into account comments received from the European Commission (hereinafter: EC) and the Delegation of the European Union Delegation to the Republic of Serbia (hereinafter: DEU), as well as recommendations received from the OECD/SIGMA, the MoF and the Program Working Group has improved methodology for monitoring report on implementation. It is especially important because, by the end of the 2018 a new Action Plan for the next planning period.



“The Public Financial Reform is a priority of the Government of the Republic of Serbia, and without this reform it is not possible to talk on good governance and efficient state. In the previous period a lot has been done in this area, but there is still enormous of work in front of us, in order to achieve objectives set in the PFM RP. In 2016 there was for the first time a step in unification of budget planning at local and central level, which is necessary for rational debt management. In 2017 we have introduced original budget plan which starts from the beginning of the budget year.”

PhD Dušan Vujović, Minister of Finance

EXECUTIVE SUMMARY

Public Financial Management Reform Program 2016-2020 (hereinafter: Program) was adopted by the Government of the Republic of Serbia on 28 November, 2015, and amended in December 2015. The overall objective of the Program is to achieve a sustainable budget with a reduced debt to GDP ratio through stronger financial management and control and improvement of the audit control process. The Program monitors the budget cycle as a whole, and should contribute that the execution of the budget is connected in the best way possible with different policies of the Government, and to contribute to increasing the transparency of these processes. The program is divided into six areas and contains a total of 19 different measures. The most significant progress in the observed period was achieved within the framework of measures: improvement of credibility of macroeconomic forecasts, improvement of budget planning, improvement of coverage and reporting on budget execution; further implementation of multi-year program budgeting at all levels of government; improvement of the strategic and legislative framework for the implementation of internal financial control in the public sector and improvement of regulations and procedures for public procurement.

The purpose of this Report, covering the period from December 2015 until June 2017, is to provide the insight into the dynamics and quality of Program implementation and on the achieved results and their influence on improvement of public finances. The management of public finances is also very important for the European integration process, and it refers to several negotiating chapters, most of which are open, such as Chapter 5 Public Procurement, 29 Customs Union and 32 Financial Control.

The fiscal consolidation along with a broader program of related structural reforms launched in October 2014 set the frame and context of the PFM design and implementation progress. **Fiscal deficits were reduced from 6.6% at the end of 2014 to 3.7% in 2015, and only 1.3% in 2016. Furthermore, during the first eight months of 2017 we recorded a fiscal surplus of 1.7% of the annual GDP.** These results were achieved through a well-balanced set of expenditures reducing and revenue increasing measures. In combination with improved investment climate and better credit rating Serbia managed to attract FDIs of close to 2 billion euros annually, more than current account deficit.

Multi-year program budgeting, introduced in 2015 for all budget users, is being improved each year, in particular through new methodologies that enable linking the results in budget execution with planning in the coming period, improving indicators, introducing of the gender budgeting, and thought managing of capital investments. The Ministry of Finance devotes special attention to improving the transparency of the budget process and software support. **At the same time, the Republic of Serbia is recording better results in the area of revenue collection** and reduction of tax evasion and tax fraud, in particular through the implementation of the Tax Administration Transformation Program, which will be further improved in the upcoming period. The good results are also evidenced by the trend of growth in tax revenues, which in 2016 was 110% higher than in 2014, and in 2017 it was 8% higher than projected. The capacities and work of the Customs Administration and the Public Debt Administration have also been improved. The share of public debt in GDP began to fall from a high 74% to around 64%, as officially recorded at the end of July 2017.

Coverage and quality of reporting on budget execution and fiscal reports is being improved. In accordance with the plan, a total of 247 indirect budget users were integrated into the system for execution of the budget of the Treasury Administration by January 2016, which will enable better control of the intended spending and quality of reporting on budget execution. Treasury Administration is working on introduction of the international accounting standards to improve fiscal reports and balances and which will lead to further improvements in the management of public funds. Monitoring and reporting of outstanding commitments was improved by expanding the RINO system to transactions between public enterprises starting from January 2016.

In the area of public procurement, significant progress has been made over the past two years, with the development of primary and secondary legislation leading to increased transparency and efficiency of public procurement procedures, thus further improving the quality of public spending. **Transparency in procurement planning has increased** - the total number of contractors announcing procurement plans on the portal has reached a level of 90% in 2016.

The biggest improvement in the area of financial control of public funds was achieved through the adoption of the strategic framework -The Strategy of Public Internal Financial Control Development for the period of 2017-2020 was adopted by the Government in May 2017. The Central Harmonization Unit (CHU) continues to train, to develop software and reporting in this area. Also, The CHU carried out an overview of the quality of work of internal audit in ten ministries for 2016, and strengthening of IA units of the budget users is ongoing. In addition, **the work of the Governmental Audit Office of EU Funds has been improved** through the preparation of Draft legal framework for it's (re)institutionalization.

Significant progress has been achieved in the work of the State Audit Institution - SAI, through increasing the number and quality of audit products, increasing the number of auditors and coverage of audit entities, implementing the audit guidelines, giving professional assurance to the National Assembly and citizens that public funds are spent efficiently, efficiently and economically. The Committee for Finance, State budget and Control of Public Spending of the National Assembly develops procedures and mechanisms for quality inclusion in the implementation of the planned activities of the Program.

A large number of activities are related to new employment, as well as the improvement of existing knowledge and skills, which can be provided through technical assistance and training, with special attention being paid to the sustainability of the administrative capacities that are being developed in this process. Also, timely preparation of strategic documents, legal and other regulations and their implementation is of key importance.

The major challenges of the Program are the harmonization and coordination of the numerous strategic documents, other reforms that the PFM encompasses, as well as the harmonization and development of the legal framework that follows them, primarily by integrating into the wider framework of the public administration reform. For the corresponding results it is necessary to change the business culture especially in the domain of financial management and control, development of the concept of managerial accountability, improvement of the administrative capacities of all stakeholders, strengthening their coordination, and in particular the development of IT

components, which is in itself financially demanding and complex because it is also necessary to ensure the mutual compatibility of different needs and users. Limiting factors for achieving the planned objectives in terms of strengthening administrative capacity are fiscal consolidation measures, wage restrictions and employment ban in the public sector.

Apart from regular budget financing, significant support during the preparation and implementation of the Program, along with the European Commission (*IPA, TAIEX*), and GIZ project for Public financial Reform, is provided by the World Bank, IMF, SIGMA and OECD as well as UNDP. The Department for Fiscal Affairs of IMF prepared several reports dealing with this area during 2015/2016, i.e. on budget preparation and reporting, the Budget System Law and Public Investment Management. A regional adviser for Public Finance Reform (*IMF/SECO*) is at disposal to the Ministry of Finance, and during 2016 a residential adviser for Public Finance Reform was also available (*IMF, SECO*). The World Bank has developed a vertical functional analysis of the Ministry of Finance in 2016 with recommendations important for advancement of the PFM, in which the IT dimension of the process is particularly underlined. Bearing in mind the large need for financing the activities foreseen by the Program, significant support will be provided by USAID, the governments of Sweden, Switzerland, Great Britain, Slovakia, etc. Enormous support will be needed in the form of specialized technical support in key areas, as well as significant IT support (equipment and software). Sector Budget Support for the Public Administration Reform Sector, financed by the IPA 2015 is specifically devoted to PFM reform, for which the Financial Agreement was signed in December 2016. In addition, the particular importance of public finance reform is that the progress of this reform is at the same time a precondition for using the sector budget support instrument of the EU, and an important element of European integration.

In the forthcoming period, the Program and the accompanying Action plan will be improved, in particular with regard to the indicators and more precise estimates of the financial needs for implementation, which will significantly contribute to the quality of the PFM reform itself, as well as to facilitate the process of reporting on progress in the implementation. Co-ordination of Donor community will be in focus in order to provide the necessary additional support. In addition to improving the transparency of public finance management as an integral part of reform efforts, it is planned to strengthen the dialogue with civil society, as well as to improve efforts to increase the visibility of the results of the reform. It is expected that this process will increase understanding of this policy and provide quality inputs for its further development.

AGREGATE OVERVIEW

Through measures of fiscal consolidation and structural reforms, the Government of the Republic of Serbia established stable public finances, as well as stable economic environment, which were confirmed through: 6 successful revisions of stand-by arrangements with IMF, improved credit rating of the Republic of Serbia and positive evaluation of implemented reforms by the all relevant international financial institutions.

The fiscal consolidation along with a broader program of related structural reforms launched in October 2014 set the frame and context of the PFM design and implementation progress. Although initiated on the basis of a much more modest reduction in public sector wages and pensions (on average by 10% i.e. 5.8% respectively) than previously anticipated by analysts and international financial institutions, the fiscal consolidation program dramatically improved fiscal balance and the overall macroeconomic performance. Fiscal deficits were reduced from 6.6% at the end of 2014 to 3.7% in 2015, and only 1.3% in 2016. Furthermore, during the first eight months of 2017 Serbia recorded a fiscal surplus of 1.7% of the annual GDP. Permanent improvements in the fiscal deficit exceeded the most optimistic expectations as Serbia achieved a 4.5% structural improvement in two years compared to a 4% three-year target set by the IMF.

These results were achieved through a well-balanced set of expenditure reducing and revenue enhancing measures. In combination with improved investment climate and better credit rating (credit worthiness on 5-year bonds in Serbia fell from over 500 basis points in 2014 to merely 130 basis points today), Serbia managed to attract Foreign direct investments of close to 2 billion Euros annually, more than current account deficit.

Most importantly, during the years of fiscal austerity Serbia managed to turn around GDP growth: from a 3.7% quarterly decline in the third quarter of 2014 to a robust 2.8% growth recorded in 2016 and a sustainable growth path of 3.5 - 4% in the medium term despite the temporary slowdown in 2017 caused by the weather and temporary one-off factors. As a results, debt to GDP started falling from the high 74% to around 64% officially recorded at the end of July 2017.

In addition to achieving a set of impressive and sustainable fiscal results in the past three years, Serbia has also managed to fundamentally change the fiscal accountability and financial discipline in the country. With the improvements in the public financial management, many shortcomings were closed resulting in positive revenue and overall fiscal performance over the last year.

There is a continuous effort to move towards the European semester system, with participation of the Republic of Serbia in European semester “light” through drafting the Economic Reform Programme.¹ The budget process has been broadened and the budget planning improved with an aim to start the budget process early in the year, in

¹ Initiative “European semester” Provides framework for coordination of macroeconomic and fiscal policies across the European Union. It allows EU countries to discuss their economic and budget plans and monitor progress throughout the year. For more information visit https://ec.europa.eu/info/strategy/european-semester_en

February, as stipulated in the Budget System Law. The transparency of the budget process has gained importance, especially in recording capital expenditure commitments early in the project cycle. *However, the nature of the three-year precautionary arrangement with the IMF imposes a constraint on the budget preparation cycle as indicators for the next year budget can only be released upon the analysis of the actual fiscal and macroeconomic results of the first three quarters and agreements with the IMF which can only be reached by early November at the earliest. During the duration of the IMF program this will continue to significantly reduce the available time for budget preparation and consultations prior to debate in National Assembly, and, hence, affect the implementation of the reforms envisaged in the PFM RP. Likewise, gradual nature of reforms needed to implement medium-term expenditure framework of internal controls will show full cumulative results only at the end of the process. These special circumstances should be reflected in the evaluation methodology in order to obtain realistic, unbiased assessment of reform progress and provide well-grounded and realistic guidance on the next steps.*

Implementation of public finance reform in line with the PFM RF has been successful. **The main areas in which progress has been made in previous period relate to: improving the credibility of macroeconomic projections; better mid-term planning by budget users; improving the financial control of public funds through the adoption of a strategic framework, the Strategy for Developing Internal Financial Control in the Public Sector in RS 2017-2020 in May 2017; improved coverage and quality of reports on budget execution and fiscal reports; further improving in the area of public procurement; improvement of SAI work.** *Despite certain delays in relation to the foreseen deadlines, large number of activities were implemented even before deadlines, which indicates great dedication of all stakeholders to implementation of reform. It also indicates the need to assess the risks and prepare reactive measures, as well as the need for greater flexibility of the Action plan.*

Within the implementation of the public finance reform, the analytical capacities of the Ministry of Finance and other relevant institutions involved in the reform have been significantly strengthened, through the introduction of new models and analytical instruments, softwares and staff trainings, as well as through improved exchange and transparency of data, which helps to strengthen the support for economic policy makers, increase the public's insight into the movement of public finances and at the same time gradually adopt EU standards in this area. *Great challenges in the field of strengthening administrative capacities are limited possibilities for employment of new people, as well as the outflow of staff from public administration. The next challenge is to invest in upgrading and linking IT capacities that is precondition for every modern public administration and the basis for efficient and effective management of the public finance system. This risk was particularly explained in the World bank Vertical Functional Analysis of the Ministry of Finance, and significant efforts were made in the MoF for a coordinated approach on this matter.*

Ministry of Finance makes significant effort to improve the transparency of the budget, which has been increased through the introduction of a legal obligation to publish program information and reporting on the achieved performance at the web-sites of budget beneficiaries, as well as flexibility of the budget through introduction of responsibility for achieved targets and accomplishments. The Ministry of Finance issued Citizens Budget of the Republic of Serbia that in an easy and comprehensive way provide information to public on structure of the budget, collecting and spending budget funds, published at the web page of the Ministry in 2015 and 2017.

Particularly significant progress in the reform of public finances in the observed period was achieved by **improving the multi-annual program budgeting**, introduced for all budget users in 2015, providing clear information to the public on the purpose of spending the budget funds. The quality of the program continues to improve every year, due to the fact that users of public funds have more and more experience and knowledge. Further progress has been made by the Methodology² for monitoring and performance reporting, prepared in 2016, the results of which were used in the preparation of the budget for 2018 (this activity is also one of the variable indicators of sector budget support for public administration reform from IPA 2015). The coverage of the state budget and budget documentation has been increased through inclusion of project loans in budget, as well as through submission of the financial plans of Public Enterprises *Roads of Serbia* and *Corridors of Serbia* together with the Law on Budget to the Government (this activity is also one of the variable indicators of Sector Budget Support for public administration reform from IPA 2015), as well as submission of program information. Improvement of the coverage of the national budget provides better base for more realistic planning of expenditures of indirect budget users. Gender sensitive indicators were introduced in 2016, when software was also improved - BIS (Budget Information System), which significantly improved the quality of work of MoF and budget users. In order to improve planning and more efficient and effective implementation of capital projects, on June 27, 2017, the Government adopted the Decree on content, preparation method and assessment, as well as on monitoring of implementation and reporting on capital projects implementation, which will be applied as of January 1, 2018 and is expected to contribute to a significant increase in the percentage of capital expenditures budget execution from 2019, from 66% in 2016 to 75% in 2019. *A special challenge is to familiarize a large number of budget users with reform steps (implementation of instructions, methodologies, regulations, software), which was done by the Budget Sector through designing and providing of a series of trainings organized by the Government HRM Service, etc.*

At the end of 2018, it is expected to establish the basis for linking public policies with the medium-term expenditure framework. The adoption of the Law on the Planning System is a prerequisite for the adoption of the Decree on methodology for medium-term planning. *Co-ordination of planning and programming of external assistance with the budget calendar has been recognized as a challenge, given that different governments have their own dynamics in budget preparation and programming.*

² The document was published on the website of the Ministry of Finance in May 2017 in the Serbian language:

http://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2018/Uputstvo%20za%20pracenje%20i%20izvestavanje%20o%20ucinku_18_5_2017.pdf

More efficient collection and control of taxpayers brought visible results and this trend is expected to continue in the upcoming period. PFM Reform Program follows implementation of the Tax Administration Transformation Program 2015 – 2020, which is supposed to improve organizational structure, business processes and services to tax payers. **Combined efforts have been made to improve voluntary compliance with tax legislative through change in legislation, increased capacities and raised awareness.** Due to the reforms undertaken in 2016 voluntary tax collection reached the level of 96% of total (voluntary) tax collection out of total tax income assessed in the budget. **In 2016, a marketing campaign was conducted, the risk management system was improved, and intensive development of integrated IT system** was continued aiming to introduce electronic services for taxpayers. Modernization of Customs Administration is underway in several important areas, including risk management and anticorruption measures, as well as modernization of Customs laboratory. Customs Administration monitors the activity of improving anti-corruption measures through negotiating chapter 23, and a special set of trainings on Methods of Investigating Corruption was provided for customs officers in 2016 and 2017.

The greatest progress in the field of public financial control has been achieved with the adoption of strategic framework – The Strategy of Public Internal Financial Control Development for the period of 2017-2020, in May 2017. Central harmonisation unit for (CHU) continues with providing trainings, developing software and reporting in this area. CHU performed an overview of IA work quality in ten ministries for 2016 which represents preparatory work for amending the legislation in order to implement quality control of the IA in line with Standards (this activity also represents one of the variable indicators for Public Administration Reform Sector Budget Support from IPA 2015). At the central level, until the end of 2016, in 80 public funds beneficiary institutions, the internal audit was established with 281 systematized internal auditor positions, out of which 230 were filled up. **The audit was established in all the 16 ministries and three mandatory social insurance funds.** At the level of the units of territorial autonomy and local self-governments, the internal audit function was established in 77, with 182 systematized and 141 filled up internal auditor positions. *Further development of public financial control depends also on development of public administration reform and it has horizontal character; because of that corresponding coordination of large number of stakeholders, legal acts and strategic documents represents particular challenge in the following period; the Ministry of Finance pays special attention to this and has a significant role in different coordination structures.*

Irregularity management, antifraud coordination in dealing with the EU funds is relevant and important both for the interest of the Republic of Serbia and the European Commission. The Budget Inspection (hereinafter BI) and the Group for Combatting the Irregularities and Fraud in Dealing with EU Funds (hereinafter AFCOS), from January 2016, form a part of the Department for the control of public funds of the Ministry of Finance. **The Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020 (hereinafter: Anti-Fraud Strategy) was prepared and adopted.** Decree on authorization and work of the BI was adopted in the end of October 2017. **The Draft of the legal framework for (re)institutionalization of the Governmental Audit Office of EU Funds was prepared in January 2016,** and is expected to be adopted by the end of 2017, so it could enter into force by January 2018.

In accordance with PFM RP the scope and quality of reporting on budget execution and fiscal reports has been improved. Integration of indirect budget beneficiaries to the budget execution system of the Treasury Administration will enable better control of intended expenditures, contributing in that way to one of the key goals of PFM RP i.e. improvement of the coverage and quality of budget execution reporting. Since now, in line with planed, total of 247 indirect budget beneficiaries have been integrated into the budget execution system until January 2016. The introduction of international accounting standards is underway that will contribute to providing the necessary information for the preparation of fiscal reports and balance sheets and consequently lead to further improvement of public funds management and lead to a more transparent budget policy. Monitoring and reporting on outstanding amounts was improved by expanding the RINO system to transactions between public enterprises starting from January 2016. Treasury Administration is currently establishing the Central Registry of Invoices, which should enable the registration of invoices issued by creditors in commercial transactions between the public sector and business entities, or between public sector entities, in which debtors are public sector entities that make payments through the account maintained with the Treasury Administration, and after the establishment of technical and technological conditions (Phase II), invoices issued by creditors in these commercial transactions, other public sector entities, debtors, that carried out payments through accounts held with banks. *The biggest challenge in this field is establishing the adequate IT structures which are, at the same time, complex and financially demanding. It is necessary to improve not only the capacities of the Treasury Administration of the Ministry of Finance, but also of the budget beneficiaries in order for them to be able to answer new demands and standards.*

The progress made so far, in terms of improving of overall system of procurement has contributed to opening of negotiations in the Chapter 5 – Public procurement, in December 2016. **In the field of public procurement the significant progress has been made through the development of primary and secondary legislation which led to increased transparency and efficiency of public procurement procedure.** Transparency of procurement planning has increased after the legislative changes adopted in 2015, by introducing an obligation for contracting authorities to publish procurement plans on the public procurement portal. The total number of contractors announcing procurement plans on the portal reached the level of 90% in 2016 (which is more than the aimed amount of 85%). *Progress in increasing the technical capacities of the contracting authorities in order to more efficiently carry out procurement procedures and further strengthening of the Public Procurement Office remains a challenge in the upcoming period.*

In order to secure sound public finances, it is crucial to ensure effective external oversight and monitoring mechanisms, including firm rules on reporting and transparency. **Significant improvement was achieved in the work of State Audit Institution – SAI,** through increasing the number and quality of audit products, the number of auditors, and coverage of auditees, through the implementation of the audit guidelines, giving professional assurance to the National Assembly and the citizens of the Republic of Serbia that the public funds are spent effectively, efficiently and economically. Committee for Finance, State budget and Control of Public Spending of the National Assembly has established the Subcommittee of the National Assembly for consideration of reports on audits performed by the SAI and in August 2017, the Work

procedures were adopted in order to improve the cooperation between the SAI and the National Assembly.

Main areas to be addressed for realization of the Program in 2018 are further improvement of budget preparation process, efficiency improvement of the revenue collection and budget execution authority, strengthening of the parliamentary oversight over the public finances and improving the capacities of the Governmental Audit Office of EU Funds.

Having in mind that the Program was adopted in 2015, for the period 2017-2020, there is a need for a revision of the Program and the following Action plan in 2018. The revision of the Program will ensure greater coherence of the document, with a more precise definition of the indicator and financial framework necessary for implementation, as well as a revision of the timeframe for the implementation of the priorities of the Program in accordance with the new strategic documents in this area. A large number of inputs for this revision stems from the negotiation process as well as cooperation with the WB, the IMF and the SIGMA project.

The implementation of the Program is an important priority of the MoF and all the participating institutions. All reports are approved by the Government and communication and cooperation between the members of the Working Group is very intensive. In order to increase the visibility of the public finance reform, in addition to publishing the report on the implementation of the MoF website, the PFM Dialogue has been established as a platform for cooperation with the civil sector, and with the intention to further deepen this cooperation from 2018 in order to provide greater transparency and visibility of the public finance reform, and receive important inputs for the planned revision of the Program.

PILLAR I – SUSTAINABLE MEDIUM TERM MACRO-FISCAL AND BUDGETARY FRAMEWORK

The first PFM RP pillar refers to the improvement of credibility of macroeconomic forecasting and strengthening the capacity of the coordinating body for managing the EU own resources and other competent institutions. The leading institution responsible for achieving these goals is the Ministry of Finance - Department for Macroeconomic and Fiscal Analysis and Projections, and for the EU own resources includes both Customs and Tax Administration, as well as Treasury.

Measure is in line with the requirements of the acquis in the Negotiating Chapter 17 – Economic and Monetary Policy, and 33 Financial and budgetary provisions, and will help Serbian administration to prepare for the EU membership.

Altering the credibility of macroeconomic forecasting will improve the quality of information necessary for decision makers, and establish improved bases for international cooperation with the EU institutions (such as requirements of the European Semester, etc), international financial institutions, creditors and other interested parties, thus underpinning fiscal and macroeconomic stability, as one of the major long term key objectives of the PFM RP.

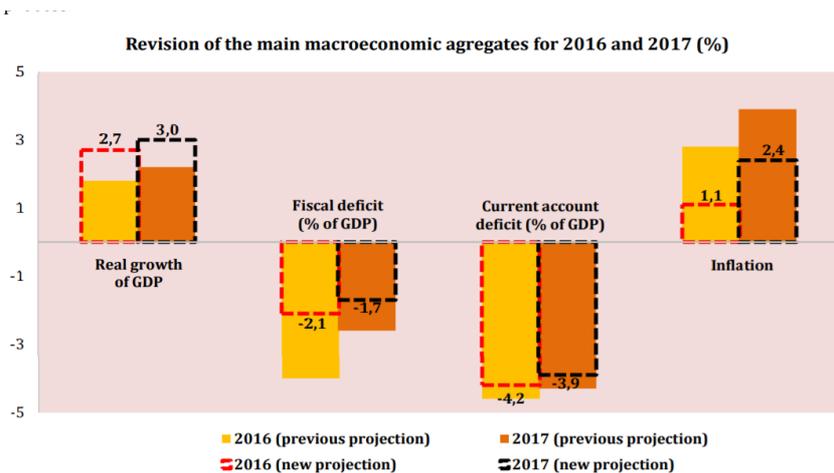
Measure 1 – TO IMPROVE THE CREDIBILITY OF MACROECONOMIC FORECASTING

Capacities of the Ministry of Finance for macroeconomic forecasting have been improved over the past two years, and the bases for improving administrative and technical capacities for managing the EU own resources has been established.

Implementation of the measure one improves capacities of the MoF and quality of work, and at the same time it is closely connected to the fulfilment of the acquis requirements of the negotiating chapter 17 Economic and monetary policy, and 33 Financial and budgetary provisions. Within this measure, majority of activities have been implemented on time, as planned in the PRF RP.

The Annual 2017 Budget demonstrates the Government's commitment to continue with strong fiscal performance and further debt reduction within sound macro-economic environment. The fiscal deficit in 2016 has been reduced to 1,3 % compared to 3,7 % in 2015. The fiscal deficit in 2017 is expected to decline to 1,1% of GDP, with downward trend in medium term. General government public debt was decreased to 74% of GDP at the end of 2016. The growth of GDP of the Republic of Serbia was 2.8% in 2016. According to the current estimates for 2017 the GDP of the Republic of Serbia is expected to rise by 3%. Inflation in 2016 remains under control (1,6% in end of period).³

³<http://www.mfin.gov.rs/UserFiles/File/tabele/2017%20jul/Current%20Macroeconomic%20Developments.pdf>



Graf 1: Revision of the main macroeconomic aggregates for 2016 and 2017 (%)

During the 2016 and the first half of 2017, in order to improve the macroeconomic forecasting, the **“Bridge“ model was developed for the purpose of improvement of GDP projections**, as envisaged in the PFM RP. This model enables quick assessment of GDP per month or quarter, based on high-frequency indicators. Bridge model significantly improves the work of the Department for Macroeconomic and Fiscal Analysis and Projections of the MoF, enabling quicker and more precise assessments. The activity was implemented based on the internal capacities of the MoF, in the early 2016. Results of this model are monthly published on the website of the MoF ⁴, and presented in the Fiscal Strategy for 2017⁵, with Projections for 2018 and 2019, which is the basic mid-term document on economic politics, as well as in the document Economic Reform Programme 2017-2019 ⁶, also available at the web page of the MoF.

MoF has established bases for further strengthening of capacities for managing the EU own resources. The Department for Macroeconomic and Fiscal Analysis and Projections will have a key role in coordination of the EU own resources. Currently there are two job positions in the Section for Fiscal Projections and Coordination and Management of the EU Own Resources in the scope of Division for Fiscal Analysis and Projections and Coordination and Management of the EU own resources of the MoF Department for Macroeconomic and Fiscal Analysis and Projections. One position is dedicated to the coordination and management of the EU own resources (one employee – occupied), and one job position for projections of payments of own funds in the European Union budget (one employee – vacant). The Section is in charge for the activities related to the coordination and management of the EU own resources in accordance with the obligations of the future EU membership, such as preparation of procedures, defining and creating data bases; activities related to calculation, collection and control of the EU own resources; preparation of projections of payments to the EU budget; etc. At the same time, administrative capacities and technical knowledge of Customs and Tax Administration in this area has been improved.

In order to strengthen the capacity for carrying out long term fiscal sustainability analyses and manage the EU own resources employees in the Ministry of Finance attended numerous trainings in 2016 and first half of 2017, such as: trainings on the

⁴ <http://mfin.gov.rs/pages/issue.php?id=3>

⁵ <http://mfin.gov.rs/UserFiles/File/dokumenti/2017/Fiskalna%20strategija%202017%20engleski.pdf>

⁶ http://mfin.gov.rs/UserFiles/File/strategije/ERP%202017%20-%202019%20final_Eng.pdf

fiscal sustainability (with special emphases at medium-term objectives, fiscal framework, and population aging, etc.); TAIEX workshop „Establishing the system of own traditional resources“; Training for Traditional own EU resources – “experiences from the Republic of Croatia“, etc.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Reducing the percentage of the deviation of macroeconomic projections from the Fiscal strategy (GDP and deficit) compared to the projections of relevant international institutions (IMF, EC)	10.4%	Achieved real deviation 4.6% ⁷	Achieved real deviation 3.1% ⁸

Financing of the measure

The Bridge model is developed based on internal capacities of the MoF and financed by regular budget resources, i.e. salaries of employees. Conducted trainings and study visits were financed by GIZ PFR project and the EU. Further trainings will be organized with support of the GIZ, IMF and EU / TAIEX and other donors.

Upon opening of Chapter 33- Financial and budgetary provisions, capacity building costs will be calculated.

Key challenges

- ✓ Deficiency of donor funds for development of the Bridge model by the Department for Macroeconomic and Fiscal Analysis and Projections of the MoF. The model was developed based on the MoF own capacity, technical knowledge, and regular financing.
- ✓ Ensuring new employment for further strengthening of administrative capacities for managing the EU own resources.
- ✓ Strengthening the administrative capacity of the Customs Administration to manage Traditional own resources.

Next steps

- ✓ During the remainder of 2017 and in 2018 further strengthening of technical capacities of employees in the field of macroeconomic analysis and forecasting and EU own resources will be conducted with additional trainings. New trainings are planned for the end of August 2017, and during the September 2017, funded by GIZ PFR project.
- ✓ Preparation and adoption of the new Systematization of Job Positions of the MoF, which envisages separate Unit for coordination and management of EU own resources, is expected to be adopted by the end of 2017, and this will create precondition for fulfilment of vacancies.
- ✓ Implementation of activities related to analyzing the legal framework and administrative capacities for the full implementation of EU regulations for traditional own resources are expected in 2018. Also, it is planned to start activities on the implementation of specific training of the customs officers for managing the EU's traditional own resources.

⁷ Target - Deviation in MoF projections compared to the IMF & EC projections below 10%

⁸ Target- Deviation in MoF projections compared to the IMF & EC projections below 7%

PILLAR II – PLANNING AND BUDGETING OF PUBLIC EXPENDITURES

The basis for public expenditures management, that is, the law which defines the entire budget process (planning, preparation and approval phases, as well as the process of execution and reporting) is the Budget System Law. The Law applies to the autonomous provinces, local self-governments, public enterprises, as well some independent agencies. The Law was changed, that is, amended over the previous years.

One of the key elements which contributes to better planning of budgetary resources and increases the transparency of spending public resources is the implementation of program budgeting. Implementation of mandatory program budgeting in the Republic of Serbia started in 2015 (except for five pilot ministries which used this methodology earlier). The quality of program budget keeps increasing year after year, both due to the fact that public funds beneficiaries have more experience and knowledge regarding preparation of annual program plans, and due to constant improvement of the process by the Budget Department of MoF, in terms of improvement of methodology of budget preparation, improvement of the software for public finance management and organizing the trainings for the beneficiaries. Under this pillar, during the reporting period a baseline was established for further improvement of budgetary process through introduction of legal base for capital investment planning and preparation of methodologies for costing and medium-term planning of public policies.

Measure 2 – TO IMPROVE THE COVERAGE OF THE NATIONAL BUDGET

Improvement of the coverage of the national budget provides better base for more realistic planning of expenditures of indirect budget users.

Measure two is foreseen by the PFM RP to be implemented by 2020. During the reporting period numerous preparatory activities have been executed. **The coverage of the execution of the national budget of the Republic of Serbia has been increased through the inclusion of judiciary administrations into the IT system for budget execution during 2016.** Also, the coverage of the budget and budget documentation has been increased through inclusion of project loans.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Reliable financial plan of Indirect Budget Beneficiaries included in the execution of the national budget	0	247	TBC
Percentage of external funds included in the national budget and budget execution documentation	14% ⁹	TBC ¹⁰	TBC

The budget execution system of the Treasury Administration included 247 additional indirect budget beneficiaries in 2016. Now it covers all courts, public prosecutors and judiciary institutions. In 2017 the Ministry of Finance has started with administrative and technical preparation for incorporation of other Indirect Budget Beneficiaries i.e. prisons and cultural institutions.

⁹ The percentage of external funds included in budget in compared to the donors funds included in the ISDACON database of the Ministry of European Integration. Data on development aid contained in ISDACON information system are stored on the basis of information received from representatives of the donor community and the data received from Public Debt Administration, in terms of concessional loans.

¹⁰ Collected data is still being processed.

In order to ensure harmonised approach towards inclusion of the own sources of revenue of Indirect Budget Beneficiaries, the Treasury Administration has done¹¹:

- ✓ An overview of the analyses and tracking of business processes for institutions of social protections, cultural institutions and penitentiary institutions;
- ✓ Organisational change in work activities and trainings – capacity building for institutions involved in the budget execution system;
- ✓ Provision of technical conditions of Indirect Budget Beneficiaries;
- ✓ Update of the existing IT system of the Treasury Administration for budget execution, due to the fact that extended coverage requires modernization and upgrading of IT systems.

According to available data, percentage of donor assistance that has been included in the annual and multi-annual national budget, as well budget execution documentation represents 14% of total donor funds included in the ISDAICON¹² database. **In accordance with the PFM RP gradual inclusion of external funds is planned until the end of 2020.**

Significant progress is made with the inclusion of project loans in the Budget Law for 2017. In previous period only a small part of project loans were presented in the annual budget because they were presented as part of general government deficit. The Budget Law for 2017 introduces a significant methodological change - large infrastructure projects (such as construction of Corridors X and XI) so called project loans are integrated into the budget of the Republic of Serbia, thereby making it more comprehensive and transparent.

Also, significant progress has been made in relation to the previous years by including the financial plans of public enterprises in the budget documentation for 2017. Compared to the previous period when the financial plans were adopted several months after the adoption of the Budget Law, the Ministry of Finance gave a positive opinion in a timely manner so that the financial plans could be adopted together with the Budget Law for 2017¹³. The aforementioned financial plans adopted by the Serbian Government, doo „Corridors of Serbia” in December 7, 2016, and "Roads of Serbia" in December 15, 2016.

Financing of the measure

No additional funds were foreseen in the PFM RP. All activities are implemented within existing national budget for regular activities of the Ministry of Finance.

Key challenges

The biggest implementation challenges under the measure are associated with:

- ✓ **Lack of information from international donor organisations regarding their planned assistance**, due to varying programming cycles and ad-hoc additional funding provided to Serbia through various bilateral development

¹¹ For more details see measure 16.

¹² Data on development aid contained in ISDAICON information system are stored on the basis of information received from representatives of the donor community and the data received from Public Debt Administration, in terms of concessional loans.

¹³ Indicator 6.1. for 2016 for monitoring of implementation of the Sector Reform Contract (from IPA 2015 for Public Administration Reform Sector Budget Support - *Financial Plans of "Roads of Serbia" and "Corridors of Serbia" are included in the 2017 budget documentation, which is submitted to the Parliament.*

aid. To address this issue, the Ministry of Finance, together with the Ministry of European Integration, plans to hold regular meetings with major bilateral donors and discuss possibilities for a more timely and streamlined planning for ad-hoc additional funding.

Next steps

During the remainder of 2017, 2018 and 2019 the Ministry of Finance will continue in expanding the coverage of indirect budget users by finalising inclusion of the remaining users currently outside the IT system for budget execution, namely all prisons, cultural and the social protection institutions are planned to be included.

Measure 3 – TO FURTHER IMPLEMENT MULTI-ANNUAL PROGRAM BUDGETING ACROSS ALL LEVELS OF GOVERNMENT

The Ministry of Finance continued with the improvement of the program budgeting, as a tool for managing results with limited resources within the reporting period, in line with the Budget System Law¹⁴. The program-based budget was introduced in 2015 to cover 100% of budget users in the Budget of the Republic of Serbia, and 100% of budget users in the Decision on the budget of local self-government units.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Percentage of compliance of program structures of budget users with Guidelines for the preparation of the Program Budget	61%	82%	tbc

The compliance of structures of the program budget of budget users with Guidelines for the preparation of the Program Budget issued by the Ministry of Finance, Budget Department, is increasing, because the quality of program information defined by budget users is more in line with the above mentioned Guidelines; in 2015 it was 61% and in 2016 it was 82%. Also, percentage of Local self-governments units (LGSU) compliance of budget structures is increasing comparing to values from 42.06 % out of total number (170) of LGSU in 2015 to 46.5% in 2016.

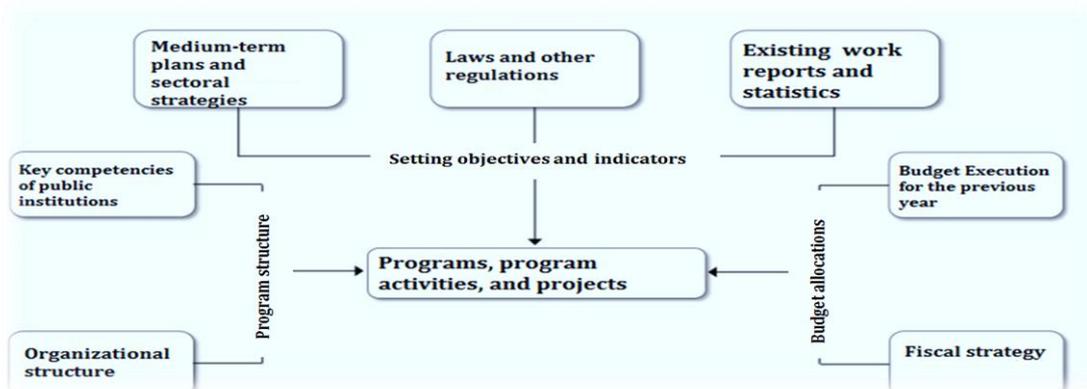


Illustration 1: Establishment of the budget program structure of state bodies

¹⁴ Budget System Law ("Official Gazette of the Republic of Serbia", No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013-corr, 108/2013 and 142/2014)

By introducing multi-annual program budgeting for all budget beneficiaries, more clear information is available to the public regarding purpose of the budget funds spending. Program budgeting is a transparent mechanism for monitoring budget expenditures and outlays which enables decision-makers to easily understand the connection between the approved funds and strategies, programs and outcomes. In this way, the budget becomes a more efficient instrument for public finance management.

Over the past two years significant developments have been achieved in program budgeting:

- ✓ **Improved Guidelines for the preparation of the program budget.** The changes are directed towards the improvement of program information and monitoring of the achievement of key program objectives, as well as clearly defined roles and responsibilities in the annual cycle of program budget preparation. Improvements in methodology started with application in the Law on budget for 2017, and are supported through the new information system for budget preparation (*Budget Information System - BIS*)¹⁵.
- ✓ **Improvement in program structures.** The Ministry of Finance worked together with budget users on improvement in quality of their initial program structures. These improvements have been made in order to improve compatibility between program structures and key jurisdiction of budget users with their strategic documents and to increase budget transparency.
- ✓ **Improvement of program information.** Based on lessons learned during program budget implementation, the Ministry of Finance defined types of programs and program activities for which it is not necessary to define goals and indicators. The reason behind is because those are administrative activities for which it is not possible or not necessary to create quality objectives and indicators. Every year the Ministry of Finance works together with budget users on improvement of goals and indicators.
- ✓ **The Methodology for monitoring and performance reporting was prepared.** The Methodology elaborates roles and responsibilities in monitoring and reporting, as well as the way how to use performance information when drafting the budget. The methodology was prepared in 2016 and will be used in reporting on program performance for 2016. budget year.
- ✓ **Performance based reporting started in 2017.** Obligation of monitoring and reporting on programs performance has been introduced, which will show achievements with the spent budget funds. Monitoring and reporting represents an upgrade of the planning system and the creation of program budget that allows beneficiaries to use information about achieved effects of the programs to improve the efficiency and effectiveness of public spending and the quality of public services. Performance based reports for budget 2016 has been received in Q1 2017 from all budget users, and currently are processed and used for preparation of the draft Law on budget for 2018.
- ✓ **Gender sensitive indicators were introduced in 2016.** The Ministry of Finance published the Plan for introducing gender budgeting in the process of preparation and adoption of the budget of the Republic of Serbia for 2017 and

¹⁵ *Improved Methodology for the preparation of the annual budget for 2017 was prepared in October 2016 and was published on the website of the Ministry of Finance, 'this is linked with the indicator for monitoring of implementation of the Sector Reform Contract from IPA2015 for PAR Sector Budget Support.*
<http://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2017/Uputstvo%20za%20pripremu%20budzeta%202017.pdf>

2018. For the first time, 25 budget beneficiaries were envisaged to prepare gender sensitive indicators for the budget of 2017. Plan for the budget of 2018 has specified 35 budget beneficiaries which are obliged to define at least one gender sensitive goal and one gender sensitive indicator¹⁶. The idea is to increase a number of budget beneficiaries with gender sensitive goals and indicators every year.

- ✓ **Budget Information System (BIS) for budget preparation was developed in 2016.** BIS ensures easier and more efficient way of entering financial plans of budget, and the process of analysis and unification of the financial plans of budget beneficiaries has been improved.
- ✓ **Trainings for preparation and reporting of program budget.** In 2016 first half of 2017 nine training sessions were held with more than 150 participants. Monitoring and reporting procedure, content of performance report and key roles and responsibilities in reporting procedure were key topics that were discussed during the trainings. Six employees in the Budget Department obtained a certificate for trainers for program budgeting.
- ✓ **Citizens' Budget produced and published.** The Ministry of Finance issued Citizens Budget of the Republic of Serbia which in clear and comprehensive way provides information to the public on budget structure, collecting and spending budget funds. Citizens' budget was published at the web page of the Ministry in 2015 and 2017¹⁷.
- ✓ **Transparency of the budget has been increased** through the introduction of a legal obligation to publish program information and reporting on the achieved performance at the web-sites of budget beneficiaries.

Financing of the measure

The PFM RP envisage 30.000 EUR from the national budget to be spent for measure 3. During the reporting period, in addition to regular budget expenses, additional amount was spent on trainings on program budgeting for civil servants, organized in cooperation with the Human Resources Management Service of the Republic of Serbia (HRMS), and costed around 160,000 RSD. Development of the information system for budget preparation (BIS) was funded by the USAID project (50,000 USD).

Key challenges

- ✓ Delay in publishing call for public procurement for maintenance and further development of the IT system BIS, and administrative procedures related to the transfer of ownership, lasted longer than planned.
- ✓ Integration of the existing budget execution software with the new BIS system, and other systems, such as Public Policy IT system for planning and reporting on public policies, which will be developed after adoption of the Law on Planning System in the second half of 2017.

Next steps

- ✓ Further improvement of program information, structures and reporting.
- ✓ During the 2017 and 2018, main goal will be further improvement of IT system. During the utilization of software, there will be a need to remove errors detected

¹⁶ The Plan for introduction of gender sensitive budgeting in Serbian language is available at: <http://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2018/PLAN%20ROB.pdf>

¹⁷ Available in Serbian language at [http://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Gradjanski%20vodic%20kroz%20budzet\(1\).pdf](http://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Gradjanski%20vodic%20kroz%20budzet(1).pdf)

during the application of the software in the budget procedure and development of new modules for software. It is necessary to develop module for monitoring and reporting on performance of budget programs (report on goals and indicators), module for capital investments, module for salaries and module for expenditure projections.

Measure 4 – TO IMPROVE CAPITAL PROJECTS PLANNING

The establishment of a single platform for capital investment planning and a methodology for the capital investment analysis and planning is geared to strengthening the mechanism for capital investment management. The establishment of a legal framework for public investment management is expected to lead to prevention of ad hoc investment decision making, and to enable financing of capital projects so that **investment decisions are based on systematic planning and prioritization.** It will create improvements in the process of preparation of new projects and monitoring the realization of projects through reporting.

The Decree on content, preparation method and assessment, as well as on monitoring of implementation and reporting on capital projects implementation (hereinafter Decree) was adopted by the Government on 27 June 2017.¹⁸

Measure four has not been fully implemented within the planned deadline envisaged in the Action plan of the PFM RP, due to longer process of harmonization of the final text of the Decree with all relevant stakeholders. With the adoption of the Decree the main precondition for improvement of capital projects planning is put in place. Measure four foresees establishment of a single platform for capital projects planning and methodology for public investment analysis.

<i>Performance indicator</i>	<i>2016</i>	<i>Mid-2017</i>
Share of capital budget spent by the end of the budget year	66%	67%



According to the IMF “Concluding Statement of the Mission for the 2017 Article IV Consultation and the Seventh Review under the Stand-By Arrangement (SBA)”¹⁹ the adoption of the Decree on project appraisal is an important step towards better public investment management. With rigorous project selection and assessment to ensure scarce resources and technical capacity are directed to projects with the highest returns, and thus important part of the public finance management. In addition, improved capital investment management has been recognized as a priority structural reform in the

¹⁸ <http://www.imf.org/en/news/articles/2017/07/05/mcs652017-serbia-concluding-statement-of-the-mission-for-the-2017-article-iv-consultation> <http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2017/Uredba%20ocene%20kapitalni%20projekti.pdf>
¹⁹ <http://www.imf.org/en/News/Articles/2017/07/05/mcs652017-serbia-concluding-statement-of-the-mission-for-the-2017-article-iv-consultation>.

Public Finance Management area of the Economic Reform Program document for the period 2016-2018²⁰ and 2017-2019, adopted by the Government of the Republic of Serbia.

The consequences of the existing practice are low execution of capital expenditures in the budget, due to inadequate project documentation, difficulties in land expropriation, relatively weak control over the contractors. This results not only in delays, but also in significant increase in the price of works.

The Decree shall apply as of 1 January 2018, and is expected to **contribute to significant increase in percentage of budget execution of capital expenditures from 2019 onwards**. According to the available data, percentage of budget execution of capital projects in 2016 was 66%, and in 2019 it is expected to reach 75%.

Financing of the measure

The cost of activities implemented under measure four includes regular activities, i.e. salaries of four employees in the Unit for evaluation of capital projects of the Budget Department within the MoF. In addition, the USAID technical support was provided for development of the Decree.

The PFM RP envisage 161.626 EUR from external sources for financing of a software, and this funds have not been spent yet. Additional funds for procurement of capital investment management software need to be planned. The required amount will be calculated upon development of the technical specifications and after adoption of five accompanying Rulebooks stipulated in the Decree until the end of 2017.

Key challenges

- ✓ The process of harmonization of text of the Decree with all relevant stakeholders lasted longer than foreseen in the PFM RP. The MoF established the Working Group for preparation of the draft Decree, which included representatives of all relevant institutions related to capital projects.

Next steps

- ✓ Until November 2017, following Rulebooks defined by the Decree have to be adopted:
 - Rulebook on conditions, manner and procedure of capital maintenance, according to type of capital project;
 - Rulebook on the content of an integrated capital project base;
 - Rulebook on the content, deadlines and procedure for submitting investment documentation;
 - Rulebook on closer conditions, method of criteria and criteria for evaluation and selection of capital projects;
 - Rulebook on closer conditions, method, criteria for ranking capital projects;
- ✓ Procurement and customization of software for capital investment management needs to be in place until the end of 2018;
- ✓ Training for budget users for implementation of the Decree.

²⁰ http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/ERP-2016_en.pdf at page 64, and http://mfin.gov.rs/UserFiles/File/strategije/ERP%202017%20-%202019%20final_Eng.pdf at page 71.

Measure 5 – TO IMPROVE BUDGET PLANNING

The basis for linkage of public policies with medium-term expenditure framework should be established by late 2018 as envisaged in PFM RP. In that regard, mid-term plans of budget beneficiaries shall be provided in a comprehensive planning document which covers a period of three years and facilitates linking public policies²¹ to the medium-term expenditure framework. Medium-term plan shall be prepared on the basis of policy documents in force, taking into account priority goals of the Government, available capacities, resources and dynamic nature of those policy documents.

Although planned deadline for implementation of measure 5 has not expired yet, significant progress has already been achieved, which represents a good basis for timely implementation of remaining activities.

<i>Performance indicator</i>	<i>2017</i>	<i>2018</i>
Percentage of Mid-term plans of budget beneficiaries based on new methodology	0%	TBD

From 2015 to June 2017 significant developments have been achieved through:

- ✓ **Preparation and testing of the draft Methodology for baseline estimates and policy costing.** Draft methodology for baseline estimates and policy costing were prepared by the IMF expert and tested during preparation of priority areas for financing for 2018-2020. The purpose of this methodology is to provide better inputs to the process of defining limits for budget users in the medium term.
- ✓ **Preparation of the draft Decree on methodology for medium-term planning.** Budget beneficiaries shall prepare medium-term plans in accordance with the budget preparation timetable and process and with the established programme-based budget elements, taking into account the limitations set by the medium-term expenditure framework. The medium-term plans shall contain the following elements: general and specific goals; overview of measures to achieve the set goals for the entire validity period of the plan, linked to budget programs, as well as program activities and projects, under which the funds for their implementation are planned; including references to the priority goals stipulated in the National Development Plan, the Program of the Government and Action Plan for the Implementation of the Government's Program; and involve funds required for the implementation of policy measures set by program-based budget elements, (including overview of the activities implemented under a specific measure for the first year of validity of the plan); indicators for monitoring performance and evaluating the achievement of the general and specific goals and risks and prerequisites for the implementation of measures.
- ✓ **Sector Mid-Term Expenditure Frameworks (sector MTEF) for the Public Administration Reform Sector and the Education Sector have been**

²¹ Link to the database on public policy documents, available in Serbian <http://www.rsjp.gov.rs/baza-podtaka-o-strateskim-dokumentima-javne-politike> on the Public Policy Secretariat webpage.

developed. The documents present an overview of the allocated funds from the budget of the Republic of Serbia and donor funds for the reform of these two sectors and are taken into account during preparation of the Budget Law and the Fiscal Strategy. The development of these two documents represents a significant step towards the creation of a MTEF for policy and budget planning. Reforms are supported by EU funds and are subject to Sector Reform Contracts, which have provided Sector Budget Support from IPA2015 and IPA2016.²²

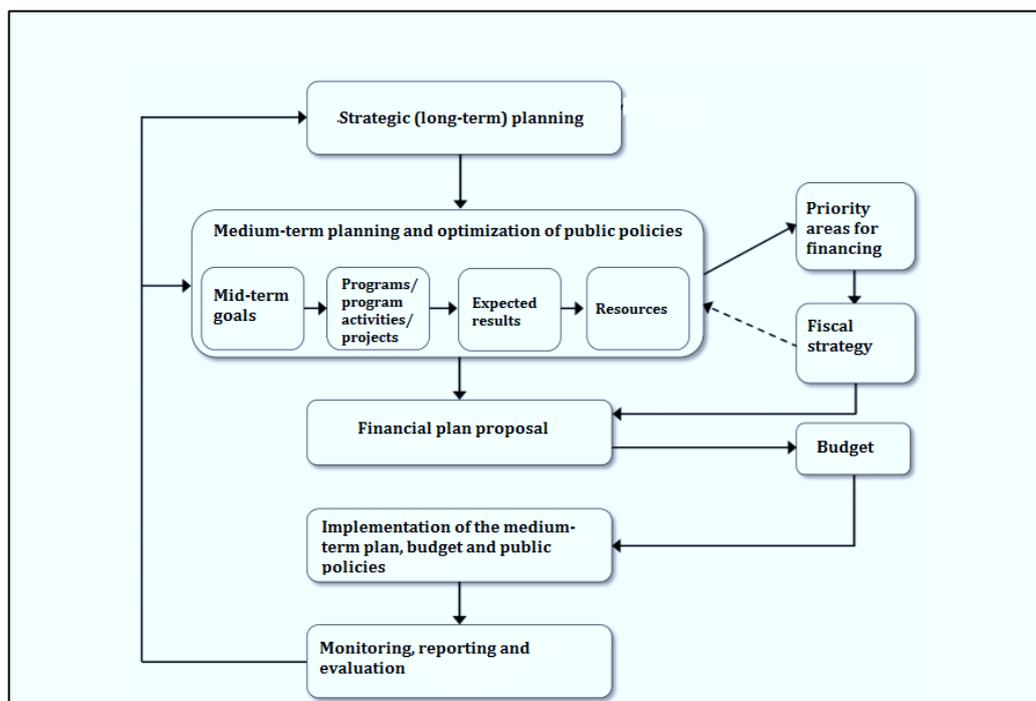


Illustration 2: Budget planning process

Adoption of the Law on Planning System²³ represents the precondition for the adoption of the Decree on methodology for medium-term planning by the Government of the Republic of Serbia. **In the reporting period, all the requirements for the submission of the draft Law on planning system in Serbia to the Government have been met** (consultations with EU, SIGMA, EUD, as well as with state administration in Serbia, civil society organizations, field experts, business and citizens, had been conducted, and public debate procedure implemented, with more than 170 participants taking part at public debate events). Following consultations, the draft Law on Planning System of the Republic of Serbia, had been sent to all public administration authorities in order to obtain their formal opinions. Fulfilling all formal preconditions, the PPS, in April 2017, submitted to the Government a Draft Law on the Planning System of the Republic of Serbia for the purpose of considering and endorsing.

As regard the part of the measure related to the improvement of coordination and alignment of donor assistance with the public policy priorities, certain progress has been made. On the initiative of Ministry of European Integration, the forum for

²² Indicator 7 for 2016, for monitoring the implementation of the Sector Reform Contract - *The Sector Medium Term Expenditure Framework (MTEF) was developed for another sector (*) (EDUCATION) and is taken into account when preparing the Fiscal Strategy 2017-2019 and the Budget Law for 2017*, was completed by the creation of MTEF for the Education Sector within the agreed time. It is planned to develop MTEF in 2017 for another Sector (Integrated Border Management).

²³ The draft Law on Planning System of the Republic of Serbia could be found at the following link:

<http://www.rsjp.gov.rs/nacrt-zakona-o-planskom-sistemu-republike-srbije/t>

communication between relevant national institutions and donor on progress in implementation of sector policy, planned measures and activities in coming period and potential financial gaps has been established within the existing system of coordination of EU assistance and development assistance. These developments should be recognized as very significant, in terms of ensuring more efficient and effective use of all available resources, thus contributing to financial sustainability of reform.

Nevertheless, alignment of planning and programming of external assistance with the budget calendar has been recognized as a challenge. It is not realistic to align dynamics in planning and programming of development assistance provided from different donors with national budget calendar, since different governments have their own dynamics in budget preparation and consequently the timeframe in programming is different.

Financing of the measure

The cost of activities implemented under measure 5 includes regular national budget expenses. Additional funds have been provided through IPA 2011 Project on Reforming Policy Coordination and the Centre of Government amounting in total 1.860,400 EUR, IMF support, United States Agency for International Development (USAID) – Business enabling project (BEP), and GIZ Public Administration Reform Project.

Key challenges

- ✓ The complex nature of this reform measure makes it very challenging for implementation. There have been **some delays in adoption of the Law on Planning System of Serbia**, which represents the legal basis for the adoption of mid-term methodology. In that regard, the realization of this target value in 2018 could be challenging, if the Law on planning system of Serbia and medium-term methodology are not approved by the end of 2017.
- ✓ Alignment of planning and programming of external assistance with the budget calendar has been recognized as a challenge. **It is not realistic to align dynamics in planning and programming of development assistance provided from different donors with national budget calendar.** In that sense, the more adequate formulation/revision of this activity should be considered.
- ✓ In terms of successful implementation of medium-term plans, **introduction of the policy dialogue with the donors** should be recognized as very relevant development. In that sense, it is planned to formalize these consultations within the Sector Working Group system, coordinated by Ministry of European Integration.

Next steps

Following adoption of the Law on planning system of the Republic of Serbia by the Government and approval by the Parliament, the legal preconditions for initiating the procedure related to the adoption of the Decree on methodology for medium-term planning shall be met. It is expected that the Law on Planning System of the Republic of Serbia is to be approved by the end of 2017, and the Decree on methodology for medium-term planning will be adopted within the six months period after the Law comes into force. The Public Policy Secretariat shall be the proponent of the Decree on methodology for medium-term planning.

Measure 6 – TO IMPROVE OPERATIONAL CAPACITIES FOR PUBLIC INVESTMENT COORDINATION AND BUDGET PLANNING

The measure relates to the improvement of administrative capacities of the Budget Department of the Ministry of Finance until mid-2016, and establishment of analytical and planning units in public administration bodies until the end of 2017. Limited factor for reaching the planned targets were the fiscal consolidation measures, salary limitations and ban on new employment in the public sector.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
The Budget Department fully staffed	67%	70%	70%
Percentage of public administration bodies that introduced analytical and planning units	/	0%	0%

In order to strengthen budget process, the Budget Department capacity for budget preparation, coordination and monitoring of budget execution needs to be enhanced. The PFM RP envisages increase in number of employees as well as continuous strengthening of operational and analytical capacities. During the reporting period the Budget Department reached employment rate of 70% of systematized job positions²⁴, and employees attended two training sessions related to the baseline expenditure projections and new policy costing.

In order to establish internal organizational units in charge for providing professional support in planning and budgeting of strategic and operational plans of public bodies, legal framework has to be put in place, such as amendments to the Regulation on Principles for Internal Organization and Systematization of Jobs in Ministries, Special Organization and Government Services. Once the legal framework is in place, sufficient operational capacities need to be secured in order to ensure efficient budget planning and public investment coordination. Establishment and strengthening of the operational capacities for preparation, coordination, and implementation of strategic and operational plans of public bodies are planned by the end of 2017. However, within the reporting period necessary preconditions for the implementation of these activities have not been met.

Activities aimed at improving existing analytical skills have been undertaken in the reporting period. **The PPS had put significant efforts in order to build both its own and analytical capacities of other state administration bodies.** In line with stated, following trainings were organize:

- ✓ In 2016, the PPS in cooperation with the Human Resource Management Service (HRMS) had conducted five trainings for civil servants and managerial staff, on following topics: Analyzing the effects of regulations, managing the legislative process, the roles of managerial staff in strategic and financial planning in the state administration. In this regard, 71 civil servants and managers were trained.
- ✓ During the first two quarters of 2017, in order to strengthen analytical capacities in state administration bodies, training of civil servants was organized on the following topics: Analysis of the effects of regulations, attended by 12 civil

²⁴ Part time contracts not taken into account.

servants, while at the beginning of June 2017, training of civil servants in the position within the framework of the Public Policy Management Program and the legislative process for managerial staff attended by a total of 12 managers at the state-level.

- ✓ During the reporting period, 95 civil servants and managerial staff within public administration had been trained for the purpose of improvement of analytical skills and capacity building of public bodies.

Financing of the measure

In the PFM RP for implementation of activities under the measure six, it was envisaged to invest 1,6 million EUR from the national budget, but so far only regular financing from the budget has been spent. Trainings were organized by the Government Human Resource Management Service (HRMS) for improvement of analytical capacities of public administration, and financed from the national budget the amount of around 200.000 RSD. Trainings for the Budget Departments were organized by the USAID and GIZ.

It is not possible at the moment to calculate cost of establishment of new analytical and planning units before the introduction of necessary legal changes.

Key challenges

- ✓ Adoption of adequate legal bases for establishment of analytical and planning units. The proponent in charge to amend the Regulation on Principles for internal organization and systematization of jobs in ministries, special organizations and government services is the Ministry of Public Administration and Local Self-government. The Public Policy Secretariat, in April 2017, has recently initiated inter-institutional cooperation with the Ministry of Public Administration and Local Self-government in order to prepare necessary amendments of the above mentioned Regulation.
- ✓ Ban on employment in public administration in order to allow fulfilment of the vacant positions. No corrective measures in this regard can be performed by the MoF, as the Ministry has to follow the same approach as other public administration institutions. Any improvement in this regard can be expected with gradual improvement of situation in the field of public finances.

Next steps

- ✓ It is expected that in the following period, until the end of 2017, the appropriate steps will be taken in order to amend the Regulation on Principles for Internal Organization and Systematization of Jobs in Ministries, Special Organization and Government Services. The purpose of this change is creating preconditions for introduction of units for analysis and planning of public administration bodies as the support for budget planning process. This will lead to better public policies planning and organization of adequate trainings, which represents a precondition for full implementation of this measure.

PILLAR III – EFFICIENT AND EFFECTIVE BUDGET EXECUTION

In order to have efficient and effective public financial management, Public funds should be spent in a timely and predictable manner. Over the years, many factors contributed to less than desired budget execution efficiency. Various fiscal constraints, outdated procedures and lack of administrative capacity had prevented the Government from efficiently utilizing the Budget. Although steps have been taken in order to secure more efficient and effective budget execution, PFM RP in a systematic and comprehensive way addresses this issue and provides a guideline for improvement. As envisaged in this pillar, more efficient and effective budget execution will be reached through improvement of revenue collection, commitment control and cash management, capacities for public debt management and public procurement legislation and procedures.

Measure 7 – TO IMPROVE REVENUE COLLECTION

Even though almost all activities envisaged in this measure are due on late 2017 or 2018, Tax and Customs Administrations of the Ministry of Finance have been working devotedly since the beginning of the PFM RP implementation towards reaching the set goals. PFM RP follows implementation of the Transformation Program of the Tax Administration which is supposed to improve organizational structure, business processes and services to tax payers, and the modernization of Customs Administration in the domain of risk management and anti-corruption measures, as well as in modernization of Customs laboratory. The measure is narrowly related to the negotiation chapters 16 Taxation and 29 Customs Union.

The European Commission in the Progress Report for 2016, within the negotiating chapter 16 – Taxation, concluded that Serbia is moderately prepared in the area of taxation, while for the negotiating chapter 29 – Customs Union, the progress was highlighted in transit system, with initiations of mutual transit procedure, after the implementation of New Computerized Transit System (NCTS) started.

However, the Report indicates that Serbia has to upgrade the customs declaration processing system and integrate risk management, as well as to improve and modernize Customs Administration management. Negotiations on chapter 29 was opened in January 2017.

<i>Performance Indicator</i>	<i>2014</i>	<i>2016</i>	<i>2017</i>
Percentage of share of total regular tax collection against total tax revenue estimated in budget	85%	86%	87%
Increase in revenue collection (That Customs collect) as % of GDP	10,17%	10,27%	10,56%

More efficient collection and control of taxpayers has produced visible results and this trend is expected to continue in the coming period. The decline in tax discipline observed in 2013 was reversed in 2014, and the trends observed so far indicate that **tax collection has improved. The decline in tax discipline was stabilized in the first**

half of 2014, while 2015 saw increased tax collection. The increase in public revenue is mostly attributed to the increase in excise and VAT revenues. There is much scope for additional improvements in tax collection in the coming period. Notwithstanding the improved tax discipline, Tax Administration will be further strengthened through consistent implementation of the Tax Administration Transformation Program 2015-2020.

There is a continuous work on strengthening of management and improvement of the organizational structure and tax processes, and the Tax Administration Transformation Program 2015-2020 is a basis for strategic and organization changes of Serbian Tax Administration. Special attention and effort is directed towards the voluntary compliance of taxpayers by taxpayers. This was achieved by amending tax laws, strengthening the capacity of the Tax Administration (100 new employees) and raising the awareness of taxpayers (the action "Pay the tax, hope for the best").

Several organizational changes took place over the past two years in Tax Administration. A director of Tax Administration has been appointed for the period of five years. The Transformation Department has been established and the Head of the Department has been appointed. Three Boards have been formed: for business, for organizational transformation and for risk management related to compliance with regulations. A special Strategic Risk Management Group has been formed. Training for project management has been provided for the employees in the Transformation Department.

Combined efforts have been made to improve voluntary compliance with tax legislation through change in legislation, increased capacities and raised awareness. Due to the reforms undertaken in 2016 voluntary tax collection reached the level of 96% of total (voluntary) tax collection out of total tax income assessed in the budget. In order to increase the percentage of voluntary compliance with tax regulations in the overall tax income, the analysis of the rules on tax procedures and tax administration is jointly conducted by the representatives of the Ministry of Finance and Tax Administration.



In two years of full implementation of consolidated collection of withholding taxes and contributions, which began on March 1, 2014, a total of 7.444.597 correct Individual tax return applications have been submitted electronically. On a monthly basis, an average of more than 300.000 of these applications was submitted through the online service of Tax Administration. E-Taxes service is operating successfully and the technical capacities for the receipt and processing of applications are all set for further development of new services.

Progress has been made in relation to development of strategic framework for improving services to taxpayers and overall organizational arrangement. A special Department of Tax Administration has been established with a function of providing services to taxpayers. This transfer from a “traditional model” based on control of compliance with regulations, towards more service oriented approach to clients is expected to be appreciated by the public, as it will make it easier and cheaper for taxpayers to fulfil their tax obligations. The [“Strategy for providing services to taxpayers”](#)²⁵ was adopted in December 2016 by the Transformation Committee. The concept of the Department for providing services to taxpayers was also prepared. Both the Strategy and the Concept envisage increased functionality of existing contact centre, as well as preparation of support programme for newly-registered taxpayers. A final version of the organizational structure of the Department is being drafted.

As yet another mechanism for increasing tax collection, in 2016 a marketing campaign which consisted of 40 five-minute educational episodes²⁶ was realized. It was emitted at two TV stations with national frequency in the Republic of Serbia.

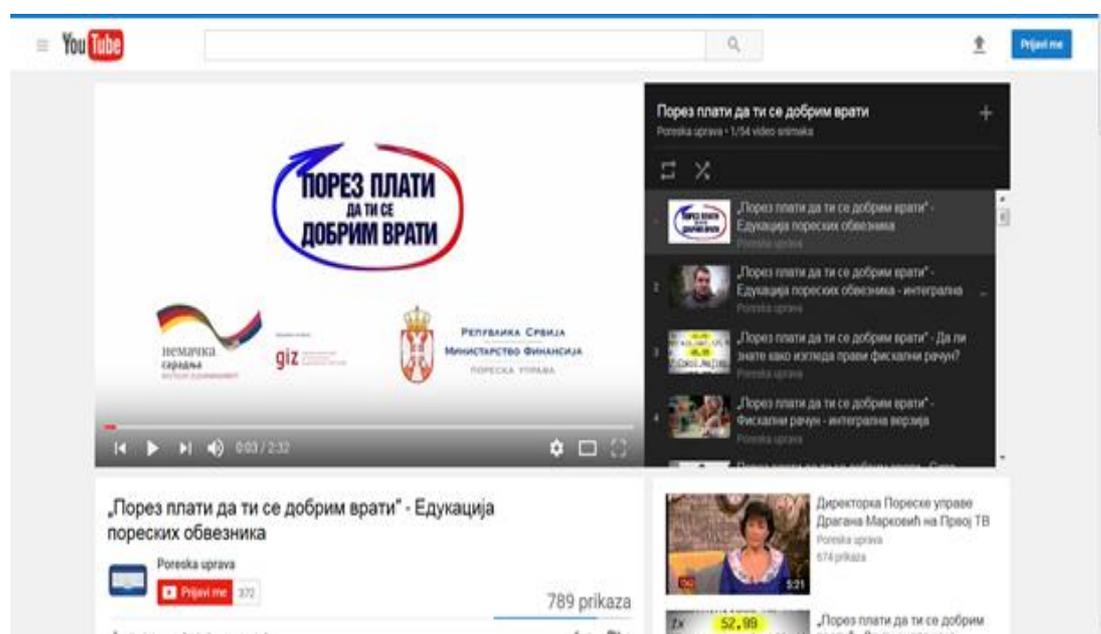


Illustration 3: Marketing campaign „Pay the tax, hope for the best”

The working procedures and standard operative procedures of tax inspectors, are in plan to conduct, in line with the Tax Administration Transformation Program. This will enable checking whether their functions and prerogatives are clear, thus reducing discretionary decisions.²⁷ Additionally, preparation of draft of methodological manual for recording of turnover by using fiscal cash registers also led to reduction of discretionary decisions.

The Plan for the compliance with tax regulations for 2017 has been prepared and adopted. For the first time the OECD risk management model related to compliance with the regulations was used for development of the Plan.

²⁵ <http://www.poreskauprava.gov.rs/o-nama/strategija-usluge.html>

²⁶ <http://www.purs.gov.rs/biro-za-informisanje/novosti/3793/porez-plati-da-ti-se-dobrim-vrati.html>

2. Published control list on: <http://www.purs.gov.rs/aktuelnosti/Ostalo/3525/inspekcijski-nadzor---kontrolne-liste.html>

Finally, with support of the GIZ PFR project in June and July 2015, 255 field inspectors were trained on transfer prices. In order to implement advanced specialist training to cover the case study, it is necessary to provide appropriate software support.

Implementation of ERIAN (Risk Analysis Management System)²⁸ is underway. The ERIAN system for control of transit procedures of national (NT) and common transit (T1, T2, T-), carried out through NCTS (New Computerized Transit System) is in place since February 2016.

Strengthening of anti-corruptive measures is the activity which is being monitored by the PFM RP, as well as in the Action Plan for the negotiating chapter 23, Judiciary and Fundamental Rights. Customs Administration has carried out the analysis on corruption risks of the legal framework of customs system²⁹, and continued to strengthen its capacities through trainings. The first part of training programme, organized by the GIZ PFR project, on “Methods of investigation of corruption in customs“ took place at the Academy of Criminalistics and Police Studies for 15 members of the Internal Affairs Department of Customs Administration, and the second in January 2017.

To address one of the recommendations of the EC Progress Report 2015 related to modernization of the Customs Laboratory, **the twining light project „Creating conditions for strengthening the capacities of Customs Administration Laboratory of the Republic of Serbia“, financed from IPA 2013, started in June 2017.** Expected results of the project are: preparation of the draft Action Plan with activities to be implemented (legal framework, organizational and functional structure, required infrastructure and investments, procurement of equipment and training of employees); defining all technical preconditions and necessary methods for Customs Laboratory; preparation of a list of necessary analytical testing equipment in the laboratory and detailed technical characteristics of the future laboratory infrastructure; development of a model of cooperation with the Customs laboratories in the EU, as well as with other analytical institutions at national and international level in accordance with the EU requirements.

Percentage of adopted appeals in relation to the total number of solved appeals for 2016 increased for 2,03% in comparison to the planned indicator value level of 33,47% (determined by Tax Administration in the amount of 35,5% in the PFM RP).

In line with the requirements from the negotiating chapter 16 – Taxation, the IT mission of Directorate- General for Taxation and Customs Union – DG TAXUD assessed the IT capacities of Tax Administration in December 2016. The given recommendations of DG TAXUD from the initial report will be reflected in the IT strategy of Tax Administration, and serve as a base for programming of IT projects.

3.ERIAN is an expert system – module whose general goal is to ensure *on-line* evaluation of declarations processed within the declaration process system according to the specifications of a model (profile) of risk, drafted by risk analysts in ERIAN central archive of risk profile.

²⁹ The Customs Administration has done a risk analysis on the corruption of the legal framework of the customs system based on the Risk Analysis of corruption in the customs regulations, conducted by the Agency for Fight against Corruption. Conclusion of Risk Analysis has pointed out to the necessity of expanding the powers of the customs officers primarily by passing the Law on the Customs Service, as well as through the adoption of amendments to the Criminal Code Procedure.

One-stop shop system of economic entity registration has been fully established in cooperation with the Business Registers Agency (BRA). The system provides the possibility for newly established economic entity to submit the registration form for VAT, as well as request for the presumptive tax. As of January 1st 2017, a newly established entrepreneur, within the unique registration establishment form, can decide on the personal income calculation. Regular update of Unique Register of Taxpayers is completed according to the data downloaded from BRA, within one-stop shop system. For those taxpayers who are not registered through BRA (less than 5%), the updating procedure is manual. Those are institutions, state bodies, trade unions, and lawyers. In order to improve the quality of data on taxpayers entered into the Unique Register of Taxpayers, the project „Integrated Information System 2014“ was initiated, financed from the budget of the Republic of Serbia.

The risk management system has been improved. In line with TADAT³⁰ recommendations, the structured process of risk assessment and defining priority of risk voluntariness were introduced. Risk analysis criteria for VAT has been developing and improving constantly. Also, the risk analysis for profit tax control is in progress. The target value of indicator for 2016 and 6 months of 2017 has been accomplished. The percentage of controls with irregularities is 28,59%, an increase of 0,17% in comparison with 2015. This increase clearly shows constant improvements of conducted risk analyses, according to which control plans are prepared at monthly and annual level. Consequently, this leads to more efficient controls and more effective working time of inspectors.

The implementation of Tax Collection System within the Integrated Information System of Tax Administration is in progress. This system enables, among other things, faster and more efficient realization of regular and forced tax collection, which will have an effect on tax debt reduction.

In order to obtain updated information on arrears, control mechanisms are improved with amendments to the LTPTA, that is, it is provided that the off-balance tax accounting keeps tracks on unpaid tax arrears: of taxpayers who have been erased from the relevant registers (unless the other party is responsible for fulfilment of those obligations); in case of absolute statute of limitations; for those that are the subject of settlement in accordance with the law which regulates insolvency procedure through bankruptcy until the completion of insolvency procedure; based on disputable and dubious debts.

Financing of the measures:

The most demanding task in terms of securing funds is for implementation of the Tax Administration Transformation Program. In the PFM RP it was estimated that the amount needed is almost 22.000.000 EUR. However, amounts needed have to be revised. In line with the IMF recommendations from the mission in July 2017, the revision of the Transformation Program is underway and expected to be completed by the end of 2017. Upon completion of revision, an assessment of the necessary funds will be done. Once the assessment is done, an estimation will be made how much is possible to secure from the national budget and how much would be necessary to secure from external funding.

30 TADAT -The Tax administration Diagnostic Assessment Tool

For the project „Creating conditions for strengthening the capacities of Customs Administration Laboratory of the Republic of Serbia “- the total cost is estimated at 250.000 EUR (EU financing 95% and national co-financing 5%) by contract from IPA 2013. Trainings were organized by GIZ and TAIEX.

Key challenges:

- ✓ Main challenges regarding work of the Tax Administration during implementation of the PFM RP are linked with organizational improvements, human resource management and establishment of performance management system. Rejuvenation of the HR structure of the Serbian Tax Administration and timely transfer of knowledge through provision of adequate training remain one of the greatest challenges for the upcoming period.
- ✓ Key condition for full implementation of the ERIAN system by Customs Administration is introduction of automated import and export systems AIS&AES, and their further integration with the ERIAN system. AIS&AES system has been implemented through projects from IPA 2013 since June 2017.

Next steps:

- ✓ Tax Administration is fully committed to continue implementation of the Tax Administration Transformation Strategy, further improving its organizational structure, business processes and providing high-quality services to tax payers. In line with IMF recommendations, the revision of the Transformation Programme is underway, since some initially set deadlines were not realistic. The Transformation Programme will be reviewed and updated by the end of 2017.
- ✓ ERIAN system for control of empty vehicles will be analysed and solution for integration with other systems will be provided. There are two possible paths to implement this system: first-to enable integration of ERIAN with ISCS (Information System of Customs of Serbia) with entrance/exit records of vehicles. Second is to enable integration of ERIAN with SEED (Systematic Electronic exchange of data). Which solution will be chosen, depend of technical possibilities, and tests in test environment need to be performed, as well to implement the chosen solution.
- ✓ In December 2017 twining light project „Creating conditions for strengthening the capacities of Customs Administration Laboratory of the Republic of Serbia“ is expected be finalised.
- ✓ Comprehensive analysis of the corruption risks in customs, including, inter alia: legal framework, existing business processes, procedures, IT systems, etc, will be performed.
- ✓ Redesigning business processes and drafting procedures for the Internal Affairs Department of the Customs Administration.
- ✓ Organization of specialized trainings, such as advanced trainings for the methods of customs anti-corruption investigations of corruption, as well as joint trainings, that will include apart from customs officers employees of the Prosecution Office and Courts, in the field of application of criminal charges, methods of evidence collecting in pre-criminal proceedings, with an emphasis on the corruption in the customs.

Measure 8 – TO IMPROVE COMMITMENT CONTROL AND CASH MANAGEMENT

In order to improve commitment control and cash management until the end of first quarter of 2018 the Treasury Administration will improve adequacy of approved budget allotments through instituting procedures which will enable the Ministry of Finance to assess the reliability of reported cash needs by users of public funds. In addition, until the end of 2018 the Treasury Administration envisages to enhance control over multi-annual contractual commitments. Achievement of the above mentioned is envisaged by two results.

<i>Performance indicator</i>	<i>2017</i>	<i>2018</i>
Percentage of reduction in variance between expenditures on multiyear projects and approved budgets	TBC	TBD
Credibility of cash flow planning (SIGMA)	TBC	TBD

Financing of the measure

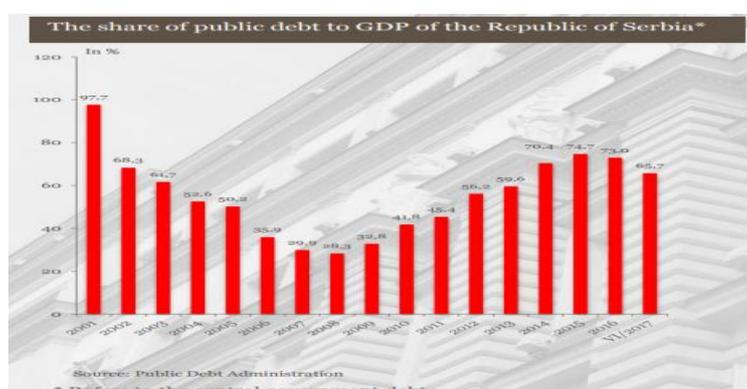
In the process of Programme revision envisaged by the end of 2017, costing of planned activities will be assessed and sources of financing identified.

Next steps

Implementation of activities is planned to be finalized in 2018 and will be addressed in future reports.

Measure 9 - TO IMPROVE CAPACITIES FOR PUBLIC DEBT MANAGEMENT

Trajectory of public debt of the Republic of Serbia is reversed: since 2016 public debt share in GDP has been reduced, contributing to overall stabilization of public finances. In the last two years, thanks to fiscal and structural measures taken by the Government, the debt growth was first slowed down in 2016, and for the first time since 2008 there was a drop of the public debt share in GDP. In the first half of 2017 the trend of reducing public debt share in GDP continued. As of June 30, 2017 the central government debt dropped by 7.3 percentage points to 65.7 of GDP.



Graf 2: The share of public debt to GDP of the Republic of Serbia from 2001-2017³¹

³¹ Data for the first half of 2017

Over the past two years of implementation of the PFM Reform Program, capacity of the Public Debt Administration (PDA) has been improved by strengthening of the human capacity, learning best practice experiences, and initial steps on introduction of new methodology and software has been completed.

Further strengthening of the PDA is of paramount importance for further improvement of efficiency and effectiveness of public debt management in the Republic of Serbia. Since the introduction of the Programme, great progress has been made in increasing the average maturity of RSD government securities and reduction of the cost of funding from this lending source, which reduced the exposure to the refinancing risk. Public Debt Management Strategy³² defines the key measures for further continuation of development of the market for government securities in dinars, since the development of this market will create one of the necessary preconditions for increasing the credit rating of the Republic of Serbia and decreasing the exposure of public debt to FX risk.

<i>Performance indicator</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Annual cost of servicing public debt (interest payments) as share of GDP	2,8	3,1	3,1	2,8
Average Time of Maturity on RSD Debt (years)	1,8	2,1	2,2	2,4

The PFM RP envisages improvements of legal framework, administrative capacities, and IT systems and that has largely been the focus of the activities carried out. Even though there is a short deviation from the timeframe planned in the PFM RP, implementation of all seven activities under this measure is underway. **Development of the tailor made methodology for carrying out long term public debt sustainability analyses is ongoing.** Development of this new methodology will further improve the PDA work, having in mind that the PDA is currently using standard MTDS and DSA models³³ for debt analyses.

With the support of the GIZ PFR Project, **training for standard IMF models for debt analyses has started at the second quarter 2017 and is currently ongoing.** Representative of Israel Debt Management Office presented its model, and the methodology of the debt sustainability analysis that Israel is using. Once the tailor made methodology is developed and the model is designed, the adequate IT platform for risk management will be developed and put into operation by the end of 2020.

Design of the public debt management software (PDM) is underway. The first two phases have been completed.³⁴ In the second quarter of 2017 the second phase was completed (Joint Design Phase), in which software requirement specification was created and Project organization workflow designed. The third phase, Software Development Phase I, started in July 2017. It is estimated that the PDM software will be in place in the first quarter of 2018. Introduction of the PDA software will help in overcoming the largest operational problem in the work of the PDA, and enhance its analytical capacities.

³² <http://www.javnidug.gov.rs/eng/default.asp?P=27>

³³ Medium Term Debt Management Strategy and Debt Sustainability Analyses

³⁴ The project is implemented with the support of Swedish International Development Agency (SIDA) and supervised by UNDP which carried out the first phase of the project, the tender were selected contractors, a domestic consortium for the company Asseco SEE Serbia.

Another important step towards further development of local government securities market is to introduce Primary dealer system. The PDA is working intensively to develop local market and create "benchmark" emissions of government dinar bonds as a precondition for the introduction of the primary dealers.

The IMF mission that took place in April and May 2017 carried out the analyses of the current situation regarding the introduction of the primary dealers system. The IMF recommendations (expected to be submitted to the Government) will help the PDA to develop the primary dealers system. The third mission which will focus on institutional framework for primary dealers system and Government debt auctions will take place in October 2017.

The Government of Serbia established the Working Group (WG) for ISDA negotiations in 2017. The members of the WG are representatives of the Ministry of Finance and the National Bank of Serbia, and they have been working with legal advisors on the final ISDA schedule which will be proposed to the global commercial banks. It is expected that the first ISDA schedule will be concluded in the last quarter of 2017.

In respect to planned privatizations and with positive fiscal results, the Ministry of Finance will reconsider current model for liquid assets investments.

Regulation on content, method of preparation and evaluation, and monitoring and reporting on implementation of capital projects was adopted in June 2017. The regulation also covers the monitoring of implementation of projects financed from loans. Adoption of this regulation is improving the monitoring system and strengthen coordination of activities within the Ministry Finance. Further actions will be undertaken during remainder of 2017 and 2018 in order to build proper capacities in the Ministry of Finance to implement the Regulation. Details on the adopted Regulation are explained in more details under Measure 4.

The envisaged strengthening of the PDA capacity is underway. Trainings for civil servants in the PDA are ongoing. A number of trainings have been provided to the PDA staff during the reporting period. In cooperation with the Swedish Debt Office, GIZ, World Bank-SECO, IMF, Joint Vienna Institute and Israel Debt Management Unit, training has been carried out in the following areas:

- operations with financial derivatives;
- debt management strategy;
- debt sustainability analyses;
- primary dealers system.

Financing of the measure

In total, 80.000,00 USD has been invested in strengthening of the PDA capacity. Additional 370.000,00 USD is required in order to successfully implement all activities envisaged under this measure by 2020. Most of the funds came from the Swedish International Development Agency (SIDA), implemented by UNDP. Funds required for further steps must be allocated from the national budget, EU support (including SBS and complementary assistance) and support from other bilateral donors.

Key challenges

The biggest implementation challenges under the measure are:

- ✓ Securing funds for implementation of all activities, since it is very difficult to allocate enough funds only from the national budget;
- ✓ Global risks related to exchange rate and financial market turmoil, even though those are outside of the direct control of the PDA, MoF or Government of Serbia, but may influence ability to reach the planned targets.

Next steps

By the first quarter of 2018, Software Development phase I should be completed. Activities will be undertaken in order to continue development of the methodology for carrying out long term public debt sustainability analyses in order to complete it by 2020.

Measure 10 – TO IMPROVE PUBLIC PROCUREMENT LEGISLATION AND PROCEDURES

Over the past two years, development of primary and secondary legislation has led to increased transparency and efficiency of the procurement procedures. Those activities were undertaken in order to complete the legal framework of the public procurement system in Serbia.

Three out of four activities within the measure are implemented successfully. Further institutional strengthening of the Public Procurement Office by increasing the number of staff is delayed and expected to be completed in 2018.

<i>Performance indicator</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Share of Contracting Authorities (CA) that published procurement plans on PPP per all CA announcing procurement on the Portal	N/A	N/A	90%
Average time to perform open procurement procedure (in days)	77	68	61
Share of terminated procurement procedures in total number of procurement procedures	13%	11%	10%
Average number of bids per procurement procedure	2,6	2,9	2,9

Latest changes in legal framework included harmonization of national legislation with relevant EU Directives. **As planned, partial harmonization took place in 2015 and full harmonization is expected to be completed by the end of 2017.**

Transparency on the procurement planning has been increased after legislation changes adopted in 2015, introducing obligation to contracting authorities to publish the procurement plans on the Public Procurement Portal (PPP). Total number of contracting authorities which publish procurement plans at the portal, reached the level of 90% in 2016, overcoming the target of 85% as initially planned in the Program.

The screenshot shows the 'public procurement portal' website. At the top, there is a navigation bar with links for 'search', 'lists', 'reports', 'community', and 'public contracts'. A 'download document' button is also visible. Below the navigation bar, there is a search area with a 'public procurement search' label and a 'Notice' about the new Law on Public Procurement. A login section is present with a 'Username: admin' field, a password field, and 'register now' and 'login' buttons. Below the login section, there are tabs for 'public procurements', 'prior notices', 'last 100', 'ppo opinion', 'plans', and 'jnp и концесије'. The 'plans' tab is selected, and the 'contracting authority data' form is displayed. The form includes fields for 'Contracting authorities' name', 'Identification number', 'TIN', 'Municipality', 'Location', 'Code', and 'year of plan'. A checkbox for 'Plan contains procedures with over 1 billion dinars?' is also present.

Illustration 4: Web Procurement Portal Page publishing the plans³⁵

Progress is made in increasing technical capacities of the Contracting Authorities to more efficiently execute procurement procedures, but further strengthening of PPO remains a challenge. In 2016 and 2017 four trainings have been carried out for more than 80 designated persons and decision makers³⁶. The number of certified procurement officers has been increased. From 2,300 persons initially planned to be certified, by mid 2017 3,473 persons obtained certificates, demonstrating increase of 51% above the target value. As result of training provided to the procurement officers, combined with other measures undertaken, **the number of terminated procedures decreased from 13% in 2014 to 10% in 2016.**

Until mid 2017 five trainings/specialization were conducted for representatives of police officers, prosecutors and judges in the area of public procurements. The scope of the training was to build capacities for more efficient investigations, and sanctioning of irregularities in the public procurement procedures by the judiciary.

Implementation of the process of institutional enhancement of the Public Procurement Office is underway. The Ministry of Finance approved increase of the number of employees in the PPO from 28 to 36. Final approval of changes of the administrative structure of the PPO and filling the new positions is expected to take place in 2018.

The progress made so far on improving overall procurement system contributed to opening of negotiations in the Chapter 5 - Public Procurement - in December 2016.

The Public Procurement Development Strategy 2014-2018³⁷ serves as a proper strategic framework for the longer-term development of the procurement system.

³⁵ <http://portal.ujn.gov.rs/Pretraga.aspx?tab=1>

³⁶ Main topics of trainings delivered to designated persons and decision makers included as centralized public procurement and implementation of the framework agreements, green procurements, forms and methods of negotiation in negotiating procedure, technical evaluation of the bids, use of criteria of most economically advantageous tender, protection of rights in procurement procedures as well as issues related to the use public procurement portal

³⁷ Public Procurement Development Strategy in the Republic of Serbia 2014-2018 and Action Plan for Implementation of the Public Procurement Development Strategy for 2014-2015, Government

Financing of the measure

In total, RSD 40,7 million or EUR 331,000 has been planned to be invested in implementation of activities under the Measure 10.

Key challenges

The biggest implementation challenges under the measure are:

- ✓ Strengthening the capacities of Public Procurement Office;
- ✓ Further prevention of corruption in public procurement procedures;
- ✓ Improvement of legislation (full harmonization with EU Directives) in order to increase competitiveness, efficiency and transparency in public procurement procedures.

Next steps

New Public Procurement Law should be adopted by the end of 2017. The training for designated persons, decision makers, police, prosecutors and judges will continue throughout 2018. Once the new organisation structure is approved the PPO will proceed with recruitment procedure in order to hire sufficient number of staff.

Decision 05 No. 404-9896/2014-5, adopted on 30 October 2014. The most recent action plan is the Action Plan for Implementation of the Public Procurement Development Strategy for 2017, Government Decision 05 No. 404-12569/2016.

PILLAR IV - EFFECTIVE FINANCIAL CONTROL

Effective financial control represents a key reform step towards establishment of budget discipline and increasing of managing responsibility in public funds management. The progress of this reform pillar directly depends on the public funds beneficiaries, who have a legal obligation to apply standards of internal financial control and to provide capacities for the internal audit function.

Within this pillar, Central Harmonization Unit (CHU) has a leading role in promoting, advising and improving requests in the area of internal control, as well as the practice of internal audit, that is, providing assistance to relevant institutions within this pillar, in order to mutually build capacity within their jurisdiction.

The Program monitors the progress within the area of Public Internal Financial Control (PIFC) as its integral part, but the reform of this area must not be observed as an isolated technical reform. It is rather seen as a part of wider area of public administration reform, changes in the budget system, as well as consolidation with, so far, parallel system for management and control, within the indirect management of IPA Funds.

The EC report on progress of Serbia, in a part of the Chapter 32 - Financial Control, states that significant efforts must be made for the purpose of implementation of management responsibility and internal control at all levels of administration and in public enterprises.

In line with the activities aimed at streamlining the proper control of all public funds, special attention is focused on management and control of EU Pre-Accession Assistance fund and establishment of the legal and administrative base for efficient control.

Measure 11 – TO IMPROVE STRATEGIC AND LEGISLATIVE FRAMEWORK FOR IMPLEMENTING OF PUBLIC INTERNAL FINANCIAL CONTROL

In order to facilitate effective, efficient and economic operations, Serbian Government adopted the Strategy of Public Internal Financial Control Development for the period of 2017-2020 (hereinafter, PIFC Strategy) in May 2017, which aims to embed FMC and IA in the overall management system within Serbian public administration. This will be achieved by aligning them with the policy objectives at the institutional level, which will enable effective risk assessment against defined objectives and putting in place the appropriate controls to manage risks. Delay in adoption of the PIFC Strategy occurred due to the longer than expected consultation process with internal and external stakeholders. **Following the adoption of the PIFC Strategy, the Working Group for Monitoring of Implementation of PIFC Strategy AP has been established in June 2017³⁸.**

During the reporting period, overall completeness of the legislative framework was scored 3/5 according the SIGMA PFM progress assessments, which indicate **clear intention of further improvements on the PIFC strategic and regulatory**

³⁸ In line with the measure 18 of the PIFC Strategy AP.

framework by the Ministry of Finance and especially responsible Unit for implementation, the Central Harmonization Unit (CHU).

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>First half 2017</i>
Completeness of the regulatory framework for Internal control SIGMA ³⁹	N/A ⁴⁰	N/A ⁴¹	3/5
Number of internal control reports (PFBs annual reports on FMC and IA submitted to the CHU)	1.000	1097	N/A ⁴²

Legislative framework improvements in the area of FMC envisaged for Q4 2016 in the PFM RP have not been adopted yet, but numerous preparatory activities have been implemented such as: the Risk Management Guidelines⁴³ were prepared and published and it will be base for the improvement of the FMC Manual; consultations were conducted with the experts of the PLAC project to introduce the concept of irregularities management, which will contribute to the improvement of the legal framework; CHU performed an overview of IA work quality in ten ministries⁴⁴ for 2016 which represent preparatory work for amending the legislation in order to implement quality control of the IA in line with IIA Standards.

The review of IA work quality includes verification of the fulfilment of the prescribed requirements for the establishment of internal audit units, scope of audit, competencies and skills of internal auditors, functional and organizational independence of internal audit, internal audit charter and code of ethics, knowledge of internal audit standards, strategic and annual plans of internal audits, implementation of methodology for internal audits, risk management within internal audits, internal quality control, training needs and memberships in professional associations in the future. This overview is based on individual reviews carried out by employees of the Department of Internal Control and Internal Audit of the Ministry of Finance (Central Harmonization Unit).

The review of IA work quality submitted to the Minister of Finance on December 30, 2016 and published on the website of the Central Harmonization Unit of the Ministry of Finance.⁴⁵

The lack of administrative capacities within the CHU, as responsible Unit for implementation of the PIFC objectives, has been recognized and increase in staff has been proposed in the draft Job systematization act of the MoF, which is expected to be adopted till the end of 2017.

Existing CHU capacities has been constantly improved, through participation at all relevant trainings, as well as through participation at all regional and international

³⁹ Draft SIGMA Report The Principles of Public Administration Serbia.

⁴⁰ This is a new SIGMA indicator that is not available for 2015

⁴¹ This is a new SIGMA indicator that is not available for 2016

⁴² The data cannot be presented at the semi-annual level, since it is based on the PFBs annual reports on the PIFC system

⁴³ http://ifkj.mfin.gov.rs/user_data/posts/SZUR.pdf

⁴⁴ Ministry of Finance, Ministry of Construction, Transport and Infrastructure, Ministry of Trade, Ministry of Agriculture and Environmental Protection, Ministry of Mining and Energy, Ministry of Culture and Information, Ministry of Health, Ministry of Justice, Ministry of Education, Science and Technological Development, Ministry of Labor, Social Affairs, Ministry of Economy

⁴⁵ Indicator 8 for 2016 *The CHU publishes a report on the results of its programme of quality reviews on internal audit that covers at least 10 ministries*, for the purposes of monitoring the Sector Reform Contract from IPA2015 for PAR SBS is fully realized. Link to the document:

http://ifkj.mfin.gov.rs/user_data/posts/Overview%20of%20the%20work%20quality%20of%20the%20internal%20audit%20%202016.pdf

conferences (PIC annual conference, RESPA conferences, WB Pem-Pal conferences, CEF education and trainings, etc).

Special software for the purpose of collecting the annual reports of public funds beneficiaries, adjusted to the operational needs for analysis and preparation of the Consolidated Annual Reports, **was developed and tested**. The improved software will provide to the public funds beneficiaries easier and faster on-line access through electronic submission of annual reports to the CHU in electronic format, and thus improve quality of submitted data.

With the improved software the CHU will develop its reporting and analytical potentials. The software for the CHU is expected to be operational Q1 2018. In addition, the analytical approach, content and form of the Consolidated Annual Report have been improved in cooperation with SIGMA experts. CHU is continuing improving the reporting system, in line with SIGMA support.

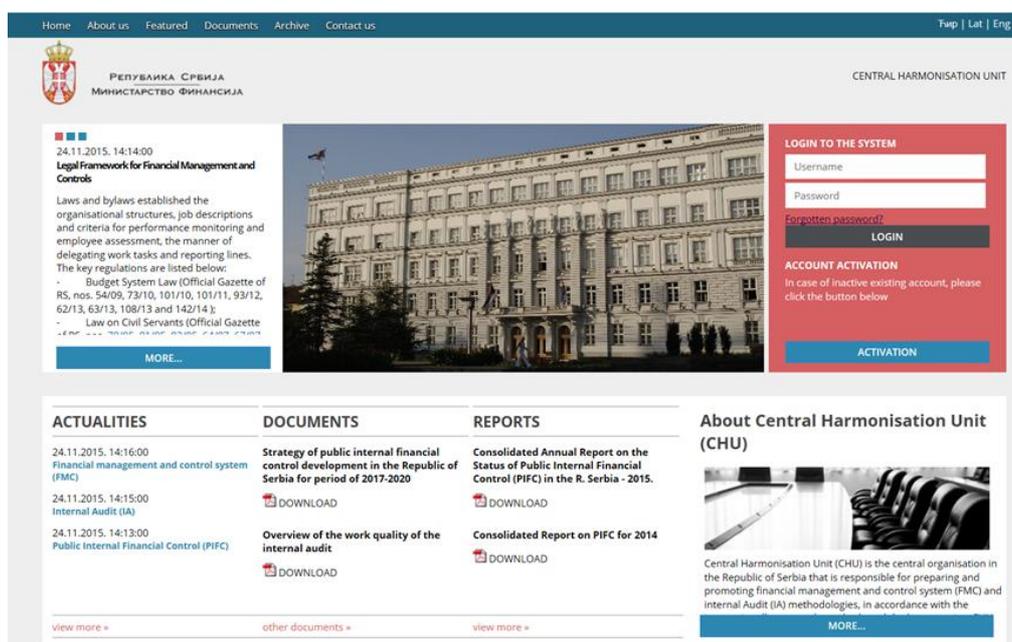


Illustration 5: CHU web-site (<http://ifkj.mfin.gov.rs/Pocetna.aspx>)

In respect to the planned activity of outsourcing of trainings and professional development programs for officials and civil servants on FMC and IA, CHU is still considering different possible options. Communication with potential international organizations and experts in order to upgrade existing training programs content is ongoing. Gap assessment will be carried out with support of the Twinning partner with aim of improving the system of certification and professional development of internal auditors, through an outreach approach to include professional organizations and the academic community in training preparation and delivery.

PIFC Strategy was printed in bilingual format in 500 copies for distribution at conferences and other events, in order to promote the new strategic framework of the PIFC concept.



Strategy of Public Internal Financial Control Development for the period of 2017-2020

Financing of the measure

Most of the activities in relation to the measure 11 were supported, apart from regular budget resources, by UNDP project "Improving Public Finance Management" financed by SDC. In 2016 and first half of 2017 approximately 70.000 USD were invested in software and CHU web-site upgrade, CHU staff trainings, and PIFC workshops for awareness raising.

Key challenges

The biggest implementation challenges under the measure are:

- ✓ Lack of political support for PIFC implementation which resulted in lower involvement and understanding of institutional PIFC implementation importance. The CHU performed numerous activities in order to raise awareness through improved web-site activities, distribution of promotional material, tailor-made trainings on FMC for central level budget users, organization and participation in numerous conferences.
- ✓ Overall strengthens of the CHU as a driver of change has to be recognized by the Government, as in a previous period there was a lack of institutional support and understanding. To overcome this, the CHU has actively organised various events for the specific target audiences to increase awareness (specific workshops and trainings for managers and FMC coordinators on risk management and management accountability, IPA training for internal auditors, trainings for local self-government units etc.). In addition, number of publications had also been prepared and distributed (FMC and IA booklets, Risk Management Guidelines, FMC basic-training books and pp presentations etc). This is seen as an long-term issue that will require attention and work also during the rest of the planning period.

Next steps

Further activities that need to be undertaken in order to carry out Measure 11 are closely connected with implementation of the PIFC Strategy 2017-2020, through the following Measures/Activities defined in the accompanying Action Plan:

- ✓ Establishment of a Working Group within the Ministry of Finance to deal with the challenges of financial management and control and internal audit;
- ✓ Upgrading and updating the current methodological manuals and guidelines in line with international best practices and ensuring the appropriate visibility via the CHU website;
- ✓ Conducting a gap assessment with aim of improving the system of certification and professional development of internal auditors, through an outreach approach to include professional organizations and the academic community in training preparation and delivery by twining in Q1 2018;
- ✓ Continuous improvement of the professional knowledge of CHU employees through exposure to international best practices in the field of FMC and IA, participation at minimum two relevant trainings per year;
- ✓ Implementation of e-learning platform that will serve for a better exchange of knowledge related to FMC and IA in Q4 2017;
- ✓ Improve the content and quality of CHU consolidated annual reports on internal control submitted to the Government in Q2 2018;
- ✓ Establish a Working Group led by the CHU with the Ministry of Public Administration and Local Self-Government, the Ministry of Economy, Ministry of Justice and the Public Procurement Office, to deal with the coordination of FMC and IA regarding reforms in the public sector in Serbia through cross-sector strategies in Q4 2017, as a sub-group of the PAR Council;
- ✓ Amend FMC Rules and the Manual, to align the managerial accountability term with the principles of good governance and introduce irregularities management function in the FMC framework in Q2 2018;
- ✓ CHU should update the existing guidelines for the implementation of risk management at PFBs in Q2 2018;
- ✓ Introduce annual statement on internal control by the head of PFB in Q4 2018;
- ✓ Define continuous professional development of internal auditors by a regulation in Q4 2017;
- ✓ Regulate external quality assessment of PFB internal audit by a regulation in Q3 2018.

Measure 12 – TO ENHANCE THE IMPLEMENTATION OF FINANCIAL MANAGEMENT AND CONTROL

Over the years, Serbian Government has been ensuring systematic approach in implementing Financial Management and Control system (FMC) that contributes to better understanding of Public Internal Financial Control (PIFC) system itself. This approach will upgrade the management accountability, and transfer focus from the legality and regularity of financial transactions to their efficiency and effectiveness.

Average Grade of FMC System Elements per PFB Categories for 2015 and 2016											
Parameter rs	Control environment (maximum 60 points)		Risk management (maximum 55 points)		Control activities (maximum 50 points)		Information and Communication (maximum 35 points)		Monitoring, supervision and estimate (maximum 35 points)		AVERAGE
	Points	%	Points	%	Points	%	Points	%	Points	%	
PFB											
Average in RS for 2015	43.3	72.2	38.1	69.3	33.1	66.3	26.0	74.3	17.2	49.2	67.1
Average in RS for 2016	44.0	73.3	41.2	74.9	33.4	66.7	26.8	76.5	16.9	48.4	69.1

Table 1: Comparative overview of average estimates of i FMC system elements per PFB for 2015 and 2016

<i>Performance indicator⁴⁶</i>	<i>2015</i>	<i>2016</i>	<i>2017-fh</i>
Average Grade of FMC System Elements in RS – COSO model	67,1%	69,1%	N/A ⁴⁷

Above stated is in line with the aims of new PIFC Strategy 2017-2020⁴⁸, which comprise the **principles of the COSO framework**, especially regarding to raising awareness on financial management and control as an integral part of the management process with an emphasis on managerial accountability, risk management and quality assessment.

The progress made in the field of financial management and control implementation during the reporting period is best reflected through the assessment of the key FMC elements based on the COSO model.

Within the scope of measure 12, there are two defined results without clear deadlines, that applies to continuous support of the Central Harmonisation Unit (hereinafter CHU) providing to the managers of public funds beneficiaries (hereinafter PFB), FMC Coordinators and Units coordinating Internal Control issues, in order to reach better understanding of management and control system, thought workshops.

In order to achieve the defined results, and to make progress in the field of FMC implementation, the CHU has implemented the following activities during the reporting period:

⁴⁶The data source is the CHJ database created on individual annual PFBs reports on the PIFC system; In accordance with the Budget System Law, the head of the organization is obliged to report to the Minister of Finance on the PIFC system, by March 31 current year for the previous year, and the CHU is in charge of consolidation of individual annual reports

⁴⁷The data cannot be presented at the semi-annual level, since it is based on the PFBs annual reports on the PIFC system

⁴⁸ http://ifkj.mfin.gov.rs/user_data/posts/Strategy%20of%20public%20internal%20financial%20control%20development%20in%20the%20Republic%20of%20Serbia%20for%20period%20of%202017-2020.pdf

- ✓ In May 2017, the Working Group for the Improvement of Financial Control was formed by the decision of the Minister of Finance. The working group aims to exchange information between the organizational units of the Ministry of Finance in charge of execution and control of the budget, and the State Audit Institution, as well as strengthening the system for control of public funds and providing assistance to the Negotiating Group for Chapter 32 - Financial Control. The working group is headed by the State Secretary of the Ministry of Finance, Jelena Stojović, and consists of the representatives of the Sector for Control of Public Funds, the Sector for Internal Control and Internal Audit, the Budget Sector, the Sector for International Cooperation and European Integration of the Ministry of Finance, as well as representatives of the State Audit Institution. The first meeting of the Working Group for the Improvement of Financial Control was held on June 5, 2017, and the next meeting is scheduled for the end of September 2017.
- ✓ Five-days FMC basic trainings were conducted during the seven cycles for a 379 participants, with improved training materials (main topics: introduction to internal financial control in the public sector; integrated internal control framework - COSO model; risk management system; managerial control system); three out of seven trainings were held at local government units (cities: Kragujevac, Niš and Subotica);
- ✓ Support to the PBFs managers of all levels and FMC coordinators was provided through six workshops and trainings attended by over 200 participants (main topics: basic principles of FMC system, management responsibility, documenting business processes, drafting procedures, risk and risk management strategies, risk management guidelines, internal audit role in setting up a risk management process, EU Assistance Management System (IPA) - training for internal auditors);
- ✓ During the workshops and meeting the FMC coordinators were given special practical assistance in the drafting of the charts of business processes and in adapted road maps for further implementation of financial management and control in their institutions;
- ✓ Risk Management Guidelines have been published on CHU web-site⁴⁹, printed and delivered to more than 400 managers, coordinators and other persons in charge of FMS in their organizations;
- ✓ Promotional material on the basics of the FMC system was developed to spread awareness; 500 booklets were printed and delivered to PBFs;
- ✓ FMC training materials have been updated: FMC basic-training books were redesigned, printed and delivered to 379 participants at FMC trainings; in order to raise awareness at highest managerial level in Government, Minister of finance have sent redesigned FMC basic-training books to all other ministers; the pp FMC training presentations have been redesigned in a way that has become more user-friendly and more focused on practical application.

⁴⁹ http://ifkj.mfin.gov.rs/user_data/posts/SZUR.pdf



Financial Management Control (FMC) basic-training books

All listed activities undertaken by CHU contributed to the raise awareness of importance of FMC implementation, so that 82 new PFB users submitted the annual FMC report for 2016 to the CHU, which is an increase of 12% compared to the previous 2015⁵⁰.

Financing of the measure

Most of the activities in relation to the measure 12 were supported, apart from regular budget resources, by UNDP project "Improving Public Finance Management" financed by SDC. In 2016 and first half of 2017 approximately 40.000 USD were invested in FMC training materials redesign and distribution of FMC promotional materials, basic FMC training for local self-governments.

Key challenges

The biggest implementation challenges under the measure are:

- ✓ Frequent institutional changes and fluctuation of PFBs managers and FMC Coordinators reduced potential improvement in FMC area. In order to minimize this negative challenge, CHU has constantly included new PBFs participants through its regular FMC trainings, as well as through its specialized FMC workshops and meetings;
- ✓ The lack of CHU capacities was partly overcome by appointing the Minister's Assistant, as well as by the continuous improvement of the knowledge of the CHU staff in the field of internal control by participation in domestic and international conferences (PIC annual conference, RESPA conferences, WB Pem-Pal conferences, CEF education and trainings, etc.). Once the new organisation structure is approved by the competent authorities the CHU will proceed with recruitment procedure for hiring the new staff.

Next steps

Further activities that need to be undertaken in order to carry out Measure 12 are implemented in PIFC Strategy, 2017-2020, through the following Measures/Activities defined in the accompanying Action Plan:

- ✓ Upgrading and updating the current methodological manuals and guidelines in line with international best practices and ensuring the appropriate visibility via the CHU website, continuously, starting from Q2 2017;
- ✓ Improving the professional knowledge of CHU employees through exposure to

⁵⁰ The data source is the CHJ database created on individual annual PFBs reports on the PIFC system

- international best practices in the field of FMC and IA, continuously;
- ✓ Implementation of e-learning platform that will serve for a better exchange of knowledge related to FMC and IA, Q4 2017;
- ✓ Improving the content and form of CHU questionnaires in order to enhance the quality of analytical data submitted by PFBs, Q1 2018;
- ✓ Develop guidelines on the managerial accountability of managers explaining the role of individual participants in the financial management and control, Q4 2017;
- ✓ Develop a model for FMC practical application, which will be available to PFBs for download via e-learning platform on CHU website Q4 2018;
- ✓ Organize workshops for senior managers on the role of financial management and control, continuously starting from Q3 2017;
- ✓ Amend FMC Rules and the Manual, to align the managerial accountability term with the principles of good governance and introduce irregularities management function in the FMC framework, Q4 2017;
- ✓ Update and redesign all FMC training materials in line with amended FMC and IA regulations, Q1 2018;
- ✓ Update the existing guidelines for the implementation of risk management at PFBs, Q2 2018;
- ✓ Through e-learning platform CHU should provide for the downloading of the risk management model, to facilitate practical implementation by the PFBs, Q3 2018.

In addition, CHU will continue with activities related to the holding of basic FMC trainings, as well as providing practical support and advisory services to the PFBs managers and FMC coordinators during the meetings and specialized workshops.

Measure 13 – TO SUPPORT THE INTRODUCTION AND FURTHER DEVELOPMENT OF THE INTERNAL AUDIT FUNCTION

The Budget System Law prescribes that the functionally independent and decentralized internal audit is the obligation of all public funds beneficiary institutions. The Law defines the internal audit as the activity that provides independent objective assurance and advice to the management, the purpose being to contribute to the improvement of the business operation of the organization; it helps the organization to achieve its goals, by its systematic and disciplined assessment and evaluation of risk management, controls and management of the organization.

At the central level, until the end of 2016, in 80 public funds beneficiary institutions, the internal audit was established with 281 systematized internal auditor positions, out of which 230 were filled up. **The audit was established in all 16 ministries and three mandatory social insurance funds.** At the level of the units of territorial autonomy and local self-governments, the internal audit function was established in 77, with 182 systematized and 141 filled up internal auditor positions⁵¹.

⁵¹ As for the total number of IA and IA units, due to the decentralized internal audit system, as well as the overall regulatory framework, CHU does not have precise data.

According to IA Rulebook, internal audit shall be set up by PFBs in one of the following manners: 1) by organizing a separate functionally independent organizational unit for internal audit; 2) by organizing a joint unit for internal audit at the proposal of two or more PFBs; 3) by having the internal audit unit of another PBF perform the internal audit, based on an agreement.

Public funds beneficiary institutions that utilize the European Union pre-accession funds (IPA) do not have the required number of auditors (minimum 3), but it is a part of a wider problem of availability of audit resources, which points to the fact that audit does not belong to the priorities of the managerial structures of public funds beneficiary institutions. As regards ministries that are pillars of IPA implementation, the fulfilment of IA units are as follows: in 8 ministries 1 auditor is employed, in 2 ministries 2 auditors are employed and in the remaining 6 ministries there are 3 and more auditors.

<i>Performance indicator</i> ⁵²	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
The number of internal audit recommendations for business improvement	4.916	5.901	6.167	N/A ⁵³

In order to increase genuine understanding of the role and purpose of Internal Audit in the reporting period the **CHU organized practical trainings of performing internal audit in 52 PFBs for 88 candidates for obtaining the title of a certified public auditor in the public sector.** Theoretical part of seven-days training for internal audit included 132 employees of PFBs. In three examination periods, the exam was passed by 70 candidates, thus gaining the title of a certified public auditor in the public sector. **By the middle of 2017, a total of 348 internal auditors were certified in the public sector.** During the reporting period, the number of internal auditors at the local level increased for 17, and in the Audit Authority Office of EU Funds for 4.

Within the framework of cooperation with the project "Improving Public Finance Management" of UNDP, funded by the SDC, training was conducted for managers of local self-government units in the field of financial management and control, internal audit and program budget and two-day workshop for the heads of internal audit units on the topic "Guidelines for risk management" for the 30 participants. With the support of experts of the Policy and Legal Advice Centre project (PLAC) one-day workshop "The role of internal audit in establishing a risk management process" was organized for 33 participants.

In order to encompass audits of EU funded projects the CHU organized in cooperation with the Department for management of EU Funds of the Ministry of Finance and the State Audit Institution a three-day workshop "IPA Pre-Accession Assistance System (IPA)" for 30 participants.

A separate functionally independent organizational unit for internal audit shall be set up within the PFBs in the following situation: 1) by the direct budget beneficiaries at the central level that have indirect budget beneficiaries within their competence; 2) by ministries; 3) in the autonomous provinces, the City of Belgrade and cities; 4) within the PFBs having more than 250 employees. The internal audit unit may not have less than three internal auditors. Thereby, the number of internal auditors shall be determined by the PBF by an internal general act, based on the assessment of risks, scope and complexity of business processes, the amount of available funds and the number of its employees.

However, the IA Rulebook have defined certain exceptions, in the following situations: 1) if there are no conditions for organizing the internal audit unit, the activities of the internal audit unit may be carried out by an internal auditor employed with PBF; 2) in indirect budget beneficiaries that did not set up internal audit in one of three prescribed manners, internal audit activities shall be performed by the internal audit unit of the competent direct budget beneficiary.

In addition to the above exceptions, there are some general institutional changes affecting the total number of PFBs, thus the number of internal auditors and the number of internal audit units, such as: changes of the laws on ministries and other special organizations, changes in PFBs jurisdictions, changes in the number of employees within organizations based on internal systematization updates, etc.

⁵² The data source is the CHU database created on individual annual PFBs reports on the PIFC system. In accordance with the Budget System Law, the Head of the CHU is obliged to report to the Minister of Finance on the PIFC system, by March 31 current year for the previous year, and the CHU is in charge of publishing Consolidated Annual Reports on the Status of Public Internal Financial Control (PIFC) in the Republic of Serbia;

⁵³ The data cannot be presented at the semi-annual level, since it is based on the PFBs annual reports on the PIFC system.



Workshop IPA Pre-Accession Assistance System (IPA)

Financing of the measure

Most activities in relation to measure 13 were supported, apart from regular budget resources, by UNDP project "Improving Public Finance Management" financed by SDC. In 2016 and first half of 2017 approximately 20.000 USD were invested in two IA conferences and IPA audit training. In addition, support was obtained by the PLAC project.

Key challenges

- ✓ Due to the weakness of the internal audit capacity of IPA users, the CHU has undertaken numerous activities in the form of conferences, meetings and trainings, together with the Government Audit Office of EU Funds, the EU Funds Management Department and the Department for Contracting and Financing of EU Funded Projects of the Ministry of Finance, with the aim of improvement of internal auditors skills and knowledge.

Next steps

Further activities that need to be undertaken in order to carry out Measure 13 are recognized in the PIFC Strategy 2017-2020, through the following Measures/Activities defined in the accompanying Action Plan:

- ✓ The organization of joint seminars with the Department for Contracting and Financing of EU Funded Projects and the Department for EU Funds Management, in order to exchange experiences in the field of development of financial management and control and internal audit in the use of EU pre-accession funds (IPA), at least once a year;
- ✓ The organization of meetings to exchange experiences of internal auditors from the IPA beneficiary institutions, the Government Audit Office of EU Funds and CHU, once a year;
- ✓ Conducting a gap assessment with aim of improving the system of certification and professional development of internal auditors, through an outreach approach to include professional organizations and the academic community in training preparation and delivery, Q1 2018;
- ✓ Developing guidelines for the establishment of IA function in small PFBs, regarding establishment of joint IA units, Q4 2018.

Measure 14 – TO FURTHER STRENGTH THE LEGISLATIVE FRAMEWORK, INSTITUTIONAL AND OPERATIONAL CAPACITIES OF AUDIT AUTHORITY OFFICE OF EU FUNDS

The measure 14 refers to the adoption of relevant legal framework, carrying out of a functional analysis for the purpose of improvement of organizational capacities of the Governmental Audit Office of EU Funds (GAO), as well as additional development of capacities of the GAO until the end of Q3 of 2017.⁵⁴

<i>Performance indicator</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>First half 2017</i>
Number of high and medium risk findings in the Audit Authority by the EC auditors	4	4	5	N/A ⁵⁵

During the reporting period, all three planned activities were accomplished in line with the PFM RP timeframe, apart from the adoption of the legal act for (re)institutionalization of the Governmental Audit Office of EU Funds.

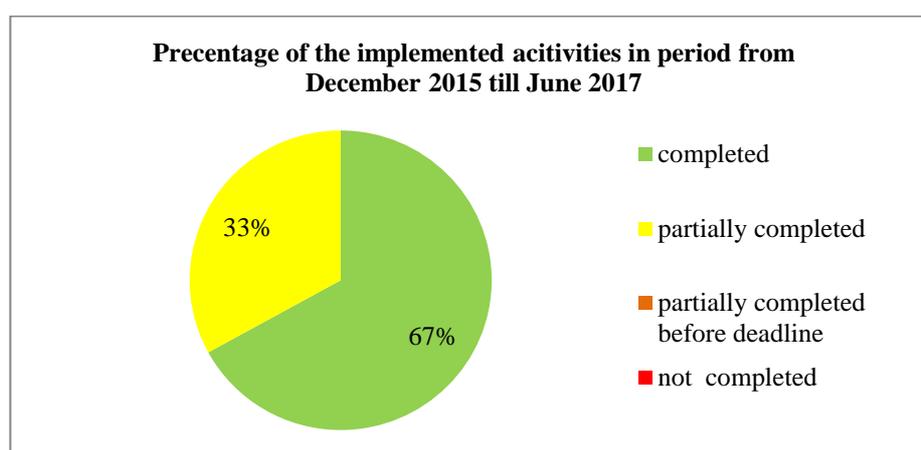


Chart 1—overview of implemented activities within the measure 14 in period from December 2015 – Jun 2017

Draft legal framework for (re)institutionalization of the Governmental Audit Office of EU Funds was prepared in January 2016, but adoption was postponed due to the fact that the Technical Government was in office. With establishment of the new Government, in June 2017, change of the authorised institution proponent of prepared draft legal framework - a new Law and amendments of the existing bylaw acts⁵⁶, under which the Governmental Audit Office of EU Funds was established, has been introduced. The competence shifted from the Ministry of Public Administration and Local Self-Government to the newly established Ministry for European Integration, and the legal framework is expected to be adopted till the end of 2017, in order to be in force from 1 January, 2018.

At the beginning of 2016, a Functional analysis for the purpose of improvement of capacities, and with the aim of increasing the functionality of the Governmental

⁵⁴ Office was established in 2011. Link Framework Agreement IPA II <http://www.evropa.gov.rs/Documents/Home/DACU/12/104/105/106/246/FWA%20Serbia.pdf>

⁵⁵ Figures are not available for the semiannual period

⁵⁶ two Decree: Decree on establishment of the AA and Decree on Appointing the AA.

Audit Office of EU Funds, was conducted by national authorities within the IPA structure⁵⁷, in accordance with the Framework Agreement for IPA II, as well as in line with the Workload analysis, and finalised before the deadline set in the PFM RP (1Q 2017). Recommendations of the above mentioned Functional analyses served as a bases for preparation of the legal acts for (re)institutionalization of the GAO, and the Workload analysis provided bases for planning increase in staff in accordance with the IPA II regulation requirements.

The project on technical assistance „Capacity Building Support of the Audit Authority Office of EU Funds“ financed by the EU Delegation in Serbia, contributed considerably to the further improvement of audit procedures, and technical specification for development of audit software, as well as capacity building since it provided 10 workshops (the Project started in 2014 with 5 auditors, and finalized in July 2016 with 17 auditors⁵⁸).

Organizational, technical and administrative capacities of the GAO were also improved in line with the requirements of the European Commission, thus increasing the functionality for implementation of audit activities. In 2016 the GAO filled up around 85% of staff vacancies. In line with recommendations of the latest version of the Workload analysis the GAO employed adequate number of competent employees. Today, the GAO has 27 civil servants out of which, 25 are employed on permanent basis, and two additional employees are engaged by contract. There are seven certified internal auditors and three are in process of certification. Full capacity of the Office is target value realized.



*The European Commission’s Progress Report for Serbia for 2016 supports the progress “achieved within the strengthening institutional and operational capacities of the Audit Authority Office of EU Funds, especially through appointment of the Director who possesses adequate competence, knowledge and experience in the field of audit”.*⁵⁹

⁵⁷ In January 2016 NAO, GAO and NIPAC conducted the functional analysis of the GAO.

⁵⁸ Total number of auditors of the GAO benefited from the Project.

⁵⁹ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_serbia.pdf

Financing the measure

For implementation of the measure 14 from national budget the GAO planned and executed 59.000 EUR for new employees. For further strengthening administrative capacities, the GAO has prepared project proposal amounting to 300.000 EUR, and various donors help are under consideration.

Key challenges in implementation:

The biggest challenges are associated with the following:

- ✓ Lack of adequate retention policy, since there is need to prevent staff outflow through systemic reforms in human resource management. Currently, there is no turnover in staff of the GAO, and the topic is discussed for the IPA structure in general;
- ✓ Delay in adoption of the proposed legal framework for (re)institutionalization of the GAO. The competence shifted to the newly established Ministry for European Integration, and the legal framework is expected to be adopted till the end of 2017.

Next steps

- ✓ To further strengthen administrative capacities of the GAO in order to provide relevant recommendation to the IPA structure for improvement of decentralised/indirect management of EU pre-accession funds, and for implementation of programmes and projects financed by IPA funds;
- ✓ Adoption and application of legal framework for (re)institutionalization until the end of 2017 in line EC recommendations, which is expected to be in force from 1 January 2018, and to provide a basis for further strengthening of administrative capacities of the GAO.

Measure 15 – TO IMPROVE IRREGULARITY MANAGEMENT, ANTIFRAUD COORDINATION AND COOPERATION AND PROTECTION OF FINANCIAL INTERESTS OF THE EUROPEAN UNION

Irregularity management and anti-fraud co-ordination in relation to the EU funds is relevant and important for the interests of both the Republic of Serbia and the EC.

In line with this, the Budget Inspection (hereinafter BI) and the Group for Combatting the Irregularities and Fraud in Dealing with EU Funds (hereinafter AFCOS) are responsible for the implementation of this measure. With adoption of the Rulebook on internal organization and systematization of job positions of the Ministry of Finance (hereinafter MoF) in January, 21, 2016, Department for control of public funds was established under the direct responsibility of the Minister of Finance, consisted of: BI, AFCOS and Group for Public Procurement System.

Budget System Law (hereinafter BSL) was amended giving the wider scope of responsibilities and required legal base for both, BI and AFCOS in December

2016⁶⁰. According to those amendments and changes of the BSL, the work of BI (Article 90) is now based on Working Program exclusively on received complaints, objection and requests of state authorities, organizations, legal entities and individuals, while in the previous period work of BI was implemented on the basis of Work Plan where there was not clear difference made between the work and function of the BI and the Internal Audit. Before mentioned amendment, AFCOS`s role was only coordinative. Now, besides the coordinative role, AFCOS has the jurisdiction for the implementation of administrative checks, which is defined under the Article 68b.

Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020 (hereinafter: Anti-Fraud Strategy.) was prepared and is now in the formal procedure of adoption. (The Strategy and accompanied Action Plan was adopted by the Serbian Government in October, 26 2017, and published at Official Gazette No 98 from November, 3th, 2017). Anti-Fraud Strategy is the first policy document in the Republic of Serbia that addresses the protection of the EU financial interests in a comprehensive way by specifying the areas of implementation, connecting a wide scope of public authorities and institutions that contribute to efficient management of identified irregularities and the prosecution of criminal offenders by cooperating and sharing relevant information.

Trainings, workshops, study visits for existing staff were organized which contributed BI and AFCOS to be more functional. Trainings are organized in cooperation and support by: OLAF, DIS III, GIZ, UNDP, USAID, CEPOL, PARAGRAF, OSCE, IMF and Human Resource Management Service of the Government of the Republic of Serbia and TAIEX.

During the reporting period employees of AFCOS participated in the following trainings: AFCOS Seminar 2016, Workshop ARACHNE-IT tool, Presentation of risk management guidelines, the IMS training Seminar on the typology of fraud and other irregularities in IPARD projects, Ethics and integrity of employees in the public sector, AFCOS Seminar 2017, the beginning of the implementation of the new Law on the general administrative procedure, CEPOL Exchange Programme.

During the reporting period employees of BI participated in the following trainings: Budget Accounting and Financial Planning, Efficient inspections, , Public Procurement Workshop, Criteria of the most economically advantageous offer in practice with examples, IMF FAD Technical Assistance Mission to Serbia Expenditure Review Workshop, Ethics and integrity of employees in the public sector, Lobbying in the EU-diplomatic practice, Workshop-Preparation of the Report on the implementation and improvement of the Public Finance Management Reform Program.

<i>Performance indicator</i>	<i>2014</i>		<i>2015</i>		<i>2016</i>		<i>First half 2017</i>	
	<i>BI</i>	<i>AFCOS</i>	<i>BI</i>	<i>AFCOS</i>	<i>BI</i>	<i>AFCOS</i>	<i>BI</i>	<i>AFCOS</i>
No of the performed control	21	-	19	1	21	3	6	-

⁶⁰ Official Gazette RoS, No 99/16

Increasing the number of employees will contribute to a more efficient and effective conduction of work of the Department for control of public funds, in terms of increasing the number of controls performed in relation to the number of applications received, applications and requests for control, which will affect better protection of both EU financial interests and better protection of national interests.

From January 2017, BI and AFCOS have possibility to receive, via MoF web page, electronically reports of irregularities in the dealing with EU funds, complaints, and requests for control, which enable faster acting upon them.

On this way procedure of compliance is simplifying, and also give possibility to anyone who have any information of irregularities to provide it anonymously.

Financing of the measure

The measure was financed by regular budget resources. Trainings are organized in cooperation and support by: OLAF, TAIEX, IPA DIS III project, GIZ, UNDP, USAID, CEPOL, PARAGRAF, OSCD, IMF and Human Resource Management Service of the Government of the Republic of Serbia. Necessary amount for new staff will be envisaged in the budget for 2018.

Key challenges

- ✓ **Insufficient number of staff to perform all foreseen functions.** According to the Vertical Functional Analysis by the World Bank carried out in 2016, gap of number of existing staff in Department for Control of Public Funds was noted. In line with the Decision on the maximum number of public sector employees 2017 the MoF prepared amendments of the Rulebook to increase staff dealing with BI by 10 people and AFCOS by 5 people. It is expected that this increase of staff will further increase the positive trend of identified and reporting irregularities related to execution of public and EU funds.
- ✓ **Delayed adoption of the Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020.** The reasons that led to the delay in adopting the Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020 are comprehensive and primarily concern internal organizational unit and organization of work related to irregularities. The postponement of the adoption of the Strategy was also to some extent caused by extended communication with the competent institutions within Republic of Serbia and the EC. Public debate on the Strategy for combatting irregularities and fraud in dealing with EU funds for period 2017-2020 and accompanied Action Plan, was held in May 2017. Report on the Public debate was published on the MoF website. There were no further comments and the Strategy is expected to be adopted until the end of October 2017 (The Strategy and accompanied Action Plan was adopted by the Serbian Government in October, 26 2017, and published at Official Gazette No 98 from November, 3th, 2017).

Next steps:

The most intense period for implementation of activities envisaged in this measure is end of 2017 and first quarter of 2018.

- ✓ Signing of the Administrative Cooperation Arrangement (hereinafter ACA) between MoF and the European Anti-Fraud Office (OLAF) is in a plan by the end of the 2017 and in this moment additional internal consultations are conducted within the institutions of the Republic of Serbia. Adoption of the Decree on authorization and work of the BI is planned by the end of October 2017. The aim of this document is to establish an effective system of planning of control at the level of the Republic of Serbia enabling full legal mandate for the BI. The existing Decree on authorization and work of BI dates from 2007 and amendments will be made in following period.
- ✓ Finally, in the first quarter of 2018 the methodology of the BI will be prepared. The BI of the MoF will be in charge for full harmonization and coordination between BI, Local self-government and provincial budget inspectors. More precisely, the methodology will prescribe the uniform standards and procedure of performing inspection controls.

PILLAR V - ACCOUNTING, MONITORING AND FINANCIAL REPORTING

The fifth Program pillar refers to the coverage and quality of reporting on budget execution and gradual and systematic transfer to accrual accounting based on IPSAS⁶¹ standards. The leading institution responsible for achieving these goals is the Ministry of Finance - Treasury Administration.

These obligations largely result from requirements of the Negotiating Chapter 17 – Economic and Monetary Policy, while relevant set of measures are included in the adopted National Programme for Adoption of the Acquis (NPAA)⁶².

Integration of indirect budget beneficiaries into the Treasury budget execution system will provide enhanced control of their earmarked spending, contributing to achievement of one of the key objectives of the PFM Reform Programme, to improve coverage and quality of budget execution reporting.

Altering the fundamentals of accounting towards implementation of accounting international standards, through five phases, will contribute to providing the necessary information on the coverage of fiscal reports and balance sheets. Consequently, it will lead to further improvement of management of public funds and more transparent budget policy.

⁶¹ IPSAS – International Public Sector Accounting Standards.

⁶²The second revised version of NPAA adopted at the Government session on 18 November 2016. Link to the document: http://www.seio.gov.rs/upload/documents/nacionalna_dokumenta/npaa/NPAA_2016_revizija_srp.pdfhttp://www.seio.gov.rs/upload/documents/nacionalna_dokumenta/npaa/NPAA_2016_revizija_srp.pdf

Measure 16 – TO IMPROVE COVERAGE AND QUALITY OF BUDGET EXECUTION REPORTING

When the PFM RP was prepared, it was recognized that one of the most important challenges regarding budget execution is to increase coverage of indirect budget beneficiaries, and improve monitoring and reporting of public enterprises and arrears. Apparent gaps in budget transparency and comprehensiveness demanded further efforts on improving the fiscal reporting framework in order to better align it with the recommended international practices.

Out of four activities that were planned to be completed within the reporting period, three activities were fully implemented while one is still ongoing. Delay in implementation was caused by delay in legislative activities, due to technical reasons.

<i>Performance indicator</i>	<i>2016</i>	<i>2017</i>
Share of budget organizations included in the consolidated financial statement	TBC	
Quality of annual financial reporting on the use of public finances (SIGMA, based on audit opinion of the SAI)	TBC	

Coverage and quality of reporting on budget execution and fiscal reports is being improved in several steps. The budget execution of the Republic of Serbia is performed through the information system of the Treasury Administration. Budget beneficiaries connect to this system and administer financial and operational processes, based on their jurisdiction, through services and support provided by the Treasury Administration. Improvement of coverage and quality of reporting is reflected in the following achievements:

- ✓ On January 1st 2016, a total number of 247 indirect budget beneficiaries were integrated in the budget execution system as planned. More specifically, the new users are courts, prosecutors and judicial institutions.
- ✓ For the purpose of further integration of indirect budget beneficiaries, a complete analysis of administrative and technical capacities has been carried out. The analyses focuses on institutions of social protections, cultural institutions and penitentiary institutions.
- ✓ Due to the fact that extended coverage requires modernization and upgrading of IT systems, the Treasury IT system is being continuously improved. In that regard, EU support through pre-accession funds has enabled establishment of secondary/backup center for data storage.⁶³ Furthermore, testing of improved information system for budget execution is currently underway.

Significant progress has been made on preparation and publishing of consolidated reports on public companies. The Ministry of Economy has prepared and published on its website the Preliminary analysis of business operations of public companies for

⁶³ IPA 2013 project – Procurement of goods needed for implementation of secondary/back up centre for data storage of the Treasury Administration.

the period January 1, 2016 – December 31, 2016.⁶⁴ The preliminary analysis was done on the basis of delivered quarterly reports on implementation of annual business programs of public companies for the relevant period. The final analysis of business operations will be done upon delivery of annual financial reports for 2016, and public companies are under obligation to submit these to the Business Registers' Agency not later than June 30 of the current year, i.e. by July 31 for consolidated financial reports.

The Ministry of Economy has also prepared and published on its website the analysis of the business operations of public companies for the period January 1 – March 31, 2017. The analysis included planned and implemented business indicators of public companies which had the consent of the founder for the business program for 2017 until the deadline for delivery of the reports. The deadline for delivery of quarterly reports of public companies for the period January 1 – June 30, 2017 is July 31, 2017, and after processing of the reports, the analysis will also be performed for the stated period.

Monitoring and reporting on arrears has been improved by extending the RINO⁶⁵ system to include public-to-public transactions (starting from January 1st 2016). Treasury Administration prepared and issued a circular reminder to all budget users of their obligation to register contracts in RINO and FMIS systems, as they are signed. It was planned to conduct the Analysis and enhancement of the system of penalties for non-implementation of stipulated financial control until the end of 2016. This activity was also foreseen in the TA Transformation Strategy. Despite short delays, on June 20th 2017 first meeting of the operation team took place initiating the analyses. Based on conclusions that will be defined in the analyses, proposals will be made regarding amendments of the Law. The supervision over the implementation of the Law on Deadlines for Fulfilment of Financial Obligations in Commercial Transactions for economic entities is done by the Tax Administration, whereas the Division for Budget Inspection of the Ministry of Finance supervises the public funds beneficiaries. **The Rulebooks on the Manner and Procedures of Supervision⁶⁶ is adopted.**

The penal provisions of the Law on deadlines for Fulfilment of Financial Obligations in Commercial Transactions are conducted by the Economic and Misdemeanor Courts, depending on the subject of supervision. During 2016, Tax Administration obtained 53 notifications for which competent tax inspectors initiated the request for the misdemeanor procedure. During 2016, the Division for Budget Inspection issued 252 decisions on temporary suspension of transferring the corresponding part of income tax and profit tax of the local self-government units.

The goals in question are also subject of the project „Reconstruction and optimization of Public Administration in Serbia“⁶⁷, of vertical functional analysis of the Ministry of

⁶⁴ Indicator 6.2 achieved for 2017 of the Sector Reform Contract for IPA 2015 FOR the Public Administration Reform SBS –A consolidated annual report on the Public Enterprises is prepared and published. Link to the document:

<http://privreda.gov.rs/wp-content/uploads/2017/05/Konacna-Analiza-Poslovanja-JP-2016.pdf>

65 web application and instructions for RINO system: <https://www.trezor.gov.rs/rino-cir.html><https://www.trezor.gov.rs/rino-cir.html>

66 Tax Administration Rulebook, The Official Gazette of RS, No. 54/16, link to the document: <file:///C:/Users/sanja.amanovic/Downloads/pravilnik%20o%20komercijalnim%20transakc..pdf><file:///C:/Users/sanja.amanovic/Downloads/pravilnik%20o%20komercijalnim%20transakc..pdf>

and the Rulebook of the Budget Inspection Department, the Official Gazette of RS, Nos. 119/12 and 68/15, link to the document: [http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2015/Pravilnik%20RINO%20\(63206\).pdf](http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2015/Pravilnik%20RINO%20(63206).pdf)[http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2015/Pravilnik%20RINO%20\(63206\).pdf](http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2015/Pravilnik%20RINO%20(63206).pdf)

67 IPA2014 project – Optimization and Restructuring of Public Administration in the Republic of Serbia, financed by EU, and implemented by the World Bank.

Finance, conducted by the World Bank, as well as the Memorandum on Economic and Financial Policies (MEFP), which provides a review of economic measures that the Government of the Republic of Serbia and National Bank of Serbia intend to implement within the stand-by arrangement with the IMF. The progress in this area was presented within the First Reporting Period of the PFM Reform Program.

Treasury Administration is currently establishing the Central Registry of Invoices. The Central Registry of Invoices will be registered an invoices issued by creditors in commercial transactions between the public sector and business entities, or between public sector entities, in which debtors are public sector entities who make payments through the account kept in the Treasury Administration, and upon establishment of technical and technological conditions (Phase II), invoices issued by creditors in those commercial transactions, other public sector entities, debtors, that carried out payments through accounts kept with banks.

Financing of the measure

The PFM Reform Program does not indicate any amount for financing the activities, as many of them are implemented with the support of the IMF and the WB missions, and with capacities of the Ministry of Finance.

Key challenges

The biggest implementation challenges under the measure are:

- ✓ Administrative and technical capacities of indirect budget beneficiaries to be connected to the budget execution system. In order to overcome these challenges, Treasury Administration provides details on IT technical requirements necessary in order to be connected to the budget execution system and training for indirect budget beneficiaries.

Next steps

Cultural and penitentiary institutions will be incorporated into the budget execution system on January 1st 2018.

Measure 17 – MOVING GRADUALLY AND SYSTEMATICALLY TOWARDS ACCRUAL BASIS ACCOUNTING

The authorities are actively pursuing transparency of public finances and are therefore, in favor of adopting the accrual accounting IPSAS standards. This is an important step, in line with the recommendations by international institutions, including the IMF and the WB, to prepare financial statements in accordance with IPSAS standards. Changes in the accounting basis and implementation of international standards contributes to providing necessary information the fiscal policy will be based on, the scope of fiscal reports and balance sheet, and additional improvement of public funds management, as well as more transparent budget policy

The measure includes 14 activities. **Three out of seven activities planned within the reporting period were fully implemented while four are ongoing.**

<i>Performance indicator</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>First half 2017</i>
Extent to which cash flows are forecast and monitored	N/A	A ⁶⁸		
The level of harmonization of national accounting systems with IPSAS standards (percentage of standards adopted to the national accounting system)	N/A	N/A		

During the reporting period the following steps have been taken to adopt IPSAS standards:

- ✓ The Gap Analysis on the current accounting practices and IPSAS standards for accrual accounting was conducted in 2016 with technical assistance of the IMF.
- ✓ A Road Map is developed with specific steps that will be taken in order to transit to complete accrual accounting in the government sector.
- ✓ The impementation of the World Bank project „Public Sector Accounting Reform Technical Assistance” funded by the Swiss State Secretariat for Economic Affairs (SECO), has started, and will last until 2019. It will support gradual implementation of international accepted accounting standards in line with IPSAS.
- ✓ Report on the Enhancement of Public Sector Financial Reporting has been prepared. This report assesses the institutional framework for public sector accounting as well as the gap between Serbian public sector generally accepted accounting principles and IPSAS.

The Decision on establishing the Council for setting the accounting standards was drafted in 2016 but its adoption is pending amendment of the Budget System Law expected by the end of 2017. The draft decision envisage that the Council will be composed of the representatives from the accounting profession in public sector, academic community and state authorities at both central and local level, including SAI representative as observer. Establishment of the Council will contribute to further harmonization with international standards in this field.

Preparation of accounting policies in accordance with IPSAS 1, 2, 3, 5, 14, 24, as well as improving IT systems to support accrual accounting is pending due to delays of adoption of IPSAS standards, expected to take place within 2018. Delay is caused by technical issues on translation of standards to Serbian language.

In the framework of strengthening the human and technical capacities of Treasury Administration for implementation of accrual accounting based on IPSAS standards, establishment of the new Unit on methodology and application of IPSAS standards is included in the Job systematization act of the Treasury Administration prepared in June 2017, and expected to be adoted by the end of 2017. The new unit will be composed of five staff. The IMF has already provided expertise and advice on accounting and reporting in accoradance with IPSAS to all the staff of the Department for budget accounting and reporting of Treasury Administration.

⁶⁸ Year when PEFA Assessment is published (assessment period 2011-2013).

The „*pro forma*“ financial report for 2015 has been drafted in accordance with IPSAS standards for the central level of government, contributing to the quality of reports and overall transparency.

Financing of the measure

The PFM RP does not indicate any amount for financing the activities, as many of them are implemented with the support of IMF and WB missions and capacities of the Ministry of Finance.

Key challenges

The biggest implementation problems under the measure are:

- ✓ **The translation of IPSAS standards** – the standards have been translated by the Serbian Association of Accountants and Auditors (IFAC member body). However, there are certain technical defects and the translation needs to be fine-tuned in order to be ready for official approval. The consultations of the Ministry of Finance with the IFAC to take immediate action to improve the translation are ongoing.
- ✓ A potential long term challenge is the capacity of the staff to cope with and implement new standards. This is why constant trainings are needed.
- ✓ The Ministry of Finance has secured funds for ongoing activities but but additional funds will be needed in order to ensure sustainability.
- ✓ Establishment and functioning of the Council for setting the accounting standards. Any potential delay on the amendment of the Budget System Law will affect the timely establishment of the Council.

Next steps

Finalization of translation of IPSAS standards and their formal adoption.

PILLAR VI - EXTERNAL SCRUTINY OF PUBLIC FINANCES

In order to secure sound public finances, it is crucial to ensure effective external oversight and monitoring mechanisms, including firm rules on reporting and transparency.

External scrutiny of Public Finances is under the competence of the Parliament and the State Audit Institution. Parliamentary oversight of the public financial management can be achieved by ensuring adequate administrative and organizational arrangements and establishing clear procedures for the Committee for Finance, State budget and Control of Public Spending of the National Assembly. They should have full capacity to oversee budget formulation, implementation and outcomes of budget allocations.

State Audit Institution is an independent state authority, accountable to the National Assembly of the Republic of Serbia. The Institution performs activities stemming from its competence, ensuring transparent operation, decision-making process and other matters significant for the work of the Institution pursuant to the Law. As such, work of the State Audit Institution is of significant importance for sound public financial management.

In order to ensure effective external scrutiny over public finances, the following set of measures has been defined as to ensure effective external audit and appropriate Parliamentary oversight over public finances in line with the SIGMA Public Financial Management Principles 15 and 16 and Chapter 32 – Financial Control.

Measure 18 – TO STRENGTHEN COVERAGE AND QUALITY OF EXTERNAL AUDITS

Significant improvement was achieved in increasing the number and quality of audit products, the number of auditors, and coverage of auditees, through the implementation of the audit guidelines, giving professional assurance to the National Assembly and the citizens of the Republic of Serbia that the public funds are spent effectively, efficiently and economically⁶⁹.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>First half 2017</i>
Scope/nature of audit performed (including adherence to auditing standards) (PEFA, score from A to D)	B ⁷⁰	A	A
Share of SAI audit recommendations implemented by the auditees by the end of the following calendar year ⁷¹	69.66%	75.09%	59.88% ⁷²

Despite the fact that deadlines of foreseen activities under the measure 18 are in late 2017 and 2018, a lot has already been done. In addition to the audit manual, adopted in April 2015, **during 2016 and first half of 2017, a set of rules were adopted, used by the State Audit Institution (hereinafter SAI) for the purpose of providing further conduct of audits** (Guidance for Post-Audit Procedure, Guidelines for Assessment of Manner of Violation of Good Business Practice by Auditees, Instruction for Drafting Financial Statements and Compliance Audit Reports, Checklists for Quality Control of Financial Statements and Compliance Audit, New exemplary forms of audit reports) in line with revised International Standard of Audit - ISA 700). These rules are fully in accordance with the ISSAI standards, domestic legal framework and audit manuals.

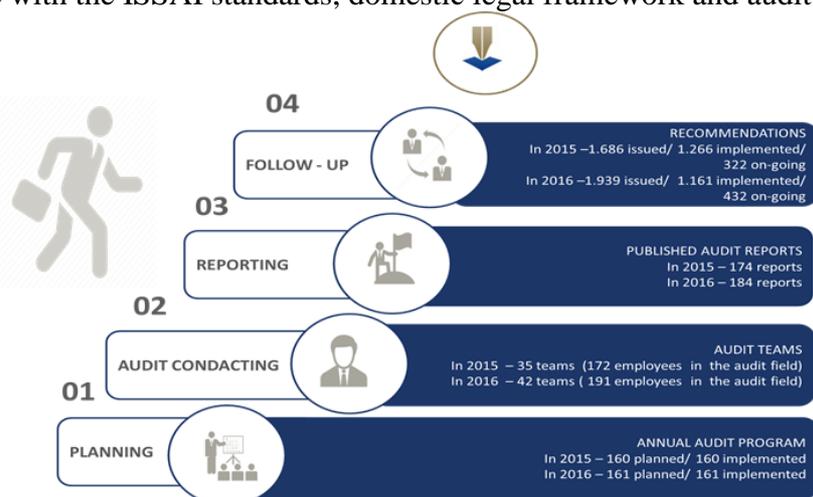


Illustration 5: SAI achievements in different phases of business process, for 2015 and 2016

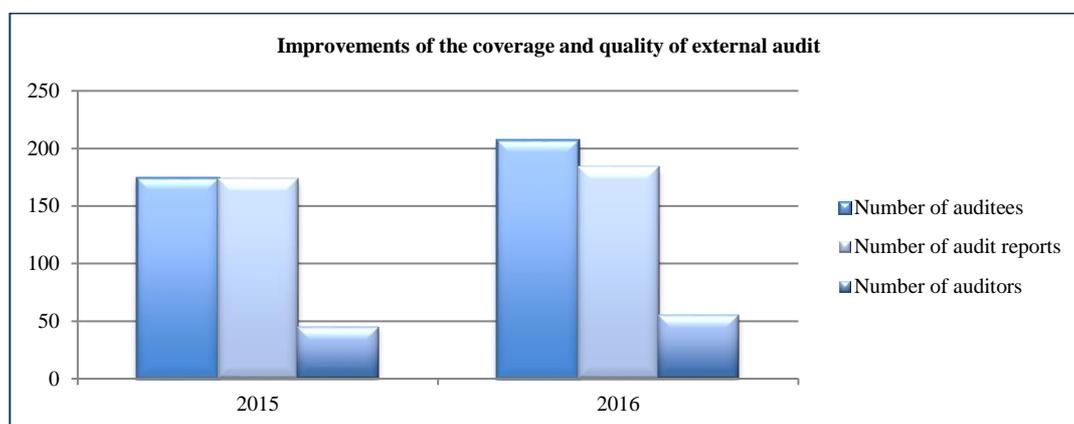
⁶⁹ <http://www.dri.rs/revizije/izvestaji-o-reviziji/arhiva-2016.364.html>.

⁷⁰ PEFA assessment was provided in 2015, based on available data for 2013.

⁷¹ Data provided relate to recommendations implemented pursuant to reports from 2014, 2015 and 2016.

⁷² Currently, review is conducted regarding activities taken pursuant to recommendations issued in 2016.

The State Audit Institution has published 184 out of 188 planned audit products in 2016, while the target number of planned audit products is 253 until the end of 2020. Realization of audit in line with the Audit Program for 2017 (adopted on 29th December 2016) is underway. List of auditees, in respect of which audit implementation has begun, may be found on the official website of SAI⁷³, while SAI will come up with the final number of auditees in the second half of 2017.



Graf 3: Achievements of the SAI in the process of improving coverage and quality of the external audit

In order to further develop the capacity of the staff of the SAI, internal and international trainings were conducted (6 trainings, with duration ranging from one to three days, with 20 to 213 attendees), as well as the memberships in various working groups and organizations (INTOSAI, EUROSAI, EUROSAI's Task Force for Audit & Ethics, IT Working Group, Working Group on the Audit of Funds Allocated to Disasters and Catastrophes, Task Force on Municipality Audit and Working Group on Public Procurement Audit) had been ensured.

In line with a SAI Strategic Plan,⁷⁴ SIGMA has conducted a functional analysis of SAI, which will be taken into consideration during the process of planning future SAI activities. One of the recommendations is to change the Law on SAI, in order to enhance precision, remove ambiguities and review management model (for instance, definition of audit terms, contents of the SAI Rules of Procedure, duration of term of office for public officials). The Strategy for Human Resource Management in SAI for the period 2017-2020, was prepared with the GIZ support and adopted on 27th April 2017 by the Decision of the SAI Council.

In order to develop and adopt the new Guidelines for quality assurance during 2018, based on ISSAI standards, SAI will have support of the SAI of Latvia by the Twinning Light project "Audit Quality Control in the State Audit Institution" from IPA 2013. It is expected to start in early September 2017. In addition to existing internal quality control function and quality assurance, conducted in the Sector for Methodology and Quality Control, the Twinning Light project will additionally improve audit quality.

The SAI continuously works (functioning is analyzed, codebook is updated) on improving systemic follow-up of implementation of audit recommendations through

⁷³ <http://www.dri.rs/revizije/revizije-u-toku.79.html>.

⁷⁴ http://www.dri.rs/upload/documents/Opsti_dokumenti/Eng/DR1%20Strateski%20plan%202016-2020ENG.pdf

establishment of public registry of audit recommendations and required database (deadline is 3rd quarter 2018).

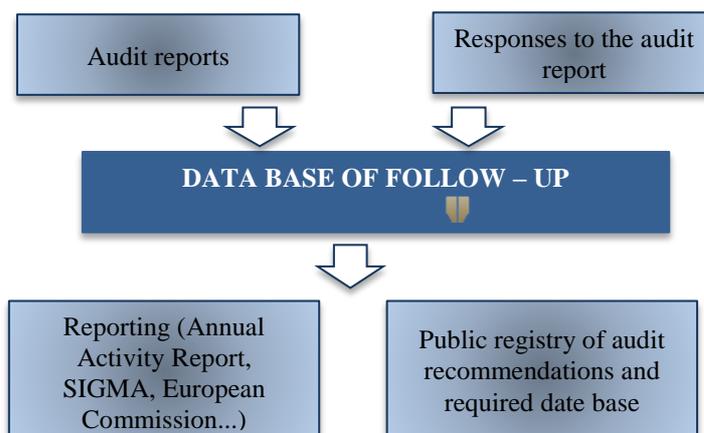


Illustration 6: Follow-up data base

*The European Commission's Progress Report 2016 supports the progress achieved within the measure, saying that "constitutional and legislative framework of SAI complies with the INTOSAI standards". Also the expansion of the audit coverage was noticed as well.*⁷⁵

Financing of the measure

In line with the PFM RP, planned funds for implementation of the measure 18 were in the amount of approximately 10,7 million EUR from national budget, and 306,000 EUR from external sources of financing. In 2016, invested funds were 583,000 EUR from the national budget and 233,200 EUR from donors.

⁷⁵https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_serbia.pdf.

Key challenges

The biggest implementation problems under the measure are associated with:

- ✓ Insufficient workspace capacity that affected the SAI capability to recruit additional staff that was gradually solved during 2016⁷⁶;
- ✓ Insufficient number of employees (number and structure of employees affect audit coverage) that is directly linked with available funding and availability of the workspace. Possible discontinuity of work at the top management because the terms of office of the SAI Council members are relatively short⁷⁷. If all members of top management are changed at the same time, SAI could face continuity issues. This is one of the issues that might be addressed alongside other amendments to the SAI law during the next planning period;
- ✓ Lack of funds - budget funds and external funds (donors).⁷⁸

Next steps

During the next period the SAI will continue the process of strengthening of coverage and quality of external audits. New employees will be hired in compliance with the approved Human Resource Plan and funds, and number of appointed state auditors will be increased. Further professional development of employees and implementation of the Human Resources Management Strategy will be provided. The tailored audit management software development is planned, with full functionalities for implementation of the entire audit process, while integrating existing document management system.

Measure 19 – TO STRENGTHEN PARLIAMENTARY SUPERVISION OVER PUBLIC FINANCES

As envisaged by the PFM Reform Program, the Parliamentary oversight function over the public finance has been improved through the establishment of a Subcommittee of the National Assembly for consideration of reports on audits performed by the State Audit Institution (hereinafter: Subcommittee) in February 2015, and appointment of new members of the Subcommittee in July 2016. In the previous period there was a delay in the implementation of activities within the measure 19 (which includes one result and two activities), and they were postponed from the third quarter of 2016 to the third quarter of 2017. Different preparatory actions for full implementation of the measure 19 have been already accomplished.

<i>Performance indicator</i>	<i>2015</i>	<i>2016</i>	<i>First half 2017</i>
Number of SA I audit reports discussed by the respective parliamentary committees	1	1	-

In order to promote the principles of accountability, transparency and efficiency of the public funds spending and to define basis of mutual cooperation, the **Memorandum of**

⁷⁶ Until November 2016, SAI used business premises in Belgrade, Novi Sad, Nis and Kragujevac, (totaling 2,170.92 m²), whereby there were six locations in Belgrade. By the end of 2016, workspace for SAI was secured. Currently, SAI uses business premises amounting to 3,674.55 m², out of which on two locations in Belgrade 3,080.22 m² (enhanced communication channel which, among other things, facilitates exchange of experiences among audit sectors).

⁷⁷ Members of SAI Council appointment on the five years period, with the possibility of election by the Parliament no more than two times, defined by Article 20 of Law on SAI, Official Gazette RoS No 101/2005, 54/2007 i 36/2010

⁷⁸ The principles of public administration, page 116. <http://www.sigmaxweb.org/publications/Baseline-Measurement-2015-Serbia.pdf>

Understanding was signed in June 2015 between the Committee on Finance, State Budget and Control of Public Spending of the National Assembly and State Audit Institution (hereinafter SAI). Preparation of a written Procedure in the form of Guidelines has been recognized as the first step towards the organization of the meetings of the Committee on Finance, State Budget and Control of Public Spending in the form of hearing for discussion of audit reports.

Principles for the written Procedure for defining accountability and assessment of adequate timeframe for performing duties were considered by the Subcommittee in 2015 and 2016. The National Assembly's Rules of Procedure have been the first to regulate the implementation of the control function and have been in operation since 2012. **Based on the existing Rules of Procedure, the Finance Committee established the Subcommittee for reviewing the SAI reports.** The procedure for their consideration should be devised in a completely new way comparing to the existing Rules of Procedure. Enabling the participation of all relevant stakeholders in reviewing the audit reports of individual audit entities under uniform rules should result in better overseeing of public funds spending.

The Procedure has to be adopted by the members of the Committee on Finance, State Budget and Control of Public Spending of the National Assembly in order to become legally binding. The adoption is planned for the next sitting of the Committee, in late August 2017.

The Committee on Finance, State Budget and Control of Public Spending of the National Assembly and SAI organized a Workshop with presentation of audit reports sector data on September 19, 2016, and **agreed on the next steps in mutual cooperation** The Committee and the SAI will encourage cooperation and exchange of information concerning the implementation, adoption and implementation of policies and regulations, as well as projects and other activities and initiatives in the field of financial control and accountability. SAI will provide assistance to Committee members in understanding the nature and importance of audit findings and finding appropriate corrective mechanisms. The committee will review the activities of the SAI



and report the NS on this, as well as work on the establishment and development of monitoring mechanisms for the implementation of SAI and the National Assembly's recommendations, based on the SAI report.

At the first meeting of the Subcommittee for consideration of reports on audits performed by the State Audit Institution, held in September 30 2016, the main topic was role and value of Audit of

expediency.⁷⁹ The audit report sector data for expediency was selected because it shows the process how the public funds are used in order to determine whether this was

⁷⁹http://www.parlament.gov.rs/Prva_sednica_Pododbora_za_razmatranje_izve%C5%A1taja_o_obavljenim_revizijama_Dr%C5%BEavne_revizorske_institucije.29850.941.html

done in accordance with economic principles, efficiency and effectiveness, and in line with the planned objectives. All in all, **the Subcommittee meetings raise the level of knowledge among the deputies in order to be able to consider the reports of the Institution in a qualitative manner, with the aim of improving the supervision in the field of public finances.**

The SAI Annual Report 2016 is planned to be considered by the Committee at the next sitting, at the end of August 2017.

The sittings of the National Assembly of the Republic of Serbia and all Working bodies, press conferences, public hearings, the activities of the President of the National Parliament and other events, can be followed in live stream, or accessed through the archive of the web site thus ensuring access to these both by the media and the interested non-governmental and third parties.⁸⁰

Already at the end of 2015, in order to improve data access, the National Assembly established the Portal for Monitoring the Spending of Public Finances, as a software tool for control of spending of public funds, ensuring connection of the National Assembly with existing system in the Ministry of Finance - Treasury Administration. Enhancement of the Portal in twelve phases was envisaged, in order to connect the Portal with other monitoring systems for public funds spending, thus enabling immediate access to information, and providing simpler and more efficient monitoring of public funds execution. Currently, the third phase of the Portal development is planned, in which the members of Committee will be trained to use the Portal⁸¹.

The role of the National Assembly and the Committee on Finance, State Budget and Control of Public Spending was recognized in the Progress Report for 2016 of the European Commission “as the **important factor and tool available to the members of the parliament and to the public, in monitoring public spending.**”⁸²

Financing of the measure

The PFM RP does not indicate any additional amount for financing the activities of the Committee on Finance, State Budget and Control of Public Spending of the National Assembly, as all activities are implemented within existing national financing available to the Parliament, the SAI and the Ministry of Finance.

⁸⁰ <http://www.parlament.gov.rs/activities/national-assembly/working-bodies/public-hearings.3016.html>

⁸¹ ⁸¹ The introduction of the Public Finance Supervision Portal has been envisioned by the Action Plan for the implementation of the Republic of Serbia National Anti-Corruption Strategy for the period 2013-2018 and project Strengthening the Oversight Role and Transparency of the National Assembly of the Republic of Serbia, conducted by the National Assembly in cooperation with the United Nations Development Program (UNDP) and the support of the Swiss Agency for Development and Cooperation (SDC).

⁸² https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_serbia.pdf

Key challenges in implementation

The biggest implementation challenges under the measure are associated with:

- ✓ Changes of the members of the Committee and lack of mechanism for implementation of the audit recommendation that still needs to be developed to improve co-operation between the SAI, the Government bodies and the Parliament.

Next steps

During the remaining of 2017 the Committee on Finance, State Budget and Control of Public Spending will adopt the written Procedure and organize the first meeting of Subcommittee.

According to The Rules of Procedures of the National Assembly, the Working body sittings may also be held outside of the institution. Therefore, the sitting of the Committee, as well as the first sitting of the Subcommittee, will be held in cooperation with the local authorities in Novi Sad, in late August 2017, thus raising awareness of the importance of audit findings and recommendations, and the role of the parliamentary supervision over public finances at the level of local self-governments.

CONCLUSIONS AND RECOMENDATIONS

During the one-year period of implementation of the Program, significant progress was achieved in results foreseen by the Program, but there is still room for more efficient implementation.

The main areas in which progress has been made in this reporting period relates to: improvements of the credibility of macroeconomic forecasting; better mid-term planning by budget beneficiaries; improvements of the financial control of public funds through the adoption of a strategic framework, the Strategy of public internal financial control development in the Republic of Serbia 2017-2020; improvements in coverage and quality of reports on budget execution and fiscal reports; improvements of SAI work.

By analyzing the implementation of the results within the reform pillars, it was noted that in most cases, the reasons for delays in implementations, are technical ones. The reasons for delaying of adoption of important strategic documents are long internal and inter-institutional consultations in order to harmonization text documents, due to the complexity of their content.

During the preparation of the Public Financial Management Reform Program 2016-2020 at the end of 2015, set of goals were planned ambitiously, that influenced in percentage of achievements of the results within the planned deadlines. Accordingly, the conclusion of all relevant parties that participate in the process of developing and monitoring the implementation of the Program, together with the EC and the DEU, is the necessity of revising the Program and the accompanying Action Plan. The plan is to improve and better define performance indicators in order to perform efficient and effective monitoring of realized reform goals. Improvements of the Program will increase the focus on performance, clearer focus on impact, better rationalization of reform efforts (giving priority and logical order of actions) as well as better estimation of costs of planned activities.

During the previous work, Program Working Group for the preparation of the Program Implementation Reports has so far, improved knowledge and analytical skills , in order to provide relevant information of progress of the reform processes. The quality and format of the progress report on public finance management reform needs to be further improved in order to obtain as a useful decision-making tool and a mechanism for further reform processes and discourages identified challenges. In the future, timely preparation and adoption of the reports will be a priority. Accordingly, it is recommended that the further reports should be adopted at the Public Administration Reform Council meetings, in order to provide an effective sectoral approach and to link process of progress reporting in the area of public administration, within which is the reform of public financial management one of the main PAR objectives.

The aforementioned conclusions were also confirmed within the Program Coordination mechanism and the Program Steering Committee meetings held in 2017.

The new Serbian Government Program presented by the Prime Minister in June 2017, reaffirms the commitment of the new Government to the implementation of measures

related to the public finance management reforms, which enables the unimpeded realization of the set goals and more efficient provision of services to citizens.