

ANNEX II – COORDINATION MECHANISM FOR PFM RP IMPLEMENTATION

The coordination mechanism for implementation of the Program has 3 elements: the Steering Committee, the Working Group and the Technical Secretariat. Program implementation has been monitored through the implementation reports¹, prepared twice a year. Dialogue with the European Commission has been conducted through the Special Group on Public Administration Reform², and through the negotiations in different chapters. The PFM Policy Dialogue has been established in order to discuss implementation of the reform with the civil society, international community, donors and other interested stakeholders. In addition to that different levels of coordination in relation to PAR and sector budget support has been used for communication purposes.

Working group for preparation and monitoring of the implementation of the Public Financial Management Reform Program (hereinafter: Working Group), headed by the Minister of Finance, with the role to define reform measures and activities and coordinate their implementation, was officially established in February 2015, and consists of the representatives of: Ministry of Finance³, Committee on Finance, State Budget and Control of Public Spending of the National Assembly, State Audit Institution (SAI), Ministry of Public Administration and Local Self-Government, Public Policies Secretariat, Public Procurement Office, Audit Authority Office of EU Funds and European Integration Office.

Program **Steering Committee**, headed by the Minister of Finance, is responsible for political coordination at high level, and involves State Secretaries from the MoF, the President of the SAI and the President of the National Assembly Committee on Finance, Republic Budget and the Control of Expenditure of Public Spending.

Technical Secretariat of the Program, located in the Group for programming Projects Funded by the EU and Development Aid, within the Department for International Cooperation and European Integration of the MoF, charred by Acting Assistant Minister, monitors the level of the Program implementation and perform overall coordination process.

The coordination structure had several formal meetings until June 2017:

- The Working Group meeting held on 28 December 2016, discussed the methodology used for preparation of the Annual Report, exchanged experiences in the process of

¹ Draft reports are submitted to the Program Steering Committee for endorsement, and to the Government for adoption.

² as a part of the Stabilization and Association Agreement (SAA) implementation structure

³ Department for Macroeconomic and fiscal analysis and projections, Budget Department, Department for International Cooperation and European Integrations, Department for Fiscal System, Department for Custom System and Policies, Department for Internal Control and Internal Audit, Department for Control of Public Funds, Department for Management of EU Funds, Tax Administration, Treasury Administration, Public Debt Administration and Customs Administration

implementation of planned activities, discussed challenges and obstacles to the Program implementation;

- The Program Steering Committee meetings held in February and December 2017, on which the Program Implementation Reports were discussed and endorsed, as well as recommendations for the future work;
- The Working Group meeting on 7 June 2017 was dedicated to discussion about the results of the PFM related activities, and preparation of the PFM Policy Dialogue on 13 June;
- At the PFM Policy Dialogue held on 13 June 2017, chaired by the Minister of Finance PhD Dušan Vujović, with the participation of representatives of international community and civil society, improvements in the implementation of the Program were presented and challenges discussed;
- The Working Group meeting held on 13 July 2017 was dedicated to the planning of the Workshop on Preparation of the Report on the implementation and improvement of the PFM RP held in Vrnjačka Banja with SIGMA experts;
- Participation at SIGMA Workshop on Preparation of the Report on the implementation and improvement of the PFM RP was held in Vrnjačka Banja from 25-27 July 2017, organized with support of the GIZ PFR Project. Workshop was dedicated to the improvements of reporting in line with the European Commission recommendations and SIGMA suggestions.

Since the PFM RP implementation is closely interconnected with the EU accession negotiation process, IPA programing and implementation, sectoral budget support, etc, the Technical Secretariat is in daily contact with members of the Working Group in respect to different topics. Therefore, numerous meetings and correspondence were conducted for the purpose of:

- Collecting inputs for preparation of the two semi-annual reports on Program implementation, as well as for preparation of Annual Report;
- Collecting inputs and preparation of meetings of the Special Group for Public Administration Reform with the European Commission in March 2016 and March 2017, and the SAA Implementation Committee in April 2016, as well as for the Progress Report for 2016;
- Consultation during the work on Sector Budget Support for the Public Administration Reform from IPA 2015 (SBS PAR), following fulfillment of preconditions for withdrawal of SBS tranches and preparation and update of the sector MTEF;
- Collecting information on the requests for technical assistance in SBS PAR, and preparation of ToR;
- Participation at the coordination platforms for the SBS PAR;
- Preparation and implementation of the Action Plan for Implementation of Recommendations of the World Bank Vertical Functional Analysis of MoF;
- Participation at the PAR Sector Working Group meetings organized by the SEIO with donor community. Only one separate PFM meeting with donors has been organized so far, but it is planned to be organized at least twice per year;
- Participation at the IPA Committee of the MoF, gathering all beneficiaries and potential beneficiaries of IPA and bilateral assistance in the MoF (three meetings were held in 2016 and one in 2017);

- Two workshops for defining activities of GIZ project of the Public Administration Reform were organized, in March and in December 2016, etc.

The first PFM Policy Dialogue was held on 13 June 2017 in Belgrade, chaired by the Minister of Finance, and organized with the support of the GIZ PFR project. Implementation of Program was presented by pillars, with the major progress achieved in the area of multiannual program budgeting, budget execution reporting and public procurement. The Program was also presented in the broader context of other strategic documents and reforms, IPA support and EU negotiations process. Interest of the civil society was mainly concentrated in audit and capital projects methodology in the area of environmental protection, improvement of budget inspection work across the regions, audits in the health sector, as well as protection of internal auditors in execution of their competences. The PFM Policy Dialogue will be established as regular practice in order to inform and consult civil society and other relevant stakeholders on implementation of the Program, and receive valuable feedback for the Program implementation.

The civil society organizations are involved in the dialogue on public finance management, and will be invited to participate in the process of revision of the Program. They are not currently involved in the reporting process, since the purpose of the report is to assess the progress achieved in accordance with the objectives of the adopted Action Plan. All reports are published on the website of the Ministry of Finance. In order to achieve visibility, transparency and to improve communication with all relevant stakeholders and citizens, on the homepage of the Ministry of Finance <http://www.mfin.gov.rs>, a special banner referring to the PFM has created, as well as the electronic address pfmdijalog@mfin.gov.rs, through which civil society organizations can directly give recommendations for improving the public finance management process.

The Program is also being monitored from the aspect of obligations related to negotiations with EU, and represents an important instrument for programming IPA and bilateral donors support.

It is exceptionally important that the Program is in compliance with other strategic documents of the Government of the Republic of Serbia. Public financial reform is one of the key pillars of the Public Administration Reform Strategy (PAR), and the accompanying Action Plan. Key actions in the area of Budget Planning and Preparation, Financial Control and Public Procurements have been further defined under the third special objective of the PAR implementation Action Plan, adopted in March, 2015. PFM RP 2016 – 2020 complements the PAR strategy. It also establishes a strategic framework for more detailed strategies in certain subfields of public finances, such as, for example, the Strategy of Public Internal Financial Control Development in the Republic of Serbia for the period of 2017-2020, Tax Administration Transformation Program, the Arrears Clearance and Prevention Strategy, the National Anticorruption Strategy, the Public Procurement Development Strategy of the Republic of Serbia for the period 2014 – 2018 etc. ⁴

PFM RP takes into consideration all relevant documents in the area of European integration, starting from the Stabilization and Association Agreement between the European Union and is in compliance with all the obligations that Republic of Serbia has undertaken in the negotiating

⁴ Due to their complexity, the reports on implementation of those sub strategies shall be prepared separately, whereas in this report they shall include only those areas foreseen in the Action Plan of the Program.

process on EU accession. The PFM RP serves as an important document in programming developmental help from IPA and other sources.

The Fiscal Strategy for the period 2017 – 2019 recognizes the Public Financial Management Reform Program 2016 – 2020 as one of the key processes for successful implementation of fiscal consolidation program. Significant reform activities on both revenue and expenditure side result in a reduction of deficit and public debt, as well as in improvement of the procedures of overall budget process, starting from the medium-term planning phase to the control and audit of spending the budgetary funds. Improvement of the procedures related to planning, implementation and control on one side, and increasing the efficiency of institutions in charge of revenue collection on the other side, contribute and support the fiscal consolidation program. Economic Reform Program – ERP is the document developed annually by the Republic of Serbia, as being a candidate country for EU membership, for the purpose of establishing the platform for more efficient fiscal planning and coordination of economic policies, as well as the involvement in the European Semester „light“. In the guidelines of the European Commission for ERP preparation for the period 2016 – 2018, 2017 – 2019, and 2018-2020 the importance of the public financial management is emphasized. In addition to the fact that the subject of public finances is present in the first three chapters of ERP document, one of the areas of the highest priority within the chapters 4 – 6, referring to the Structural Reforms Priorities (SRP) – is related to the area of public financial management. In the area – Public Financial Management within the document ERP 2016 – 2018 and ERP 2017-2019 two priority structural reforms have been defined – 1. Tax Administration Transformation and 2. Enhancement of Capital Investments Management, taken from the Public Financial Management Reform Program 2016 – 2020.

A Special Group for public administration reform, co-chaired by the European Commission and Ministry of Public Administration and Local Self-Government of the Republic of Serbia, as a special supervisory body in monitoring the implementation of SAA, with the basic task to monitor the implementation of Public Administration Reform Strategy and accompanying Action Plan, will continue to serve as the appropriate instrument for communication, coordination and reporting on public administration reforms in the Republic of Serbia. The third meeting of the Special Group for Public Administration Reform was held in Belgrade, in March, 2017. At this meeting, the implementation of the Program was presented, as well as the activities conducted in the first year of the Program implementation.

Certain areas from the Program will be processed in detail and within the adequate negotiating chapters, in particular Chapter 32 – Financial Supervision, 16 – Taxation, 17 – Economic and Monetary Policies, 29 – Customs Union, 33 – Financial and Budgetary Provisions, 5 – Public Procurements etc. Monitoring of implementation of the Sector Budget Support for the area of Public Administration Reform IPA 2015, as well as other forms of using this instrument of support, also represent one way of monitoring the implementation of certain parts of the Program. The given kinds of cooperation with the European Commission will continue and will represent the significant contribution to the improvement of Program Implementation.

Public Financial Management Reform Process is related to and contained in the vertical functional analysis of the Ministry of Finance, conducted during 2016 by the World Bank. Certain recommendations from the Action Plan of the vertical functional analysis are separated and

grouped in a special Action Plan for implementation of recommendations from the vertical functional analysis of the Ministry of Finance, presented and endorsed by the Public Administration Reform Council on 29 December, 2016⁵. The results of the functional analysis will be taken into consideration on the occasion of the possible future improvement of the Program.

⁵ Action Plan for Implementation of recommendations of Vertical Functional Analysis of the Ministry of Finance is an integral part of the Indicator 1 of the Sector Reform Contract from IPA2015 for the Public Administration Reform Sector for SBS – *The Action Plans for the implementation of the recommendations of Horizontal Functional Review and Vertical Functional Review of the MoF are endorsed by the PAR Council.*