

Pursuant to Article 38, paragraph 1 of the Planning System Law of the Republic of Serbia („Official Gazette of the RS“, number 30/18), the Government hereby adopts the following

PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME 2021-2025

INTRODUCTORY WORD BY THE MINISTER

„In the previous period, the Republic of Serbia has made a huge success on two fronts - in its strive towards saving its economy and its fight for the health of its citizens. Our response was timely and efficient through defining and implementation of two assistance packages for both the economy and citizens aimed at mitigating consequences of the Corona virus pandemic. We are currently implementing the third assistance package and in fact never in the history has it happened that the state assumed the greatest burden of the crisis. We did it because we are always there for our economy and citizens, and we were not wrong. Our economy has survived despite a huge global economic crisis. We did not have any massive layoffs, factory closures, neither did we have any problems in purchasing protective masks, ventilators or other medical equipment. The state had allocated around eight billion euros, which is more than 17 percent of our GDP, for the three packages for our economy and citizens primarily due to accountable fiscal and economic policy we have been pursuing for years and the fact that our country has had a budget surplus for four years.



Serbia is among the best countries in Europe in terms of its economic growth rate. It is clear that everyone is looking for a way to accelerate the growth of their economies, to start making progresses as fast and as much as possible, because that is the key to the growth of salaries, pensions, capital investments, investments into health, education, culture. This is at the same time the goal of our economic policy. This is the reason why this year, even though the pandemic is still present, we are striving to have the highest GDP growth in Europe. We have made such a success, among other things, due to severe fiscal consolidation measures and successful public finance management reform we have been implementing in the previous period. Despite huge investments and commitments by the state, the public debt will remain stable and at the level below 60 percent, i.e., below the Maastricht level. Last year was also successful in terms of the unemployment rate, which dropped to 9 percent compared with the results of 2019, when it was 10.4 percent. Last year we had more than three billion euros of foreign direct investments in our country. That means new jobs, new investments, new technologies that are coming to the Republic of Serbia and confirms that the trust of the investors has been retained.

In the past two months, we have defined basic development and reform goals, which, among other things, relate to the reforms of public enterprises, Tax Administration, green agenda, i.e., to everything that is supposed to contribute towards better and more efficient functioning of our economy and raising living standard of our citizens. That is precisely the policy we will not and must not give in – the policy of the fight for our economy, for each and every investor, for each and every factory, for each and every job, i.e., for better and more quality lives for all citizens of Serbia”.

Siniša Mali, Minister of Finance

PART I

INTRODUCTION

This Public Financial Management Reform Programme (hereinafter referred to as: PFMRP) 2021-2025, is a public policy document that continues reforms of the public financial management (hereinafter referred to as: PFM) subsystems undertaken over the past five years. The first PFMRP, which covered the period from 2016 to 2020, was adopted in late 2015, and was the first document to institute a credible framework for monitoring progress across key PFM subsystems and a roadmap for implementing the key priority reform steps set by the Government of Serbia. Efforts had been invested into reforming some PFM subsystems even before the introduction of this first PFMRP. This had led to inconsistencies in some of these activities. It became apparent that a comprehensive framework was needed, one that would serve as guidance for the reforms, ensuring they were appropriately sequenced and identifying all shortcomings in key PFM subsystems. At the same time, it should strengthen the institutional and legal framework for PFM in accordance with international standards and commitments undertaken as part of the EU accession process.

The Programme adopted for the period 2015-2020 was duly revised for the period July 2019 – December 2020, three years after its introduction. The Working Group for PFMRP Preparation, Monitoring, and Reporting (hereinafter referred to as: the PFMRP Working Group) and the PFMRP Technical Secretariat, with agreement of the European Commission, Serbia’s key partner in PFMRP reforms, concluded that some measures and progress monitoring arrangements required enhancement and further elaboration.

In late 2019, as development of the new 2021-2030 umbrella Public Administration Reform Strategy was initiated, a new 2021 - 2025 PFMRP drafting also began. As envisaged in the Planning System Law, the first stage entailed an assessment of the state of play across all PFM subsystems and the formulation (articulation) of the overall objective of the new PFMRP. In this context, the circumstances in which the new PFMRP was initiated constituted an additional impetus for a detailed analysis of the achievements made to date and the selection of the pertinent measures, as well as their timeframes, sequencing, and financial impacts, that would appropriately improve the efficiency and effectiveness of PFM.

A new PFMRP is required since, even though its previous iteration has lapsed, there is continued need for reforms in this area. The PFMRP and its accompanying Action Plan were developed by the Working Group on Preparation, Monitoring and Reporting on implementation of the 2021-2025 PFMRP WG, established by the Decision of the Minister of Finance and comprising representatives of the following institution: the Ministry of Finance (MoF); Public Procurement Office (PPO); Public Policy Secretariat (PPS); General Secretariat of the Government; Ministry of Public Administration and Local Self-Government (MoPLSG);

Human Resources Management Service (HRMS); Ministry for European Integration (MEI); Governmental Audit Office of EU Funds (GAO); State Audit Institution (hereinafter referred as to: SAI); and the Parliamentary Committee on Finance, State Budget, and Control of Public Spending. The impact of measures envisaged in the PFMRP goes beyond merely enhancing performance and building capacity of relevant institutions, and greatly contributes to improving the quality of public administration. The global Covid-19 pandemic has made 2020 a challenging year, not just for public health but for the economy as well, which has caused a huge strain on public finances. For this reason, governments are faced with an unprecedented need to ensure stability of public finances that will allow mitigation of the adverse impacts of the pandemic and extend the support needed by the economy and citizens. Fiscal consolidation and structural measures undertaken in recent years have enabled stabilisation of Serbia's public finances and created the fiscal space necessary for new policies and provision of financial support to the economy and citizens. Further enhancement of the PFM is necessary not only in support of fiscal consolidation measures and structural reforms, but also to enhance the performance of public administration and ensure a conducive and attractive environment for investors.

To a great extent, the PFMRP relies on the Serbian commitments undertaken as part of the EU accession process under the negotiation chapters relative to this Reform. According to the new EU accession negotiation methodology, PFMRP pertains to the Cluster I – Basics within the public administration reform programme and is horizontally important for a number of areas, such as macroeconomic stability, good governance, business environment, transparency and the similar. PFM is not covered by single negotiating chapter. It is rather part of the following negotiation chapters, specifically: Chapter 5 – Public procurements, 16 – Taxation, 22 – Regional policy and coordination of structural instruments, 17 – Economic and monetary policy, 29 – Customs union, 32 – Financial control, 33 – Financial and budgetary provisions, mostly managed by the Ministry of Finance, and some PMF areas are also covered by both Chapter 23 – Judiciary and fundamental rights, and Chapter 24 – Justice, freedom and security. Public finance reform is also the subject of a special dialogue with the European Commission within the Public administration reform special group created under the Stabilization and Association Agreement with the EU. The benchmarks and commitments undertaken as a part of the EU accession process constitute significant guidelines for the PFMRP in the coming five-year period.

In the previous period, the PFMRP also served as an important instrument for programming, i.e., planning donor assistance, which was a significant support in the implementation of the reform measures. The importance of the progress within the PFM is also reflected in the fact that the PFM is one of the general preconditions for the use of the sector budget support funds (hereinafter referred to: SBS), as one of the modalities of using the pre-accession assistance of the European Union – IPA. As of 2015, when the implementation of the first SBS in Serbia in the area of public administration reform begun, the general preconditions for the use of the SBS instruments, under the competence of the Ministry of Finance – macroeconomic stability, budget transparency and successful PFM reform, have been assessed positively.

The results of the implemented reforms are also reflected in the fulfilment of the preconditions for opening negotiation chapters for the European Union membership. In the previous period, the following negotiation chapters pertaining to the public finance area were opened: 5 – Public procurement (December 2016), 17- Economic and monetary policy

(December 2018), 29 – Customs union (June 2017), 32 – Financial control (December 2015) and 33 – Financial and budgetary provisions (June 2018).

The Government has recognised the importance of the UN 2030 Agenda Sustainable Development Goals (SDGs) not only in the preparation of the voluntary report, but also in the process of the preparation of both strategic and planning documents. The SDG economic dimension has a particular importance in regards the PFMRP. It recognises as a part of the 5 Ps (*People, Planet, Prosperity, Peace and Partnership*) primarily Prosperity, i.e. economic growth (SDGs 8 and 9), as well as Partnerships which encompass institutions, finance and cooperation (SDGs 16 and 17). 2030 Agenda's economic dimension, which is reflected in its goals and targets 8, 9, 10, 16 and 17, is of a critical importance for the PFMP. Elements of its targets pertaining to this area refer to ensuring a stable macroeconomic environment and responsible fiscal policy, as well as promotion of development-oriented policies. For instance, SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and SDG 10 – Reduce inequality within and among countries, and particularly target 10.4 - Fiscal and wage policies are important framework for the PFMRP. SDG 16 – Peace, justice and strong institutions, supports the development of efficient, responsible and transparent institutions at all levels, with target 16.6 - Develop effective, accountable and transparent institutions, of particular relevance for the PFMRP. Successfully implemented fiscal policy measures and establishment of a favourable business and investment environment throughout years, contained in the PFMRP reform measures, have significantly contributed towards the improvement of all economic flows in the Republic of Serbia and the attainment of the SDG 17 – Partnership for the goals, targets 17.1 - Strengthen domestic resource mobilization and capacity for tax and other revenue collection, and mobilise additional funds, 17.4 – Long-term debt sustainability and 17.13 - Enhance global macroeconomic stability, including through policy coordination. Finally, in its essence, the PFMRP is a strategic step towards enhancing opportunities for a more successful implementation of all SDGs at the horizontal level.

PFMRP envisages a set of policies that are aligned with objectives of public administration development and ensure continuity in PFM reforms. Development of the PFMRP was preceded by an *ex-post* impact assessment of the 2016-2020 PFMRP and an *ex-ante* assessment of the 2021-2025 PFMRP, pursuant to the Planning System Law of the Republic of Serbia; the comprehensive results of the PFM reforms are outlined in the section entitled: *STATE OF PLAY: KEY RESULTS OF REFORM MEASURES UNDERTAKEN FROM 2016 TO 2020*, and discussed in detail under each particular PFMRP objective. As the PFMRP 2016-2020 had been adopted before the Planning System Law of the Republic of Serbia entered into force, it is to some extent inconsistent with the methodology prescribed by this Law. At the drafting stage of the PFMRP, care was taken to ensure its alignment with other policy documents, international commitments, and legal requirements, as described in the section entitled: *LINKAGES BETWEEN THE PFMRP AND STRATEGIC AND LEGISLATIVE FRAMEWORK, INTERNATIONAL STANDARDS AND EUROPEAN INTEGRATION PROCESS*. Further, the section: *FORMULATION OF DESIRED CHANGE* outlines the desired end state of PFM reform, whereas the chapter on: *PFMRP OBJECTIVES* sets out the objectives to be achieved through the measures envisaged across the six individual areas of the PFM. The sub-sections under each objective first describe progress achieved to date and then present the measures planned to attain the improvements. Specific objective IV – Enhancing the implementation of the internal financial control system in the public sector is designed in line with the COSO Framework. In its structure, it differs from the other special objectives, primarily given the horizontal importance of this area for the PFM reform and public administration reform as a whole, and it further gives an overview of the interconnections of

special objectives. Measures envisaged in the PFMRP are further elaborated in the Action Plan for Implementation of the PFMRP. As per responsible entities for the PFMRP measures and activities, they are primarily institutions that delegated their members to the Working Group for Drafting, Monitoring and Reporting on the implementation of the PFMRP for the period 2021-2025. Particular attention is devoted to risks and risk mitigation measures, as described in the section: *RISK MANAGEMENT*. The consultative process is elaborated in a separate chapter. Finally, the reporting mechanism will continue to rely on the arrangements established for the previous PFMRP, which have proved to be highly successful; this is presented in the section: *MONITORING THE IMPLEMENTATION, EVALUATION AND REPORTING PROCESS FOCUSING ON THE IMPLEMENTATION OF THE PFMRP FOR THE PERIOD 2021-2025*.

SUMMARY

Public Finance Management Reform Programme for the period 2021-2015 is a continuation of reforms initially articulated by the Programme which was adopted by the Government in 2015. It contains the overview of measures, activities, performance indicators, timeline for the implementation and assessment of funds required for its implementation. The Ministry of Finance, in cooperation with partner institutions, prepares the Report on the implementation of the Programme every year. It serves as a control mechanism that indicates possible delays or challenges in the measure implementation process. The new Programme encompasses, like the previous one, all budget cycle stages, which are formulated under six special objectives of the Programme. In the next five-year period, the Programme will constitute the basis for further progress and modernisation in the PFM area.

Improvement of the programme budgeting should continue through the improvement of the performance reporting, but it also should contribute towards the multi-year planning quality. Taking into consideration the importance of capital expenditure, public investment management is one of the key priorities of the Government. Assessments have shown that under-execution of the capital budget has not been caused by a lack of funds, but it was clear that failure to recognise any possible fiscal risks could adversely affect the stability of public finances. The Ministry of Finance has taken steps to strengthen fiscal risk monitoring capacity in order to ensure greater efficiency in managing assets and liabilities.

Tax Administration will continue the implementation of its Transformation Programme. The further development of the core tax activities has been planned. The process of consolidation of the STA's organisational units will continue in line with identified needs to achieve a new organisational structure, necessitated by the re-designing of business processes, increase in effectiveness in tax collection and reduction of taxpayer compliance costs. Special care in the upcoming period should also be placed on improvement of existing and introduction of new services to be developed in line with the taxpayers' needs, with a particular focus on the online communication through one single point of contact – personal e-portal.

Reform measures in the area of public debt will primarily be aimed at enhancing IT systems, strengthening strategic management, and improving administrative capacities. It is planned to further improve the knowledge in the area of risk analyses and costs. In this regard, a new risk management modelling software solution will be developed, which will greatly increase the Public Debt Administration's ability to analyse the relationship between the risks

and costs of borrowing, and will significantly facilitate the development of Serbia's borrowing strategy in the medium to long term.

Over the coming period, the PPO will remain committed to improving e-procurement system, mainly by upgrading the new e-Public Procurement Portal, through development of new modules, and creating a mobile app that will facilitate access and simplified following by bidders and contracting authorities throughout the public procurement process, from the call to contract award.

The objective of the last iteration of the PIFC Strategy, prior to the integration of this area into the PFMRP, was aimed at establishing and enhancing the quality of FMC and IA systems. Sustainable results have been achieved in that regards, numerous lessons have been learned and recommendations from the previous EU Commission Progress Reports have been adopted, specifically recommendations relative to the identification of the weaknesses of certain segments within the Consolidated PIFC Annual Reports. The Central Harmonisation Unit will therefore, within the new PFMRP 2021-2025, focus its activities on further enhancement of the implementation of the PIFC system, i.e. on the substance of the PIFC operation.

The Central Harmonisation Unit, through its consolidated annual reports, monitors the state of affair in the PIFC, and takes into account all information and conclusions of external processes of the system (SIGMA, PEFA), EC assessments stemming from the EC Progress Reports focusing on the Chapter 32, main conclusions of the external quality controls of the IA operations, as well as FMC system performed by the CHU. The CHU regularly cooperates with all relevant state institutions, colleagues from the PFBs, internal auditors, and coordinators for the FMC from PFBs. In addition, upon the amendments made to FMC Rulebook (irregularities management, management statements) novelties have been introduced into the PIFC, digitation possibilities have opened up, and the last PIFC AP stemming from the Strategy has intensively initiated activities to enhance quality of the IA operations through the obligation of professional development and advancements in terms of ensuring quality in the IA system.

The following reform measures in the area of PIFC are envisaged in the 2021-2025 PFMRP, specifically: improvement of FMC in public-sector institutions; improvement of public-sector IA functions in compliance with international standards and principles; enhancement of PIFC monitoring; and modernisation of the PIFC training system.

Public internal financial control reforms do not occur in isolation, but should rather help achieve strategic goals. As such, continued enhancement of medium-term planning mandated by the Planning System Law in the context of Specific Objective I of this 2021-2025 PFMRP - Capacity for budget planning and public investment management improved, will include a review of how organisational objectives can be better linked with national policies.

Additional capacity enhancements are needed in the areas of planning, inter-institutional co-operation, and budgeting. Moreover, many policy documents expired in 2020, and new ones will be adopted in line with the Planning System Law. As such, the overall quality of linkages between policies and organisational objectives and the budget can be expected to improve.

As detailed under measure - Improvement of medium-term planning (Specific Objective 1), assistance by PPS will remain available to entities required to produce medium-term plans and their medium-term plans will continue to be assessed for compliance with policy documents, which will result in progress with linking strategic and organisational objectives. Moreover, the same Specific Objective, Measure - Enhancement of the programme budget,

also envisages analysis of programme budget elements that will focus on existing links between policy documents and budget funding.

Accounting and financial reporting reform envisages the establishment of unified Information System for Budget Execution Planning and Financial Reporting (SPIRI) by 2020. Such system will fully replace the one currently in use (IBIS). In January 2021, the Treasury Administration has started using the Information System for Budget Execution of Autonomous Provinces and Local Governments, that was implemented in 2020 at the time when the Information System for Financial Reporting was implemented. It will enable electronic filing of financial statements by all budget funds beneficiaries in 2021. It aims at enhancing the process of collection, control and consolidation of data at all levels of government.

Given the interconnected nature of accounting and financial reporting, any changes to these two systems must to be complementary. The Treasury Administration will continue investing significant efforts into aligning regulations, providing training session, and strengthening IT capacity in order to provide the maximum quality of data which serve as a base for decision making. Despite the invested reform efforts in the area of reporting, further activities in the area of budget transparency are required, as well as further improvement of efficiency and effectiveness of reporting in line with the best international practice, all in compliance with the international accounting standards. Report on Budget Execution is to be timely issued and with sufficient level of detail to cover all beneficiaries at the central level, at the same time containing programme performance indicators and other data.

The quality and coverage of data provided in financial statements will be additionally enhanced. Budget execution reporting will be more comprehensive and will provide for greater transparency. Simultaneously with the improvement of financial reporting quality, public sector accounting will also be enhanced by increasing the number of staff members and their further professional development, but also by providing translation and the implementation of the IPSAS standards.

The SAI efforts in the next five-year period will be aimed at the public finance auditing all in line with its Audit Plan. The effort the SAI intends to invest in increasing number of staff members and audits envisaged by its Annual audit programme will significantly contribute to better scrutiny and control of purposeful spending of budget funds, which represents one of the key elements of a transparent and effective system of public finances.

In the next five-year period, the Parliamentary Committee on Finance, State Budget and Control of Public Spending will continue to develop its oversight function, specifically through organising sessions of the Committee and Sub-Committee wherein the SAI audit reports will be deliberated upon. Those sessions would be attended by representatives of the institution, auditees, and as needed, by representatives of other relevant authorities, organisations and institutions at both central and local level. Committee will monitor compliance with parliamentary conclusions based on the adoption of SAI's operating reports. To enhance the efficiency of the oversight function and monitor compliance with Parliamentary conclusions in the competence of the Government - the Ministry of Finance, the MoF will periodically report to Parliament on compliance with parliamentary conclusions based on the SAI's operating reports.

LINKAGES BETWEEN THE PFM RP AND STRATEGIC AND LEGISLATIVE FRAMEWORK, INTERNATIONAL STANDARDS AND EUROPEAN INTEGRATION PROCESS

One shortcoming of the previous iteration of the Public Finance Management Programme Report was its poor alignment with the umbrella Public Administration Reform (PAR) Strategy of the Republic of Serbia¹, given that the PAR Strategy was adopted in 2014, and drafting of the original PFMRP for the period 2016-2020² (hereinafter referred to as: 2016-2020 PFMRP) only began in early 2015. As such, the previous PAR Strategy dealt with a limited range of PFM issues (budget planning, public procurement management, and financial control), whilst the 2016-2020 PFMRP also comprised sustainability of the fiscal and budgetary framework, budget execution, financial reporting, and external oversight of public finances.

The 2018 Planning System Law³ and its accompanying bylaws⁴ provided for clear rules for the elaboration of public policies, with particular emphasis on the requirement for these to be mutually aligned. The alignment process of the two documents (PAR and PFMRP) was initiated in the autumn of 2019 within the Working Group for drafting Public Administration Reform Strategy for the period 2021-2030. As provided for in the Planning System Law, it was decided not to include PFM activities, within the Specific Objective 7 – Public Finance Management, in the new PAR Strategy, the umbrella strategic document covering the period from 2021 to 2030. Rather, the detailed activities would be fully elaborated within the PFMRP and accompanying Action Plan for period 2021-2025. The area related to the Managerial Accountability, previously part of the Public Internal Financial Control (PIFC) Development Strategy in the Republic of Serbia for period 2017-2020⁵ was incorporated into the Specific Objective 6 - Accountability and Transparency section of the 2021-2030 PAR Strategy.

Care was taken at the drafting stage to ensure consistency between this planning document and other current policy documents, other drafting documents, as well as to ensure its alignment with international obligations and statutory requirements, primarily EU accession negotiations. The PFMRP follows stages of the budget cycle as envisaged in the Budget System Law⁶, the principal legislative framework governing the PFM and regulating in detail the entire budget cycle. On a yearly basis the Government submits to the National Parliament the Fiscal Strategy⁷, provided for in the Budget System Law (Articles 2, 27c, 27d, 27e), being a document specifying objectives of the Government fiscal policy and assessing the sustainability of fiscal policy. It contains the data covering the three consecutive fiscal years. The Fiscal Strategy is a key document in the public finances in the RS, and is particularly relevant for the PFMRP as a framework of the fiscal policy and a source of verification of set indicators.

As a candidate country for EU membership, the Republic of Serbia has been producing annually Economic Reform Programme (ERP) since 2015, when the country was first included in high-level economic dialogue and co-ordination of economic policies in the form of the European Semester *Light*, which represents an important element of Negotiation Chapter 17. The ERP represents the most important Government strategic document in the area of

¹ “Official Gazette of the Republic of Serbia”, number 9/14 and 42/14 - Corrigendum

² https://www.mfin.gov.rs/upload/media/OUPTqo_6016bd999a20f.PDF

³ “Official Gazette of the Republic of Serbia”, number 30/18

⁴ “Official Gazette of the Republic of Serbia”, number 8/19

⁵ “Official Gazette of the Republic of Serbia”, number 51/17

⁶ “Official Gazette of the RS”, no. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – Corrigendum, 108/13, 142/14, 68/15 – Other Law, 103/19, 72/19 и 149/20

⁷ Fiscal Strategy for 2021 with the projections for 2022 and 2023 may be downloaded from the following link: <https://mfin.gov.rs/dokumenti2/fiskalna-strategija>

economic policy coordination. The first part of the ERP fully relies on Fiscal Strategy, with a special focus on the quality of public finances, while certain PFM areas, such as transformation of the Tax Administration, introduction of new model of fiscalisation and electronic invoicing, pertaining to the ERP part focusing on structural reforms, have been recognised as priority structural reforms in the 2021-2023 ERP.

To implement the Public Administration Reform of the Republic of Serbia, in addition to the 2021-2025 PFM RP, Local Government System Reform Programme for the period 2021-2025 is also produced, as well as the Program for Improving Public Policy Management and Regulatory Reform for the period from 2021 to 2025. Measures and activities are designed in those Programmes that also contribute towards the attainment of the 2021-2025 PFM RP objectives relative to improving budget planning at the local level, as well as harmonisation of budget planning and implementation of the public policies via information system use.

2021-2025 PFM RP contains key reform measures and activities within each specific objective.

One major difference from the previous PFM RP lies in the fact that the entire Public Internal Financial Control subsystem, under the competence of the Sector – Central Harmonisation Unit within the Ministry of Finance, has now been incorporated into the 2021-2025 PFM RP as a specific objective (Specific Objective IV - Improvement of application of the public internal control system), and therefore new Public Internal Financial Control Strategy will no longer be implemented as it used to be the case⁸, as agreed under the consultation process with the European Commission, taking into account all assumed obligations stemming from the Chapter 32 – Financial Control.

In the course of 2020, a Strategy for Fighting Against Frauds and Irregularity Management of EU funds and the implementation of its accompanying Action Plan was initiated as an obligation set under the negotiation position for the Negotiation Chapter 32. In addition, these documents are to be developed in accordance with Article 49 of the Planning System Law of the Republic of Serbia. Thus, this area, unlike previous period, was taken out from the 2021-2025 PFM RP Action Plan.

Local Government System Draft Reform Programme in the Republic of Serbia for the period 2021-2025 covers, within its specific objective 2 – Local Government Funding System, PFM RP at the local level, which envisage measures and activities in this area.

In the area of grey economy, a new National Programme for Combating Grey Economy is under development. It envisages special measures in the areas of inspection control, tax control and reporting and public procurement, which would additionally improve PFM as well.

Operational documents at the level of organisational units within the Ministry of Finance, administrations and other members of the PFM RP Working Group, should be harmonised with the 2021-2025 PFM RP when revised or upon their expiry. Documents linked with the PFM RP in the area of Tax Administration purview are Tax Administration Reform Programme for the period 2021-2025, with its accompanying Action Plan for the period 2018-2023; Customs Administration has adopted its Operational Plan for the Improvement of the Organisation and Work of Customs Service MoF for the period 2020-2024 and Action Plan for the Development and Use of the Custom Service Electronic Systems MoF for the period 2020-2024; Public Debt Administration, within the Fiscal Strategy, represents the Public Debt Management Strategy; Public Procurement Office has adopted its Public Procurement Development Programme in the Republic of Serbia for the period 2019-2023; a Proposal of

⁸ Strategy of Public Internal Financial Control Development in the Republic of Serbia for the period 2017–2020.

Budget Inspection Strategic Plan MF for the period 2021-2026 has been developed, as well as its accompanying Action Plan, and the SAI has adopted its SAI Strategic Plan for the period 2019-2023.

Measures of the PFMRP are based on the international standards in this area, such as: *PEFA* – Public Expenditure and Financial Accountability, International Public Sector Accounting Standards - *IPSAS*, International Standards of Supreme Audit Institutions – *ISSAI* and International Organization of Supreme Audit Institutions - *INTOSAI*, European Organisation of Supreme State Audits – *EUROSAI*, *COSO* Framework and preventions of tax base erosion and profit shifting - *BEPS*. Reports on public finance quality assessment such as Tax Administration Diagnostic Assessment Tool – *TADAT*, Public Investment Management Assessment – *PIMA*, Debt Management Performance Assessment – *DEMPA* and *PEFA* have also been taken into account, while the elements of a new assessment by *OECD/SIGMA* of the quality of public administration, prepared in the course of 2021, will be addressed in the PFMRP Implementation Reports.

Figure 1 provides an overview of the relevant planning documents that elaborate the objectives and measures of the 2021-2025 PFMRP and their interlinkage.



2021-2030 Public Administration Reform Strategy

2021-2025 Public Finance Management Reform Programme

Specific objective 1	Specific objective 2			Specific objective 3	Specific objective 4	Specific objective 5	Specific objective 6	
IMPROVED CAPACITIES FOR BUDGET PLANNING AND PUBLIC INVESTMENT MANAGEMENT	EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS			IMPROVEMENT OF BUDGET DISCIPLINE AND MORE TRANSPARENT USE OF PUBLIC FUNDS	IMPROVEMENT OF THE APPLICATION OF PUBLIC FINANCIAL CONTROL SYSTEM IN PUBLIC SECTOR	IMPROVEMENT OF ACCOUNTING AND INTRODUCTION OF ACCOUNTING STANDARDS	STRENGTHENING OF EXTERNAL SCRUTINY OF PUBLIC FINANCES	
Fiscal Strategy for 2021 with projections for 2022 and 2023	Tax Administration Transformation Programme 2021 – 2023 and Action Plan for Tax Administration Transformation Programme 2018 - 2023	Business plan for improving the organization and work of the customs service of the Ministry of Finance 2020 – 2024	Fiscal Strategy for 2021 with projections for 2022 and 2023	Program for Development of Public Procurement in Republic of Serbia 2019-2023	Action plan for employment of inspectors and other officials in republic inspections 2019-2021	PAR Strategy 2021-2030	Fiscal Strategy for 2021 with projections for 2022 and 2023	Strategic Plan of State Audit Institution 2019-2023
Economic Reform Programme 2021-2023 (ERP)	Economic Reform Programme 2021-2023 (ERP)	Work plan for the development and use of electronic systems of customs services of the Ministry of Finance 2020–2024	Public debt Management Strategy	Negotiation Chapter 5	Action Plan for Chapter 22	Strategic Plan of the MoF Budget Inspection for the period 2021-2026	Economic Reform Programme 2021-2023	Negotiation Chapter 32
Negotiation Chapters 17 and 23	Action Plan for implementation of Government Program 2020-2022 Work Plan of the Government for 2021	Negotiation Chapters 29, 33 and 17	Economic Reform Programme 2021-2023 (ERP)	Strategy for Fighting Against Frauds and Irregularity Management of EU funds in the Republic of Serbia		Negotiation Chapters 32 and 22	Negotiation Chapter 17	Negotiation Chapter 23
Action Plan for Chapter 22	Negotiating Chapter 16 Action Plan for Chapter 23	Negotiation Chapter 23	Negotiation Chapter 17	Action Plan for Chapter 22		COSO Framework	IPSAS (International Public Sector Accounting Standards)	INTOSAI (International Organization of Supreme Audit Institutions)
Action Plan for Chapter 23	BEPS (x base erosion and profit shifting)	Negotiation Chapter 24				NTOSAI (International Organization of Supreme Audit Institutions)		EUROSAI (European Organization of Supreme Audit Institutions)

Figure 1: Overview and interlinkages of the planning documents relevant for PFM

STATE OF PLAY: KEY ACHIEVEMENTS OF REFORMS UNDERTAKEN FROM 2016 TO 2020

The 2016-2020 PFMRP has enabled the attainment of significant results, thus additionally contributing towards the stabilisation and recovery of public finances in the Republic of Serbia, as evidenced by good economic results despite the Covid-19 pandemic. Continuity of the reforms processes and detailed information about their achieved outcomes are presented in annual progress reports⁹ for the 2016-2020 PFMRP, prepared by the MoF in cooperation with relevant institutions represented in the PFMRP Working Group. The attained results in the previous period represent the basis for further improvement of public finance management in the coming five-year period.

Significant progress across all PFM subsystems has been made since the adoption of the PFMRP. Programme budgeting and medium-term planning have been substantially improved; planning and monitoring of capital projects and fiscal risks has been improved; transformation of the Tax Administration and modernisation of the Customs Administration have accelerated; strengthening of public debt management has continued; major improvements have been made in the area of public procurement; financial management and control and internal audit have been reinforced; the range of indirect budget beneficiaries (IBBs) covered by the budget execution system has increased substantially; progress has been made in countering irregularities and fraud in the management of EU funds and recovery of the funds; the Budget Inspection has been additionally empowered; and, Parliamentary oversight of public finances and the SAI functioning have been further strengthened.

Turning to economic results, primarily macroeconomic environment, the positive trends initiated in 2015 have continued, as confirmed by important macroeconomic indicators. Public debt growth has been halted, with debt remaining on a stable downward trajectory, declining from 71.2 percent of GDP in 2015 to 52.9 percent in late 2019, only to increase to 58.2 percent of GDP¹⁰ at year-end 2020, below the Maastricht criteria. The deficit was significantly reduced from 6.2 percent of GDP in 2014 to 1.2 percent in 2016, with the country seeing a surplus of 1.1 percent of GDP in 2017 and 0.6 percent in 2018. The deficit amounted to just 0.2 percent in 2019 but rose to 8.1 percent in 2020 due to the Covid-19. Throughout the period of fiscal consolidation, Serbia was able to achieve real gross domestic product growth of 3.3 percent in 2016, 2 percent in 2017, 4.3 percent in 2018, and 4.2 percent in 2019. In 2020, GDP declined by 1 percent due to reduced economic activity over the final three quarters of the year due to restrictive epidemiological measures and worldwide recession¹¹ and it represents one of the best results in Europe.

Due to the fiscal consolidation measures fiscal space was created and used in 2019 to increase capital investments, repeal austerity measures that had impacted pensions and public-sector wages, increase of the lowest pensions and wages in the public sector, and reduce the tax burden on labour. At the same time, it enabled the Government to respond quickly with broad-based support packages aimed at both businesses and citizens, through three assistance packages in 2020 and 2021, with the value of 8 billion euros, during the pandemic outbreak. The measures were positively assessed by the international monetary funds, International

⁹ <https://www.mfin.gov.rs/dokumenti/program-reforme-upravljanja-javnim-finansijama-pfm/>

¹⁰ Data of 4 February 2021 downloaded on 25 February 2021 from: <https://www.mfin.gov.rs/dokumenti/makroekonomski-i-fiskalni-podaci/>

¹¹ Assessment of the Ministry of Finance of February 2021: <https://www.mfin.gov.rs/dokumenti/makroekonomski-i-fiskalni-podaci/>

Monetary Fund (IMF), World Bank, and the European Commission. The recognition for the achievements have also been recognised by *Moody's Standard & Poor's*, and *Fitch* rating services, which increased the country's credit rating (Ba2 and BB+, respectively) and placed Serbia a step further to the investment grade. Finally, Serbia is one of the few countries in the region to have made progress in the *World Bank's Doing Business* rankings in 2020.

As part of the implementation of the PFM reform, both administrative and analytical capacities of the Ministry of Finance and those of other relevant institutions involved in the reform have been significantly strengthened, particularly through new jobs, structural alignments as in the case of Tax Administration transformation, and training of the staff members, to be continued in the coming period. Introduction of new organisational arrangements, new models and analytical instruments, software, strengthening of IT capacities, training of staff members, improved exchange and greater transparency of information, have all made public finances more accessible to the public and the adoption of the EU standards in this field. These reform efforts will be continued in the next five-year period.

Special care was focused on the improvement of the legal framework (Budget System Law, Law on Planning System of the Republic of Serbia, Public Procurement Law, Customs Service Law, Law on Tax Procedure and Tax Administration, and other) and their harmonisation with the *acquis communautaire* and international standards, especially in the public accounting and auditing area, as well as improvement of the strategic reform framework.

Transparency of public finances was recognised as one of the key elements of the good governance. The major progress in the implementation of measures to improve transparency was envisaged under both 2016-2020 SPAR and 2016-2020 PFMRP, while the new PFMRP envisages further improvements in accordance with the identified weaknesses, reflected in commitments to continuously conduct reforms. The Ministry of Finance recognises the importance of transparency, comprehensiveness and clarity of budget documents and is dedicated to its constant improvement in line with the criteria and guidelines of the European Commission¹², Open Budget Index (OBI), Report on Public Expenditure and Budget Accountability (PEFA), SIGMA Monitoring Report and similar.

Programme budget, introduced in 2015, enabled better performance management of public administration, greater accountability of budget beneficiaries, establishment of closer links between the annual budget, prioritisation of expenditures and outlays, and implementation of public policies, and greater transparency of public spending. Greater compliance of budget beneficiaries' programme structure with the Programme Budgeting Instructions (rising from 61 percent in 2016 to 92 percent in 2020) has made the budget more transparent, as has the publication of the Citizens' Budget¹³, a document written in accessible and easily understandable language that explains how public funds are used and for what purposes, how revenues are collected, and what the budgeting process looks like. In addition to both better co-ordination between policy planning and budgeting and budget transparency, it also contributed to greater transparency in the implementation of planning documents, in particular of policy documents such as strategies. The practice of publishing Citizens' Budgets was pursued in parallel at the local level, where in relation to merely 9 percent of local governments making these documents available in 2018 the number has nearly quadrupled by

¹² European Commission, *Budget Support Guidelines*, September 2017, https://ec.europa.eu/europeaid/budget-support-guidelines_en

¹³ Citizens' Budget for 2021: <https://www.mfin.gov.rs/tip-dokumenta/gradjanski-budzet/>

2020 and amounts to 37 percent of all local governments¹⁴. Introducing gender-responsive budgeting (GRB) has additionally contributed to the transparency and effectiveness of budgeting.

In addition, the registration of invoices and other payment requests in the Treasury Administration enables more successful planning and management of liquid assets, both by economic entities and in the public sector, better transparency of data on creditors' claims from public sector entities in commercial transactions and transparency of data on public sector entities' liabilities in the same transactions. In addition to that, taxpayer services have also improved with the creation of the Taxpayer Services Department and provision of taxpayer education and assistance through the 'Your Tax Officer' (*Vaš poreznik*) counter. The STA has improved transparency by facilitating exchange of information with taxpayers through establishment of straightforward two-way channels that not only convey information but also provide information on impediments which have to be rectified in order to access their rights and comply with their legal requirements more efficiently. Provisions of the Customs Law¹⁵ and the Customs Service Law¹⁶ have additionally created conditions to improve the functioning of the Customs Service, namely that administrative capacity-building and promotion of anti-corruption policy contribute to a professional, ethical, and transparent Customs Service. Public debt information was kept up-to-date and published at the monthly and quarterly level, as one of the main result of efforts invested by the PDA into making public debt figures of Republic of Serbia more transparent. In recent years, development of primary and secondary legislation governing public procurement has led to increased transparency and efficiency of public procurement procedures, including by requiring contracting authorities to publish their procurement plans on the Public Procurement Portal. The Government has invested significant efforts to ensure transparency and appropriate use of EU funds, in concurrence with its efforts to do the same with the use of national funds. The establishment of an integrated system of registers ensures transparency in services provided to economic entities in the permit issuance procedure and contributes towards a more efficient exchange of data among competent institutions.

Public internal financial control has specifically contributed to transparency development, as well as the activities of the SAI and the National Parliament. As part of its activities focused on the increase of transparency, the SAI publishes a large number of information on its webpage, such as: Auditees' Response Report form¹⁷, which contains found irregularities and measures undertaken by auditees to rectify and/or comply with the SAI recommendations, Post-Audit Reports¹⁸ which contain assessment of each and every corrective measure, opinion whether those measures were satisfactory and opinion whether an auditee acted in bad faith in the event that the actions are found to be unsatisfactory. The SAI introduced new method of publication of its audit reports, where in addition to posting its reports on the web page, the SAI publishes pertaining highlight pages to make its recommendations more transparent, simple and understandable to the general public.¹⁹ Key

¹⁴ In 2018 as part of the Exchange Programme 5 (EU, IPA 2014) in cooperation with the Ministry of Finance and SCTM a model Citizens' Guide through Budget intended to towns and municipalities was developed and promoted. Its aim was to stimulate LGs to produce and publish these Guides..

¹⁵ "Official Gazette of the RS", no. 95/18, 91/19 - Other Law и 144/20

¹⁶ „Official Gazette of the RS“, no. 95/18

¹⁷ Information for auditees: <https://www.dri.rs/mediji/Obavestjenje-za-subjekte-revizije.n-339.7.html>

¹⁸ <https://www.dri.rs/revizije/poslerevizioni-izvestaji/2019-za-rev-2018.442.html>

¹⁹ Audit report highlight page: <https://www.dri.rs/revizije/rezime-izvestaja-o-reviziji/arhiva-2019.460.html>

activities of the Parliamentary Committee on Finance, State Budget, and Control of Public Spending during the term of the 2016-2020 PFM RP were holding sessions ('hearings') for reviewing SAI reports, wherein they deliberated upon reports. Apart from the SAI representatives, representatives of auditees, competent ministries and other relevant stakeholder took part in those hearings. Their aim was to increase transparency of public finances.

In the past five-year period IT systems of the MoF and its administrations have also been significantly improved, as well as those of other institutions taking part in the PFM RP Working Group. The Budget Information System (BIS) for preparation and completion of the budget has been developed. The Information System for Budget Execution (ISIB), which as a component of PFM system comprises processes and activities managed by electronic communication with the Treasury Administration, includes 529 indirect budget users (IBBs), and the Central Invoice Register (CRF) of the Treasury Administration was developed. A system allowing online completion and collection of annual FMC reports submitted by public funds beneficiaries has been developed and tested. In parallel with conventional paper reporting, an Electronic Reporting System was piloted in 2020 and its commissioning was planned in 2021, so as of that moment submission of electronic reports becomes mandatory. In the area of accounting and financial reporting reform, the activities on the introduction of the Common Information System for Planning, Reporting, and Accounting for Central Budget Beneficiaries (SPIRI) were initiated. This system will fully replace IBIS, the one currently in use by 2022. In the course of 2020, the Treasury Administration implemented the Information System for Budget Execution of Autonomous Provinces and Local Governments (ISIB AP JLS), which application was initiated on 1 January 2021. In the course of 2020, the Treasury Administration implemented the Information System for Financial Statement Filing (ISPF) which aim is to improve the processes of collection, control and consolidation of data at all governmental levels.

The implementation of 2015-2021 Transformation Programme resulted in, first of all, an increase in collection of public revenues, as well as in significant improvement in the quality of the Tax Administration services provided to both citizens and businesses. At the beginning of 2018, the Tax Administration finalised the digitisation process for tax return filing, introduced a series of useful electronic services for taxpayers, and the most important are the issuance of electronic certificates introduced in the first half of 2019, while in the first half of 2020 electronic letter-box for taxpayers generating revenues from sole-proprietor activities taxed a flat-rate was introduced.

The implementation of 2021-2025 Transformation Programme plans to introduce a new fiscalisation system and e-invoicing, which will make revenue collection more efficient and subsequently better overall condition of public finance system.

New computerised transit procedure is the first electronic, paperless customs procedure in the Republic of Serbia, which introduction was an obligation and a prerequisite for the accession of Serbia to full membership in the European Union. The application of the NCTS as the central level was successfully initiated on 25 January 2015. The use of this transit procedure created the conditions to improve the status of the Republic of Serbia as a transit country, because this system enabled the submission of electronic declarations for transit of goods and overall electronic keeping and management of transit customs affairs in the road

<https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D1%80%D0%B5%D0%B7%D0%B8%D0%BC%D0%B5-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B0-%D0%BE-%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B8.405.html>

transport. Paper declaration has been replaced by the electronic one in an efficient and safe fashion.

To further the modernisation process, the Customs Administration implemented the Project “Technical Assistance for Establishing the Institutional Framework for the Implementation of the Automated Import System (*AIS*) and Export System (*AES*)”. The project was funded by the EU pre-accession funds (IPA 2013).

The aim of this Project was to create conditions and strengthen Customs’ administrative and operational capacities for the implementation of automated import system (*AIS*) and automated export system (*AES*). Its introduction will be made possible through IPA 2020.

Currently the preparatory activities for operational implementation of automated import and export system (*AIS/AES*) and custom decision management system (*CDMS*) are underway. Those activities entail a lot of benefits, among others, abolition of paper-based operations, protection of citizens’ interests through better import and export control, improvement of safety and security aspects, and efficient filling of the budget, and similar.

The Public Debt Management System has been enhanced. Public Debt Management Software was designed at the end of 2018, and its implementation helped mitigate all operational problems in the work of the Public Debt Administration and increase its analytical capacities. *AuditDoc* software has been introduced to facilitate audit and document management, and a Common Information System (*JIS*) has been introduced that will be managed by the PPS. To ensure accurate and automated planning of wage bill expenditures, in 2020 the MoF set up a Common Human Resources Management Register for Beneficiaries of Public Funds (*RJEKJS*), which is operational. A Wage Calculation Information System (*CISOZ*) of the public sector staff members is under development as well.²⁰ New Public Procurement Portal, fully aligned with the Law on Public Procurement of 2019, represents a significant step in the digitation process of public procurement procedures, for it enables: e-filing of bids, e-contract awarding, e-auction, dynamic procurement system, e-planning, e-complaints, e-catalogue.

Since January 2017, the MoF made it possible to report irregularities involving EU funds on its official web site.²¹ Since August 2018, the national Anti-Fraud Co-ordination Service (*AFCOS*) has been able to share information on irregularities and suspected cases of fraud involving EU funds through the Irregularity Management System (*IMS*) operated by the European Commission and *OLAF*. The software application for submitting annual FMC Reports and annual Audit and IA Activity Reports under the competence of the CHU became operational in 2020.

The SAI has worked in parallel to enhance systemic follow-up of audit recommendations and digitise the audit process. In the area of development of an Audit Management System (*AMS*) tailored to manage audits the audit process was mapped and requirements defined. It is expected in the following period to see further improvement of these systems and their interoperability with the aim of enhancing public expenditure planning and budgeting capacity. Given the intensive activities in digitisation of public administration, in 2020 the MoF established a Public Finance Digitalisation Department to co-ordinate these processes in sectors and administrations under its purview.

²⁰ 2021-2023 ERP, p. 78.

²¹ Reporting suspicions of irregularities or violations while using EU funds and managing funds of the RS: <https://www.mfin.gov.rs/kontrola-javnih-sredstava/prijave-nepravilnosti/>

DEVELOPMENT OF THE 2021-2025 PFMRP

Given that the PFM reform is one of the specific objectives of the 2021-2030 PAR Strategy, collaboration with other institutions in the Working Group for preparation of the 2021-2030 PAR Strategy allowed alignment of these two policy documents and an assessment of the state of play, mirrored in the development of a ‘problem tree’ and an ‘objective tree’, including definition of the overall objective, as well as appropriate solutions for the upcoming 2021-2025 PFMRP. In July 2020, by the Decision of the Minister of Finance the Working Group for the preparation, monitoring and reporting on the implementation of the 2021-2025 PFMRP (hereinafter referred to as: Working Group) was established. The Covid-19 pandemic has also affected PFMRP preparation, and the most activities now taking place *online*.

The preparation of the 2021-2025 PFMRP also relied on annual progress reports for the 2016-2020 PFMRP, prepared by the PFMRP Technical Secretariat in cooperation with the Working Group members and formally adopted by the Government of the Republic of Serbia. These reports were improved for each successive year in line with best practices, in intensive co-operation with SIGMA experts. Preparation of two additional detailed analyses were initiated and used in the preparation of the 2021-2025 PFMRP.

The first detailed analyses of the current PFMRP, with recommendations and guidance for producing the 2021-2025 PFMRP, was performed with assistance from the complementary technical assistance project “Support to the Ministry of Finance under the PAR Sector Reform Contract”, and entailed both *ex-post* and *ex-ante* impact assessment of measures of public policies in line with the Planning System Law of the Republic of Serbia.

The analysis contained key findings and conclusions to be taken into consideration when designing the structure and content of the 2021-2025 PFMRP. Its recommendations were based on the assessment of the current state of play, relevant indicators, review of policy documents relevant for the PFM reform, responses to questionnaires administered to all PFMRP Working Group members and *online* discussions. The assessment looked at the pillars of the revised 2016-2020 PFMRP but also included the Sustainable Macro-Fiscal and Budgetary Framework pillar, so that the recommendations were developed for each objective under review.

The second detailed analysis initiated by the MoF was the Public Expenditure and Financial Accountability (PEFA) Assessment, undertaken by the World Bank and intended to provide crucial information for preparation of the 2021-2025 PFMRP. The PEFA Assessment relied on internationally recognised methodology for PFM diagnostics. It looked at the last three available fiscal years (2017-2019), with the cut-off date being 30 June 2020. The first draft of the PEFA Assessment was completed in November 2020, initial recommendations were submitted in December 2020 and the second draft of the assessment was made available in January 2021. This document allowed comparison of current PFM performance relative to 2015, when the last PEFA Assessment was made, and permitted identification of areas that require additional improvements, taking into consideration that the methodology had undergone some changes between the two assessments for Serbia.

In addition to the existing strategic framework for PFM, these two documents contributed greatly to the quality of the 2021-2025 PFMRP as they provided a snapshot of the state of play in each individual PFM subsystem and confirmed which of these required particular attention going forward. Both assessments made similar recommendations for PFM improvements in identical areas.

Significant attention has been devoted to stakeholder consultations on the PFM, with draft documents published at the MoF website. PFM policy dialogue takes place at least once

per year prior to adoption of the PFMRP progress report, with support from the joint German-Swiss assistance project Public finance reform – 2030 Agenda, implemented by the GIZ, and serves as a platform for discussion with stakeholders, such as civil society organisations, the EC, international organisations, and donors. This stakeholder dialogue took the form of a one-day conference in 2017, 2018, and 2019 and was the opportunity to present progress in the PFM reform process and discuss further plans. In addition, all stakeholders were able to send in their comments and suggestions to the dedicated e-mail address: pfmdijalog@mfin.gov.rs. In 2020, this meeting was not held due to Covid-19 pandemic. The dialogue for 2021 was organised online on 20 May.

STATEMENT OF DESIRED CHANGE

The 2021-2025 PFMRP builds on the results achieved from 2016 to 2020, and the process of its preparation was used to re-assess the directions and challenges of PFM area.

The desired change to be attained in the period from 2021 to 2025 constitutes further improvement of interrelated specific objectives of the PFM Reform Programme, consequently to contribute towards the overall progress in this area.

In the area of budget planning, further progress is to be made in the process of enhancing programme budgeting through strengthening performance-related elements. Moreover, the progress in the capital investment is necessitated through practical application of the set legal framework for capital investment management, as well as in the financial risk monitoring area, for which a setting of a new legal framework is planned.

As part of budget fund collection and management, the care is to be taken to strengthen business processes, administrative capacity and IT solutions in line with the EU standards. Further progress should be ensured, as well as continuous alignment with best IT solutions that will enable more efficient and transparent work in the tax collection, management of budget funds and public debt, and more transparent public procurement procedures. Even the slightest error when making decision regarding the public debt management can incur significant costs and have a major impact on public finances. It is therefore critical to make public debt management a continuous priority and to further the efforts in strengthening capacities of the Public Debt Administration to align its work with the practice of the most developed countries.

Efforts in enhancing budget discipline and transparency in public fund spending should reflect in further institutional strengthening of budget inspection system, but also in bodies competent for EU funds management and control.

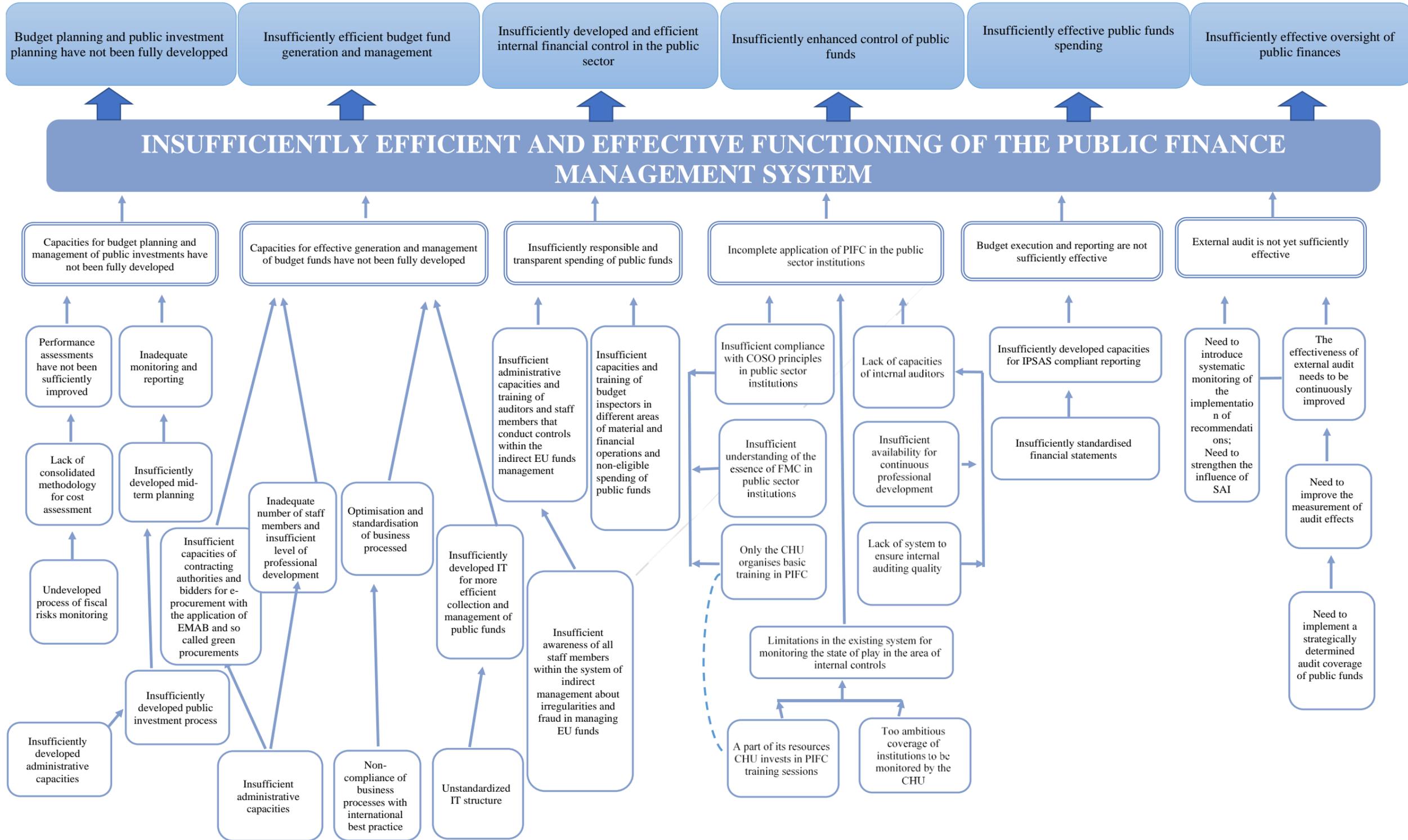
It is necessary to further improve the FMC systems in the public institutions, strengthen the internal audit function, monitoring internal control and training activities.

In the accounting area, a clear plan to advance accounting in the public sector should be develop. Its implementation will ensure progress in this area, and will further accountant certification process and ensure improvement of the accounting data coverage.

Further enhancement of the external audit should be ensured in the area of external oversight over public finances, as well as the control function of the National Parliament.

This statement of desired change is based on the assessment of the state of play and PFM issues identified to date, as shown in Figure 2, Problem tree.

Problem Tree – Public Finance Management



Graph 1 Problem Tree – Public Finance Management

PART II

CONSULTATION AND PUBLIC DIALOGUE PROCESS

The draft of the PFMRP 2021-2025 and its accompanying Action Plan were prepared by the Working Group for preparation, monitoring and reporting on implementation of the PFMRP 2021-2025 (hereinafter referred to as: Working group), which comprised all stakeholders identified as relevant for the development and implementation of the PFMRP, and represent the continuation of the Working Group for the previous PFMRP.

Prior consultations were held in 2019 and 2020, both within the MoF and with other public authorities, primarily with MoPALG and PPS, discussing about the topic relative to interconnection among policy documents at different hierarchical levels. They also discussed about managerial responsibility with different partners (SIGMA/OECD, MoPALG, Government General Secretariat, MoF, PPS, EU Delegation to the Republic of Serbia, Complementary Support of the EU in the Public Administration Reform, Twinning Project at the MoF).

At the end of 2019, in the framework of preparations of the new umbrella 2021-2030 Strategy, work commenced on drafting the new PFMRP for the period 2021-2025. First phase envisaged, in line with the Planning System Law, analyses of the state of play in all subsystems of the PFM and formulation of both General Objective and Specific Objectives of the new PFMRP applying all basic elements (a problem tree and solution tree, additionally improved in the course of the PFMRP development). All PFMRP Working Group members took part in these activities.

On 18 May 2020, pursuant to Article 32 of the Planning System Law of the Republic of Serbia, No. 30/18), the MoF notified the general public it was commencing development of the new PFMRP for period 2021-2025, which constituted the formal initiation of this process as the continuation of efforts undertaken in the PAR Strategy drafting exercise.

The Working Group for preparation, monitoring and reporting on the implementation of the 2021-2025 PFMRP was established by the Decision of the Minister of Finance on 8 July 2020 and is comprised of 58 members and its substitutes representing the Ministry of Finance²², PPO, PPS, Government General Secretariat, MoPALG, HRMS, GAO, SAI, and the Parliamentary Committee on Finance, State Budget, and Control of Public Spending. Restrictions due to Covid-19 meant the Working Group met in online formats.

Development of the 2021-2025 PFMRP and its accompanying Action Plan continued with an impact evaluation of the 2016-2020 PFMRP with recommendations for the improvement of all segments of PFMRP, where assistance was provided by experts of the Project of Complementary assistance for the area of PFM, as reviewed by the Working Group members and then discussed in detail at separate meetings on the bases of proposals for preparation of the new PFMRP.

²² Sector for International Cooperation and European Integration, Sector for Macroeconomic Analysis and Projections, Sector for Budget, Sector for Financial System, Sector for Monitoring Fiscal Risks, Sector for Customs System and Policy, sector – Central harmonisation Unit, Sector for Budget Inspection, Department for Fighting Against Frauds and Irregularity Management of EU funds, Tax Administration, Treasury Administration, Public Debt Administration, Customs Administration, Administration for Prevention of Money Laundering, Tobacco Administration.

In 2020, drafting of the PFMRP took place in parallel with the PEFA Assessment, undertaken by World Bank experts, in extensive online meetings with Working Group members and other institutions²³ responsible for issues covered by the PEFA methodology²⁴.

The PEFA Recommendation Assessment were then reviewed in detail by the Working Group and experts of the Project of complementary assistance for the area of PFM in a series of online consultations in November 2020, that served as a bases for additional improvement of the draft PFMRP.

Public consultations on the 2021-2030 PAR Strategy were held in December 2020 with the participation of the MoF²⁵. SIGMA experts and the EC were consulted in the development of the PAR Strategy and their comments were taken into consideration in the development of the PFMRP. March and April 2021²⁶ public consultations for the 2021-2025 PFMRP and its accompanying Action Plan covering the same period were held, as envisaged by the Planning System Law of the Republic of Serbia which involved all Working Group members, representatives of civil society organisations, the EC, SIGMA, IMF, World Bank, and other national and international stakeholders.

As of 25 March to 15 April 2021, in accordance with the Planning System Law of the Republic of Serbia, public consultation process on the draft 2021-2025 PFMRP and its accompanying Action Plan were held by the way of posting these documents on the web site of the MoF and the E-Government Portal. All stakeholders had the opportunity to submit their comments and suggestions in the course, but also after that period, since the draft 2021-2025 PFMRP was on the MoF web site till the end of May. The comments by the Standing Conference of Town and Municipalities (hereinafter referred to: SCTM) and European Policy Center (CEP) were submitted electronically.

In the course of the meeting held on 20 May 2021, focusing on the Dialogue on public finance management policy, which was organised online, the following institutions took part: Ministry of Finance of the Republic of Serbia, Ministry of European Integration, Ministry of Public Administration and Local Government, Public Policy Secretariat of the Republic of Serbia, Governmental Audit Office of EU Funds, National Parliament of the Republic of Serbia, SAI, Fiscal Council of the Republic of Serbia, EU Delegation, Embassy of the Federal Republic of Germany, Swiss Cooperation Office, World Bank, IMF, SIGMA, National Convention on the European Union, SCTM and European Policy Centre.

The Draft Report on the implementation of the PFMRP for the year of 2020 was presented in the course of the meeting, as well as the new 2021-2025 PFMRP.

The audience was addressed in the course of the introductory speeches by a State Secretary of the MoF, Head of EU Delegation to the Republic of Serbia, representative of the German Embassy, Assistant Minister of the MoPALG, Coordinator of the National Convention on the European Union and a member of the Fiscal Council.

²³ Ministry of Health, Ministry of Education, Science and Technological Development, Ministry of Economy, ministry of Construction, Transport and Infrastructure, Property Directorate, Commission for Protection of Rights in Public Procurement Procedure.

²⁴ <https://www.pefa.org/resources/pefa-2016-framework>

²⁵ <http://mduls.gov.rs/javne-rasprave-i-konsultacije/pocetak-javne-rasprave-o-predlogu-strategije-reforme-javne-uprave-za-period-2021-2030-i-ap-za-period-2021-2025/>

²⁶ This part will be revised upon the finalisation of the consultation process. It will contain conclusions and recommendations stemming from this process, and all clarifications as taken into consideration in the course of consultations and afterwards incorporated into the PFMRP. The reasons will be given for those ones not taken into account.

After presentations of all listed documents by all Working Group members, representatives of the SCTM and European Policy Centre submitted their comments and questions regarding the mentioned documents.

The period of public consultations on the new 2021-2025 PMFRP officially lasted from 25 March till 15 April 2021 in accordance with the Public Consultation Proposal approved by the Committee of Economy and Finances of the Government on 24 March 2021. It provided both posting of the document on the web site of the Ministry of Finance and e-Government Portal, and organising of a special meeting to present the Draft 2021-2025 PMFRP to the stakeholders. The Draft Programme was posted on the web site of the MoF and all stakeholders had the opportunity to submit their comments and suggestions on the Draft Program in the above period, but also after that period, until the meeting of the Dialogue on Public Financial Management Policy. The Dialogue on PFM Policy was organised online on 20 May 2021, and detailed information regarding this meeting can be found in the Report on the Public Consultation “Dialogue of PFM Policy”.

SIGMA/OECD, EU Commission, World Bank and SCTM provided their comments in that period, while on 20 May 2021, in the course of the meeting “Dialogue on PFM Policy” European Policy Centre (CEP) provided its comments and questions. All received comments significantly contributed towards the improvement of the PMFRP quality.

2021-2025 PMFRP GENERAL OBJECTIVE AND SPECIFIC OBJECTIVES

The general objective of the 2021-2025 PMFRP is to achieve a sustainable budget with a stable ratio of public debt to GDP through better FMC, auditing, and integration of budget planning with Government priorities and policy documents. This goal is linked with the 2021-2030 PAR Strategy, where it constitutes Specific Objective 6.

Progress made in attaining the General Goal of the 2021-2025 PMFRP will be monitored by means of the following indicators:

- ✓ Real GDP growth, and
- ✓ Level of general government debt
- ✓ % of allocation for capital investment against the GDP.

The Specific Objectives of the 2021-2025 PMFRP are:

- ✚ Specific Objective I – Capacity for budget planning and public investment management and fiscal risk monitoring improved,
- ✚ Specific Objective II – Efficiency ensured in collection and management of public revenues;
- ✚ Specific Objective III – Budget discipline and transparent use of public funds improved,
- ✚ Specific Objective IV – Application of the internal public financial management control in the public sector improved,
- ✚ Specific Objective V – Public accounting with the application of the international public sector accountings standards (*IPSAS*) improved,
- ✚ Specific Objective VI – External oversight of public funds enhanced.

The objectives, measures, and activities presented under each Specific Objective of the 2021-2025 PMFRP should contribute to enhancing the legal and organisational framework, human and technical capacity across the PFM area, in order to ensure that Serbia meets requirements of the EU integration process and international standards.

In the next five years, the PFMRP will focus on strengthening all aspects of the PFM as identified under Specific Objectives, which are primarily linked to the budget cycle phases, by improvements to the legal framework, and strengthening both administrative and technical capacity of institutions responsible for PFM Reform, with particular emphasis placed on digital transformation through software development and IT capacity building and its integration, as well as compliance with obligations undertaken in the EU accession process along with the alignment with international standards. In addition to that, special attention will be given to strengthening the mutual horizontal links among the individual Specific Objectives, as detailed in Specific Objective IV, APPLICATION OF PUBLIC INTERNAL FINANCIAL CONTROL IMPROVED. Enhancing the quality of public finance management will have special importance for the improvement of the quality of work of public administration in general.

Logical Matrix containing both General and Specific Objectives, along with the measures proposed is presented in the Annex to the Programme.

SPECIFIC OBJECTIVE I - CAPACITY FOR BUDGET PLANNING AND PUBLIC INVESTMENT MANAGEMENT AND FISCAL RISK MONITORING IMPROVED

Transparent and effective planning and budgeting of public expenditures is a key segment of an adequate public financial management. The 2015 shift from a line budget based on type of expenditures to a programme budget has made it possible to assess linkages between Government policies, available resources, and performance of budget programmes. Unlike the traditional line budget, the programme budget requires beneficiaries to report on their objectives, programmes, and activities to the Ministry of Finance, which uses this information to allocate resources and set ceilings for each beneficiary. As such, programme budgeting represents a system with a performance-based allocation of resources, or rather the results achieved by each institution, while at the same time it addresses the costs of their short- and long-term objectives. Moreover, linking policy documents with the programme budget through mid-term plans allows monitoring of the costs of their implementation, and, most importantly, monitoring of public policies' outcomes and effects.

Incomplete implementation of the public investment monitoring process and underdeveloped financial risk monitoring process intensify vulnerability of the budget process. Insufficient administrative capacities further affect these processes. Underdeveloped mid-term planning causes non-compliance of the goals set under planning documents with the goals set by programme budget, as well as non-compliance of the estimated costs with the mid-term expenditure framework set by the Budget System Law.

Improvement of programme budget should also contribute towards multi-annual planning quality. In the general part of the Budget System Law of the Republic of Serbia, capital expenditures first began to be reported for a period of three years, as the most common multi-year expenditures.

Taking into consideration the importance of capital expenditure, public investment management is one of the key priorities of the Government. Assessments have shown that under-execution of the capital budget has not been caused by a lack of funds, but it was clear that failure to recognise any possible fiscal risks could adversely affect the stability of public finances and hold back project implementation. The Ministry of Finance has taken steps to strengthen fiscal risk monitoring capacity in order to ensure greater efficiency in managing assets and liabilities.

ACHIEVEMENTS MADE TO DATE

The quality of the Republic of Serbia's programme budget has been consistently improving year by year. This has been the result of both enhancements to programme budget structure and continuous learning and accumulation of experience in budgeting and reporting by public funds beneficiaries public funds beneficiaries, based on trainings delivered by the National Academy for Public Administration (NAPA)²⁷. The plan was for 100 percent of public funds beneficiaries at all levels of government to present their programme budget²⁸ structures in compliance with the Programme Budgeting Instruction, and to that end the Ministry of Finance invested much effort in improving the quality and transparency of the budget process. Compliance with the Instruction increased each year, from 61 percent in 2015 to 92 percent in 2020. In addition, the percentage of Local Self Government Units whose budgets complied with the Budget Programme Instruction increased from 42.6 percent in 2015 to 81 percent in 2020²⁹.

Apart from continued training for public funds beneficiaries, progress with budgeting has been ascribed to enhancements to the Programme Budgeting Instruction³⁰, and improvement of programme structures and programme information. Training for civil servants³¹ in budget preparation and programme performance reporting is offered regularly as part of the continuous professional development programme for civil servants managed by NAPA. Instructive training sessions dedicated to the local government staff members were organised within the EU Programme *Exchange 5* in cooperation with the Ministry of Finance and SCTM, in total 12 regional one-day seminars annually. So, in the course of 2017, 2018 and 2019 the total of 750 representatives from around 80 percent of all local governments took part in those seminars. However, in the course of 2021 budget preparation, due to pandemic-induced circumstance, four one-day webinars were organised. Budget beneficiaries have improved their programme budget preparation procedures since the introduction of mandatory programme performance reporting. This reporting requirement has focused their attention on setting better performance indicators to be used in reporting and alter their programme structures following reviews during each reporting period. One indication of the extent to which public funds beneficiaries are committed to evaluating programme performance is the budget structure compliance with the new programme performance reporting requirements, which stood at 74³² percent in 2019, exceeding the expected 72 percent.

The Budget Information System (hereinafter referred to as: BIS) was also introduced in the budget preparation process, as it facilitates the input of financial plans and makes it easier to analyse and consolidate budget beneficiaries' financial plans. The BIS has been continuously improved, most recently by the introduction of a new module for monitoring and reporting on programme performance.

In addition, the budgeting process has also been made more transparent with the preparation and publication of the Citizens' Budget of the Republic of Serbia, a document

²⁷ Prior to the establishment of the NAPA, training sessions were organised through the Human Resource Management Service.

²⁸ <https://www.mfin.gov.rs/wp-content/uploads/2019/11/Uputstvo-za-pripremu-programskog-budzeta-30.-septembar-2020.pdf>

²⁹ See revised PFM RP for July 2019 – December 2020, available at: <https://www.mfin.gov.rs/dokumenti/program-reforme-upravljanja-javnim-finansijama-pfm/>

³⁰ Current iteration of the Instruction was updated in September 2020.

³¹ <https://www.napa.gov.rs/tekst/49/godisnji-programi-obuka-naju.php>

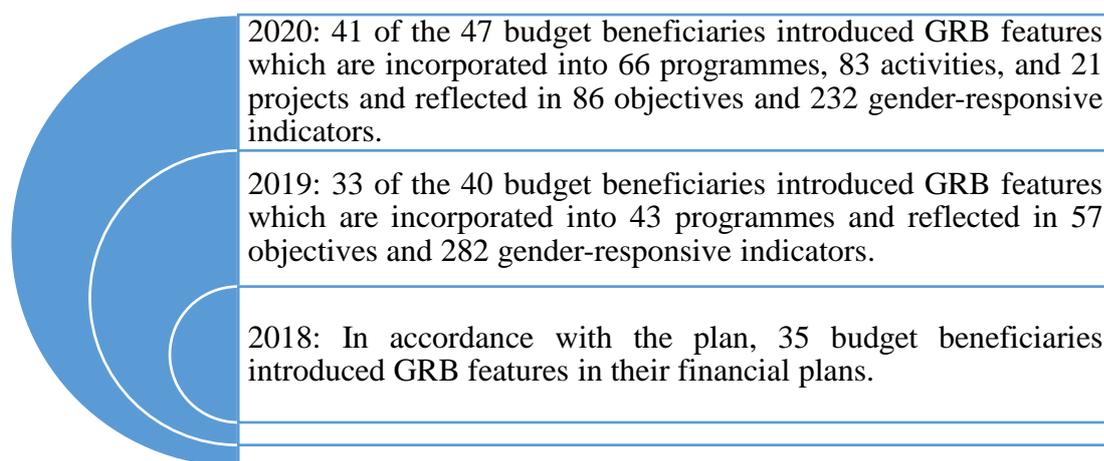
³² Report on the Implementation of PFM RP for 2019, available at: <https://www.mfin.gov.rs/dokumenti/program-reforme-upravljanja-javnim-finansijama-pfm/>

aimed at the broadest public that explains the structure of the budget and how funds are generated and spent. Since 2015, the Citizens' Budget has been published annually on the Ministry of Finance web site.³³ The legal requirement for budget beneficiaries to publish information about budget programmes and performance reports has additionally enhanced budgeting transparency. The practice of publishing Citizens' Budgets was pursued in parallel at the local level, and the number of LGs making these documents available has nearly quadrupled to 37 percent in 2020³⁴ from 9 percent in 2018.

Gender-responsive budgeting (GRB) has additionally contributed to the transparency and effectiveness of budgeting. This practice entails assessing the budget from a gender-sensitive perspective at all levels of the budget process and restructuring revenues and expenditures so as to promote gender equality. Gender-responsive budgeting has gradually been introduced since 2016, in accordance with annual plans³⁵, with the introduction of gender-sensitive indicators.

Alongside appropriate budgeting of public expenditures, medium-term planning is a key element of the planning system and policy management in the Republic of Serbia. The Planning System Law of the Republic of Serbia³⁶ was adopted with a view to strengthening the legal and institutional framework in this area. This Law regulates the planning system and its pertaining elements, including the management of the public policy system and medium-term planning, types and content of planning documents which, in accordance with their competencies, are proposed, adopted and implemented by participants in the planning system at both national and local level. The Planning System Law of the Republic of Serbia also regulates the obligation to harmonize planning documents, which in the case of 2021-2025 PFMRP is provided through the integration of certain planning documents into the 2021-2025 PFMRP, while some have remained separate because they represent operational plans that cannot be integrated into the Program. On the other hand, the PFMRP is linked to a hierarchically higher public policy document, i.e. the umbrella Public Administration Reform Strategy for the period 2021-2030.

Figure 4: Number of budget beneficiaries that have introduced GRB



³³ <https://www.mfin.gov.rs/tip-dokumenta/gradjanski-budzet/>

³⁴ In 2018, as part of the Programme Exchange 5 (EU, IPA 2014), in cooperation with the Ministry of Finance and the SCTM, a model of a Citizens' Budget intended for cities and municipalities was prepared and promoted in order to encourage LS to develop and publish these guides.

³⁵ <https://www.mfin.gov.rs/dokumenti/plan-uvodjenja-rodno-odgovornog-budzetiranja-u-postupak-pripreme-i-donosjenja-budzeta-republike-srbije-za-2020-godinu/>

³⁶ "Official Gazette of the Republic of Serbia", number 30/18

The importance of the Planning System Law of the Republic of Serbia is reflected in the establishment of the obligation to assess of the effects of regulations and public policies, monitoring, evaluation and reporting on the implementation of planning documents and the achieved effects. In order to further regulate this Law, the Government of the RS has adopted two accompanying regulations - the Regulation on the Methodology of Public Policy Management, Impact Analysis of Public Policies and Regulations and the Content of Individual Public Policy Documents³⁷ and the Regulation on the Methodology of Drafting Mid-Term Plans³⁸, which represents a legal framework for medium-term planning. Medium-term planning reporting entities should prepare their medium-term plans expressing all commitments from public policy documents, priorities defined by the Government in the Action Plan for the Implementation of the Government Program, the National Program for the Adoption of the Acquis (NPAA) and the Institution Development Plan for the next three years, taking into account available capacities and resources, as well as changes in relation to the time when the mentioned policy documents have been adopted. In the coming period, the medium-term plans are expected to become the main management document of each public sector institutions, which will enable the planned public policies to be fully implemented. The requirement to develop medium-term plans will significantly improve program budgeting. As part of the support for medium-term planning reporting entities the Manual for Drafting Medium-Term Plans has been developed³⁹.

In compliance with the Planning System Law of the Republic of Serbia and the new Methodology, medium-term plans for the period from 2020 to 2022 have been prepared by the Ministry of Health⁴⁰, Public Policy Secretariat (hereinafter referred to as: PPS)⁴¹, Ministry of Public Administration and Local Self-Government⁴², and the Ministry of Defence⁴³, being medium-term planning reporting entities of at the central level of government.

In the course of 2020, the PPS continued to provide methodological support to medium-term planning reporting entities through the assistance provided to five new ones. For the period from 2021 to 2023, seven medium-term plans have been adopted: Ministry of Finance, Ministry of Public Administration and Local Government, Ministry of Defence, Public Policy Secretariat, Republic Geodetic Authority. In accordance with the Planning System Law of the Republic of Serbia, preparation of all medium-term plans for LGs, being reporting entities, was initiated at the end of 2020 within the project funded by grant provided through *SlovakAid*, which is complemented by the UNDP in cooperation with the PPS and SCTM⁴⁴.

³⁷ "Official Gazette of the Republic of Serbia", number 8/19

³⁸ "Official Gazette of the Republic of Serbia", number 8/19

³⁹ <https://rsjp.gov.rs/wp-content/uploads/Priruc%CC%8Cnik-za-izradu-srednjoroc%CC%8Cnih-planova-09032020.pdf>

⁴⁰ On 30 January 2020, the Minister of Health adopted the MoH Medium-Term Plan, which is expected to be published online at a later date once the Covid-19 pandemic situation has stabilised.

⁴¹ The 2020-2022 PPS Medium-Term Plan is available at: <https://rsjp.gov.rs/cir/srednjorocni-plan/>

⁴² Medium-term plan of the Ministry of Public Administration and Local Government for the period 2020-2022, available at: <http://mduls.gov.rs/wp-content/uploads/SP-MDULS-2020-2022-final.pdf>

⁴³ Medium-term plan of the Ministry of Defence for the period 2020-2022, available at: http://www.mod.gov.rs/multimedia/file/staticki_sadrzaj/dokumenta/Srednjorocni%20plan%20Ministarstva%20odbrane%20za%20period%20od%202020%20do%202022%20godine.pdf

⁴⁴ Project "Public and private finance for development - Ensuring sustainable local communities by improving local development planning". LGs that are provided with the support in the development of mid-term plans in accordance with the previously adopted Development Plans within the phase one of the subject Project are: Sjenica, Kuršumlija, Petrovac na Mlavi, Mali Zvornik and Bački Petrovac.

Also, in order to strengthen the capacity of state administration bodies, the PPS, in cooperation with the National Academy of Public Administration, held three training sessions in 2020 dedicated to medium-term planning entitled: "Training of trainers and mentors in the field of public policy - module 4, Medium-term planning". which resulted in the training of 16 future trainers.

Medium-term plans are entered into the Unified Information System for Planning, Monitoring Implementation, Policy Document Coordination and Reporting (hereinafter referred to as: UIS), and through UIS, progress in the implementation of medium-term plans is reported annually.

Through UIS, the link is provided between of measures and activities planned in policy documents and medium-term plans with programs, program activities and projects in the program budget. For now, a direct link between UIS and BIS has not been established, so there is no possibility of automated updating of budget data in UIS, but this is for the time being, achieved by entering every newly adopted budget into the UIS. So far, only a small number of medium-term planning reporting entities have adopted their medium-term plans. An obstacle to greater usage of UIS for the development of medium-term plans, is that in many planning areas the planning framework is still not optimized and policy documents which were mainly valid until 2020, have not been drafted in accordance with the Planning System Law of the Republic of Serbia, and new documents are being gradually adopted.

Assessment of the financial effects of a law, other regulation or act on the budget, or rather financial plans of organizations for compulsory social insurance⁴⁵ represents an extremely important segment of the process of impact analysis, especially when drafting regulations and public policy documents such as strategies and programs. Within the analysis of financial effects, it is extremely important to adequately assess the costs that the proposed measures and activities in the drafts, i.e. proposals for regulations and proposals for policy documents, will cause to stakeholders and target groups, because the final choice of reform measures and activities depends on it. Financial impact assessment has seen continuous improvement, in parallel with advances in medium-term budgeting, but a common standardised costing methodology for estimating costs of reform activities in the planning documents was required. In this regard, the Methodology was presented in the Policy and Regulatory Costing Manual⁴⁶ which development was initiated by the PPS in cooperation with the Ministry of Finance, and the Manual was published in July 2020.

More efficient and effective management of capital investments and implementation of capital projects is one of the most important strategic goals of the Government, and therefore which a lot of effort was placed in this process in recent years. First, the Decree on the content, manner of preparation and assessment and monitoring the implementation and reporting on the implementation of capital projects⁴⁷ was adopted in 2017. It regulates the content of capital projects and evaluation of their positive and negative effects, and came into effect in early 2018. It was afterwards followed by the adoption of the accompanying Rulebook on the content, deadlines, and procedure for submitting investment documentation for capital projects⁴⁸.

⁴⁵ This assessment is governed by the Rulebook on the Presentation of and Reporting on Estimated Financial Impact of Laws, Regulations, and Other Enactments on the Central Budget and Financial Plans of Compulsory Social Insurance Organisations (Official Gazette of the Republic of Serbia, No. 32/15), and the Instruction for Completion of Form PFE, Standard Methodology for Assessing Financial Impact of Regulation.

⁴⁶ <https://rsjp.gov.rs/cir/dokumenti-kategorija-cir/prirucnici-cir/>

⁴⁷ "Official Gazette of the Republic of Serbia", number 63/17

⁴⁸ "Official Gazette of the Republic of Serbia", number 18/18

Since the mentioned legal framework never gain momentum in the practice, the new Decree on capital project management was adopted in July 2019⁴⁹. The legal framework regulating capital project management procedure in the Republic of Serbia was completed by the adoption of the mentioned Decree and its accompanying rulebooks⁵⁰ in December 2019. This way, the contribution to the improvement of the process of evaluation and monitoring of capital projects was achieved as a prerequisite for the necessary resources to be allocated for the highest Government priorities, to reduce cost overruns, shorter time interval from identifying the needs to achieving the results, providing better project results, reducing the number of standstill or delayed projects, and avoiding projects where the cost outweighs the benefit, and identifying fiscal risks. Article 1 of the Regulation stipulates that the former was adopted precisely in order to ensure the evaluation of all positive and negative effects of projects and to ensure effective and efficient management of public funds.

Pursuant to the adopted legal framework, the Capital Investment Commission was formed. It verifies the strategic relevance of capital projects, formally adopts lists of vetted capital projects that have passed the pre-implementation stage, considers issues of relevance for the development of infrastructure in the Republic of Serbia. Four session of the Commission were held in the past.

The Commission adopted the Rules of Procedure and adopted the Decision on the formation of a working body for performing administrative and professional tasks - technical tasks for the implementation of the Investment Projects Program "Serbia 2025".

At the technical level, in 2019, a new act on the Job Classification of the Ministry of Finance established the Department for Fiscal Risks Monitoring, which, among other things, deals with capital project management and provides technical support to the Capital Investments Commission. In the second half of 2019 and the first half of 2020, the capacity of capital investment management units was strengthened, both within the Department for Fiscal Risk Monitoring of the Ministry of Finance and other line ministries, through organized trainings on the new Capital Project Management Methodology and filling classified jobs for capital project management.

As a result of the implementation of the mentioned measures and activities, the capital budget execution rose from 74.5 percent to 85 percent in 2018, and this trend continued into 2019, when the capital budget execution was 86.34 percent, while in 2020 it was 92.45 percent.

REFORM MEASURES PLANNED FROM 2021 TO 2025

Measure 1.1 – Enhancement of the programme budget

In the upcoming period, further steps are planned in this area in order to improve the elements of program budgeting. Although performance reports are prepared by all budget beneficiaries semi-annually and annually, as of now there is limited analysis and monitoring of the achieved performance. Setting more adequate objectives and proper evaluation of results and indicators would enable more optimal use of public funds through the use of performance

⁴⁹ "Official Gazette of the Republic of Serbia", number 51/19

⁵⁰ The following Rulebooks were adopted in line with the Decree on Capital Project Management: Rulebook on investment documentation ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on the manner of defining parameters of financial and economic analysis for feasibility study and pre-feasibility study ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on the content of capital project database ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on the procedure of inclusion of capital projects in the budget ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on the procedure for rationalisation of capital projects ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on feasibility study and pre-feasibility study ("Official Gazette of the Republic of Serbia", number 87/19), Rulebook on capital project monitoring ("Official Gazette of the Republic of Serbia", number 87/19).

data when making decisions on the allocation of budget funds. The *PEFA* assessment for the Republic of Serbia highlights the need to further improve the efficiency of program budgeting in order to achieve its objectives, especially in the area of performance reporting. It was assessed that reporting should be better prepared in order to enable adequate evaluation of the achieved results of specific programmes. Also, the assessment is that the reports on the performance of the programme are not sufficiently taken into account when planning the financial resources for their implementation. Accordingly, in order to establish the efficiency of the implementation of the programme budget and improve it, as the use of performance indicators, the Ministry of Finance will conduct an analysis aimed at mapping these elements. In parallel with the analysis at the national level in the coming period, the analysis of the uniform structure of the program budget at the local level will be conducted in order to establish its efficiency, as well as transparency of insight into the costs of local self-governments. Also, after considering the application of the program budget to the financial plans of organizations for obligatory social insurance and conducting the analysis of the health system, the uniform structure of the program budget of organizations of mandatory social insurance and beneficiaries of the Republic Health Insurance Fund will be improved.

The assessment of programme budget elements will focus on existing linkages between policy documents and budget funds; improvements in this regard are detailed in the Measure 1.3 -Improvement of medium-term planning.

In order to improve the program budget, jointly with the adoption of the conclusions of these analyses, training for beneficiaries at all levels of government will be continued⁵¹. In order to improve the quality of content and analysis of program performance reports, the need to strengthen the capacity of budget beneficiaries and the Budget Department of the Ministry of Finance is recognized in the *PEFA* assessment, while the need to improve the program performance reporting process is in line with the recommendations outlined in *SIGMA* Report for improving transparency and comprehensiveness of budget reporting. Taking into consideration the abovementioned, the Ministry of Finance plans to apply the experiences of good practice of EU member states in this area, which will lead to comprehensive progress in the performance-based planning and budgeting of public expenditures.

Measure 1.2 - Improving the capacity related to the preparation and obligations of the EU member states during the budget preparation process

Having in mind the process of European integration and the efforts that Republic of Serbia is investing in achieving full membership in the EU and the obligations that member states have in the budget preparation process, it is planned to conduct an analysis of the entire process, as well as direct obligations that the Republic of Serbia will have in the future. The analysis will also enable the partial fulfilment of the recommendation from the 2020 EC Report for Serbia on the further need for harmonization with the Directive on Requirements for Budget Frameworks, which requires full transparency in planning and reporting on general government expenditures⁵². The analysis should primarily contain a review of the content of budget documentation, both from the aspect of inclusion of extra-budgetary users, and from the aspect of explanation in case of deviation from the medium-term expenditure framework, i.e. reasons that caused them (policy changes, technical changes, etc.). Conducting the analysis will provide an adequate framework through which Serbia will be able to be informed before the accession in a timely manner, about the budget preparation process and its obligations, which will ensure

⁵¹ Depending on the public health situation given the Covid-19 pandemic, this training may also be offered online.

⁵² Chapter 17 – Economic and monetary policy: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_report_2020.pdf

transparency of the process, as well as respect for the budget calendar and all planned steps. Also, trainings are planned for employees in the Ministry of Finance, as well as other direct budget beneficiaries, which will, in addition to the analysis, enable employees in budget planning and preparation to be familiar with the dynamics and obligations of EU budget preparation at the technical level in order to ensure maximum quality of preparation. As part of the measure to improve the capacity for budget preparation and the obligations of EU member states during the budget preparation process, the exchange of knowledge with one of the member states is planned, which will enable employees to effectively exchange experiences in this area, taking into consideration that the readiness and training before EU accession are of essential importance.

Measure 1.3 - Improvement of medium-term planning

Although the adoption of the legal framework for adequate management of public policies and their budgeting has made great progress in the field of medium-term planning, the *PEFA* assessment for 2020 assessed that further improvement was needed in linking medium-term budgets with relevant strategic plans of public funds beneficiaries. The successful optimisation of the planning framework in the determined planning areas, which is a precondition for the increase in number of reporting entities that adopted their mid-term plans, will be further contributed by the fact that 39 public policy documents expire in 2020, and that new documents will be prepared in the following period in accordance with the new legal framework. In order to ensure consistent implementation of the set priority objectives in the coming period, the PPS, as the competent institution for coordinating public policies, will continue to provide support to mid-term planning institutions at both the national and local government level. Support related activities focused on the development of the local mid-term planning documents are planned in the Local Self-Government Reform Programme for the period 2021-2025. When all mid-term planning institutions set their regular planning budget cycles, it is planned to make an analysis of the degree of harmonization of medium-term plans with the existing public policy documents in the relevant areas of planning by the end of 2025. As good medium-term planning is crucial for the process of adequate budgeting of expenditures, this activity will enable the identification of challenges posed to the institutions by optimization of the existing planning framework, used for developing the structure of medium-term plans, as well as an indicator of what steps should be taken to maximize harmonization of medium-term plans with public policy documents. and other planning documents.

The European Commission's Report on Serbia for 2020 recommended that the future PFMRF should provide better coherence with the sectoral strategic framework and increase the focus on performance indicators and their achievement. At the same time, the Indicator-Based Assessment Report, as well as the *PEFA* Assessment, recognized the need to improve the determination of the medium-term expenditure framework, as well as the calculation of the costs of medium-term plans. Presenting the multi-year budget can contribute to the quality of determining the medium-term expenditure framework. The mere fact that the data will be publicly available will raise the level of analysis and a more precise view of multi-year liabilities. This requires strengthening the analytical capacities of both budget users and the Ministry of Finance. Apart from human resources, other tools should be provided, such as a single Costing Methodology, which may be achieved by improving FIA Form-Standard Methodology for Assessing Financial Impact of Regulation Form⁵³.

⁵³ <https://www.mfin.gov.rs/dokumenti/pravilnik-o-nacinu-iskazivanja-i-izvestavanja-o-procenenim-finansijskim-efektima-zakona-drugog-propisa-ili-drugog-akta-na-budzet-odnosno-finansijske-planove-organizacija-za-obavezno-socijalno-osigu/>

The linkage of budget funds, or rather, objectives of the stated programs, with medium-term plans will also be facilitated through direct connection of Unified Information System on the one hand, and on the other hand - a single information system for planning, execution of the Republic of Serbia budget and accounting system (linking is currently in progress). Activities to link two information systems and activities to improve Unified Costing Methodology will be planned in the Public Policy Management and Regulatory Reform Improvement Program for the period from 2021 to 2025.

Measure 1.4 - Improvement of environment for efficient management of capital projects and monitoring of fiscal risks

Given that the Decree on Capital Project Management (“Official Gazette of the RS”, number 51/19) started to be implemented in January 2020, and that in March due to Covid-19 pandemic a number of business processes slowed down, including this one, the full implementation of this Decree, i.e. Capital Project Methodology is still expected.

In accordance with the afore mentioned, Department for Fiscal Risk Monitoring has undertaken a number of steps with a view of a comprehensive implementation of the Methodology, such as: unified records on capital projects implemented by line ministries in the capacity of authorised proposers; monitoring the implementation stage of active projects, including those of special importance for the Republic of Serbia; comparative analysis of data gathered in line with the Capital Project Methodology with the current state in the budget of the Republic of Serbia; more substantial reporting of the Commission for Capital Investments of the Republic of Serbia (CCI), in a way that report would cover a detailed classification of projects per stage and category and more detailed analysis of spending of public funds earmarked for project implementation.

Department for Fiscal Risk Monitoring tends to improve reporting on the pre-implementation project stage to base the inclusion into the budget of the Republic of Serbia on the priorities set by the CCIRS. Accordingly, Department’s activities are intensified and focused on the contribution towards so called “prioritisation” of projects so they be included in the budget after a successful pre-implementation stage.

Taking into account recommendation of the international partners (such as those by the European Commission and World Bank), Ministry of Finance will undertake further steps to improve the system of capital investments. *PEFA* recommendations are focused on the need to set a single project pipeline. Moreover, the necessity to review economic and financial analyses in the course of project implementation is indicated in order to integrate requirements and institutional responsibilities across all types of projects (construction and non-construction initiatives and projects of ‘special importance for the Republic of Serbia’). Finally, the necessity of developing and applying a more detailed set of standardized criteria that will be used to inform about the determination of priorities and selection of projects for financing by the Republic Commission for Capital Investments is also pointed out.

In accordance with the above, in the upcoming five-year period public investments are to be enhanced through improvements to the current capital project management methodology, introduction of an appropriate IT system for monitoring the performance of capital projects, and strengthening of the administrative capacity of public investment management units, both the Ministry of Finance Department for Fiscal Risks Monitoring and other entities at the national level.

The following will be achieved by setting and commissioning the Public Investment Management Information System (PIMIS): greater speed and efficiency of business processes

used in monitoring capital projects, which are currently done manually; comprehensive monitoring from idea stage to project completion; simpler access and approvals structure with fewer opportunities for errors when inputting; ability to run statistical analyses; etc. After the public procurement for software development is complete, its installation and activation within the Ministry of Finance is planned by 2022. The software is expected to be rolled out to project idea sponsors and authorised proponents of capital projects by late 2024. By the end of 2025, all public investment management staff are planned to be trained in the use of this software so as to ensure it can be effectively deployed.

In addition to the above mentioned, the development of training curriculum at NAPA is planned, followed by the development of a manual on the capital investment management methodology that will further ease monitoring of the methodology by authorised proposers and development of the public reports on the status of capital projects to be monitored in line with the methodology, for the sake of the enhancement of the process transparency.

Measure 1.5 - Strengthening the capacities of the Department for Fiscal Risks Monitoring

For the purpose of efficient fiscal risk monitoring, methodologies relative to business operation of public enterprises, disaster risk and consequences reduction, risk analysis based on court disputes and decisions and risk analysis regarding local government budgets are under development, with the support by international financial institutions (IMF, World Bank, SECO). These activities pertaining to this measure should result in the adoption of a legal framework, with a view that in the future the Department for Fiscal Risk Monitoring would indicate fiscal risks and conduct their adequate assessment for better control of public funds spending and less deviations from the envisaged fiscal and budget framework. Specifically bearing in mind PEFA Assessment that signalled lack of the formal functional mechanism for fiscal risk management, Department for Fiscal Risks Monitoring will seek to first adopt, and then to successfully implement and analyse the implementation of the legal framework in the practice by the end of the Programme reporting period.

Another important component is continuous strengthening of organisational and human capacities in the Department for Fiscal Risk Monitoring, and this activity will be implemented through employing new staff members for currently vacant classified posts (15 posts) and the training of staff members.

SPECIFIC OBJECTIVE II EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS

Improving the efficiency of revenue collection is one of the key objectives of the Government, and major efforts have been invested in recent years to ensure better collection of public funds for the budget of the Republic of Serbia. As one of the major fiscal consolidation measures first instituted in 2014, increase in public revenues has drastically improved the fiscal balance and overall macroeconomic performance.

Despite the major results attained through the implementation of the 2016-2020 PFM RP, the need for further improvement of both administrative capacities and business processes relative to efficient collection and management of budget funds is still present.

Insufficiently efficient business processes and lack of staff in the Tax Administration slow down the development of automation and digitisation of services to the full capacity. Lack of uniform information system in the Tobacco Administration diminishes the efficiency in

service provision to business entities operating at the tobacco and tobacco products market. Underdeveloped capacities of the Customs Administration prevent the application of the EU information standards, operational process standards and the implementation of obligations pertaining to relevant negotiation chapters. Complex models for risk management in the area of public debt are used by a small number of countries, and the Republic of Serbia aspires to be one of them. Insufficient capacities of all public procurement market participants make the effectiveness of the implementation of e-procurement, new PPL and use of all functionalities available at the Public Procurement Portal more difficult.

Figure 5: Public authorities tasked with implementing measures envisaged under Specific Objective II



ACHIEVEMENTS MADE TO DATE

Development of the **Serbian Tax Administration** (hereinafter referred to as: STA) into a stable institution with modern organisational structure represents a key pillar of efficient system of PFM and constitutes the ultimate objective of the STA Transformation Programme, which is envisaged to be achieved through the attainment of three objectives:

1. Efficiency and effectiveness of core business processes improved and tax collection increased;
2. Quality of services enhanced and costs of taxpayer compliance reduced; and
3. Modern infrastructure and working environment within the organisation set.

In addition to the STA Transformation Programme and the accompanying Action Plan for period 2018-2023, the STA has also adopted the Taxpayer Service Delivery Strategy 2017-2019 and a Plan for compliance with tax regulation, based on the OECD risk management model, that promotes voluntary compliance with legislation and integrated risk management in order to contribute to the increase of tax regulation compliance and more effective and efficient control. Since 2018, when the STA Risk Assessment Department was fully staffed, selection of taxpayers for control has relied on new and amended existing risk criteria, which have proven more successful than past approaches. In 2018, the percentage of irregularities in controls planned by the STA Head Office stood at 69.45 percent, rising to 80.65 percent in 2019, and 82.57 percent in 2020.

One of the major objectives set out in the STA Transformation Programme includes continued simplification and consolidation of tax procedures, and reinforcing operational activities to combat the grey economy, which subsequently ought to contribute towards reduction of costs of fulfilment of taxpayers obligations, provide easier and fairer business conditions and guarantee a level playing field for protection of rights before tax authorities. These enhancements should ultimately improve revenue collection and contribute to the stability of public finances. One of the key activities recognised in this initiative is the redesign of the STA’s organisational structure and the establishment of networks of business process for core and separated activities of STA.

In the first stage of this reorganisation, the number of organisational units (field and branch offices) was reduced from 178 in 2017 to 78 in 2018, thus number of field offices which constitute business network performing core and separated activities was reduced to 37 in 201⁵⁴. In addition, the Large Taxpayer Office (hereinafter referred to as: LTO) has continued to administer the largest taxpayers. Also, the establishment of a separate Taxpayer Services Department has proven to be a major step ahead in the transition from a “traditional model” based on controls of compliance with regulation to a client-oriented approach that makes compliance easier, simpler, and more affordable for taxpayers, thus significantly shifting the emphasis from the control function to the compliance with regulation support role. To that end, service counters “Your Tax Officer” (Vaš poreznik) were introduced at 37 field offices with the aim to provide services to taxpayers. As part of cooperation with the German development agency Gesellschaft für Internationale Zusammenarbeit (GIZ), in 2020 the polling company IPSOS conducted analyses how taxpayers perceived the STA by undertaking a survey of satisfaction with services provided and the professionalism of the Tax Administration staff. This research aimed at collecting feedback from taxpayers about the performance of the STA in the areas of the survey in terms of service delivery, access to information, staff professionalism, transparency of work, consistency in implementing tax regulation, and taxpayer treatment

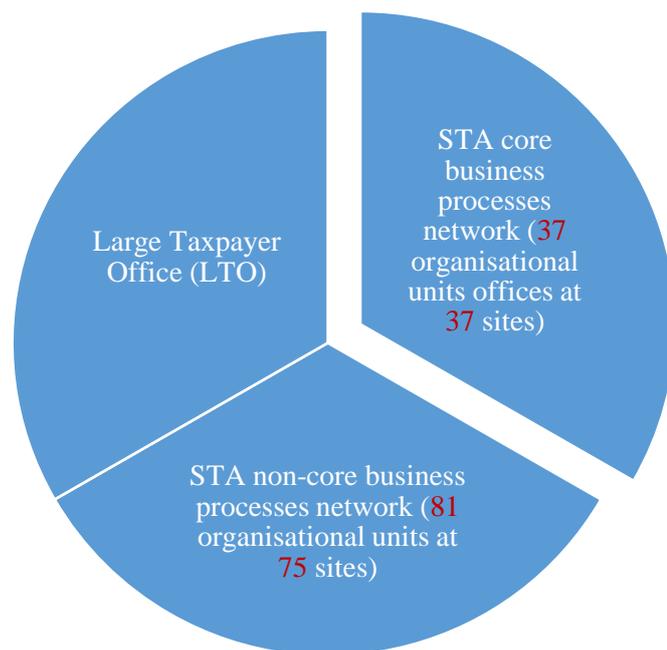


Figure 6: STA novelties in organisational structure

A representative sample of 555 companies, employing up to 100 staff members, were interviewed. Most of the companies (46 percent), employing up to five staff members (65

⁵⁴ 2019 PFM RP Progress Report, available online at: <https://www.mfin.gov.rs/dokumenti/program-reforme-upravljanja-javnim-finansijama-pfm/>

percent), were based in Belgrade, and operated in the trade, manufacturing, and services sectors.

In the previous period, in line with the EC recommendations, the STA has continuously been developing and enhancing its systems. As recommended by the Tax Administration Diagnostic Assessment Tool (hereinafter referred as: TADAT⁵⁵), the STA's risk management system was improved through the introduction of a structural risk assessment procedure and prioritisation of voluntary compliance risk. In addition, a new system for regular and enforced tax collection and tax accounting have been introduced that, enabling all tax collection activities to be managed using one single application, which has greatly accelerated the business process of collection and facilitated document management. CEPOP4 system has been established and it prevents modification of registration data held by the Business Registers Agency (hereinafter referred as to: BRA) during tax control. This allows the STA Department for control and the tax police to control taxpayers without interruptions, without any risk of changes to taxpayer data that could hinder ongoing investigation, and consequently prevent collection of outstanding taxes from taxpayers acting in bad faith, or prevent establishment of facts relevant for prosecution. In addition to that, in the course of the business processes redesigning, an application was installed. It enables taxpayers to apply for and receive tax clearance certificates for all public revenue accounts, clearance certificates for health insurance contributions, value added tax (VAT) clearance certificates, and withholding tax clearance certificates (for consolidated tax collection). In this way digitisation of these processes has allowed taxpayers to quickly and easily obtain certificates for a variety of purposes without additional burden on STA staff members. In turn, this has permitted the STA to redeploy resources to more complex tax administration issues, so ensuring that staff members are brought to bear on key business processes, greater commitment, and closer focus on basic functions/processes.⁵⁶

In addition to successfully enhancing the STA's systems to allow taxpayers to administer their tax affairs online in a more affordable and efficient fashion, in the reporting period the Government of Serbia and the National Alliance for Local Economic Development (NALED) also organised three rounds of a prize draw entitled "Take the receipt and win" (Uzmi račun i pobedi), which was aimed at raising awareness of both the general public and businesses of the importance of combating the grey economy, incentivising cashless payments, strengthening the tax culture, and additionally encouraging individuals and businesses to comply with tax rules by promoting a system wherein all parties were equally motivated to register all transactions due to the overall benefits of tax collection to society.

Three activities of the **Tobacco Administration** were included in the revised PFMRP, namely: establishment of a single register to consolidate all registers and record lists so as to enhance the efficiency of services provided by the Tobacco Administration; human capacity strengthening at the Tobacco Administration and other partner institutions; and digital awareness-raising for all businesses operating in the tobacco and tobacco products market. In the course of 2021, administrative capacities of the Tobacco Administration were enhanced by increasing the number of classified posts from 20 to 31.

⁵⁵ TADAT – Tax Administration Diagnostic Assessment Tool

⁵⁶ In its efforts to modernise the STA, the Government of Serbia has received assistance from projects backed by international organisations, primarily the World Bank. In addition to that, these initiatives include a World Bank credit line ratified by the Law Ratifying the Loan Agreement (Tax Administration Modernisation Project) between the Republic of Serbia and the International Bank for Reconstruction and Development (Official Gazette of the Republic of Serbia – International Treaties, No. 6/2019).

Public procurement was completed in 2020 and development of the single register was initiated. Due to the public health situation caused by the Covid-19 pandemic, the planned establishment of the single register system has been postponed to Q4 2021. The **Customs Administration** administrative capacities strengthening is key to its efficient functioning, and represent one of the most important parts of the revenue collection in the framework of the public financial system. The primary long-term goal of maintaining a high level of revenue collection requires continued development of the Customs Service through the introduction of appropriate IT support for risk management, enhancement of the follow-up control system, and fight against corruption, as well as long-term cooperation with the private sector, in particular with regard to simplification of customs procedures and using the Authorised Economic Operator (AEO) arrangement. In the previous period a major increase has been registered in the share of import duties in overall budget of the Republic of Serbia, from 42.7 percent in 2016 to 49.9 percent in 2018; the upward trend in import duties collection continued in 2019, whilst the amount of import duties collected increased by €565.5mn relative to the previous year.⁵⁷ In addition to maintaining a high rate of customs duty collection, the Customs Administration is committed to improving collateral arrangements to secure customs debt and aligning its operations with the best practices of customs services worldwide.

Apart from efforts invested in further development of the Customs Service that have resulted in greater revenue collection from customs duties, the Customs Administration has also made progress by strengthening anti-corruption measures and building capacity to introduce mechanisms for administering EU traditional own resources and risk management. Fighting irregularities and fraud is a major aspect of the EU traditional own resources system, and this requires strengthening the ability of the national customs administrations to prevent, uncover, and investigate tax frauds and establish a system for exchange of information about activities undertaken in that regard. As such, since 2016 the Customs Administration has been involved in anti-corruption efforts as part of negotiation Chapter 23 – “Judiciary and fundamental rights”, where it has established a cooperation with the Criminal Police Academy, conducted a corruption risk analyses of the legal framework governing the customs system, and held a series of training sessions.

Pursuant to the Action Plan for Chapter 24 – “Justice, freedom and security”, a Memorandum of Understanding on cooperation to prevent and tackle border corruption was signed among the Republic Public Prosecutor’s Office, the Ministry of Interior, and the Ministry of Finance.

Several planning documents of importance for development of the Customs Service have been adopted since 2017, starting with the Customs Service Development Plan for the period 2017-2020, and its accompanying Action Plan. In December 2018 key legislation governing the Customs Service, namely the Customs Law⁵⁸ and the Customs Service Law⁵⁹ were adopted. Development of administrative capacity and pursuit of anti-corruption policy have helped promote a professional, ethical, and transparent Customs Service, which is one of the development objectives of the Customs Administration that contributes to advancing public finances in general.

Aspiring to enhance strategic documents of importance for the customs service operations, the Government passed its Conclusion on 6 February 2020, adopting the Business

⁵⁷ 2019 PFM RP Progress Report, available at: <https://www.mfin.gov.rs/dokumenti/program-reforme-upravljanja-javnim-finansijama-pfm/>

⁵⁸ “Official Gazette of the RS”, no. 95/18, 91/19-Other Law and 144/20

⁵⁹ “Official Gazette of the RS”, no. 95/18 and 144/20

plan for the enhancement of the organisation and operation of the customs service within the Ministry of Finance for the period 2020-2024 (“Official Gazette of the RS”, number 11/20). This Plan contains seven strategic goals (efficient revenue collection; effective customs procedures and control; EU integrations and promotion of international cooperation; development of IT and communication technologies; strategic management, modernisation and reforms; human resources management and development and improvement of working conditions), and its measures and activities are elaborated in details.

Likewise, on 6 February 2020, the Government passed the Conclusion adopting the Work Plan for the development and use of electronic systems of the customs service of the Ministry of Finance for the period 2020-2024 (“Official Gazette of the RS”, number 11/20). This Plan comprises five parts (overview of the previous ICT development plans of the CS; summary of the “Report on the current state of affairs analysis (AS-IS)”; comprehensive overview of areas and guidelines relevant for the current and indispensable future applications; upgrading ICT safety and infrastructure, plans and guidelines; overview of the proposed ICT organisation and methodology of the Customs Service) and three annexes (Strategy for Interconnection and Interoperability; Information and Communication Technology Organisation and Management and Gantt Chart of the Action Plan for the implementation of the Work Plan for development and use of electronic systems).

The Integrated Border Management Strategy for the period 2017-2020, inter alia, planned establishment of common investigation teams for fight against corruption at borders, the common risk assessment model for all services was adopted, and exchange of early warning and criminal intelligence information.

In 2015, the Customs Administration commenced implementing a new National Transit Procedure in line with the rules of the EU Common Transit Procedure, with deploying application for automated risk evaluation and control orientation - the *ERIAN*^{60, 61}

Besides risk management system, in September 2017 the Customs Administration launched activities to create conditions to introduce European standards and procedures for the Automated Export System (*AES*) and Automated Import System (*AIS*), as well as the system for management of Customs decisions. The system allows electronic exchange between the customs authority and businesses, thereby eliminating utilization of customs declaration forms and reducing costs of implementation of customs procedure. Control of entry/exit declarations (prior notice) permits a balance to be struck between customs controls and legal trade, which will help cut down on the number of declarations controlled in the customs clearance process. Moreover, the use of appropriate control mechanisms in simplified procedures will be greatly improved.

With the objective of facilitating trade, in 2018 the Central European Free Trade Agreement (CEFTA) Additional Protocol 5 to the Agreement entered into force, whose provisions inter alia included mutual recognition of Authorised Economic Operator (AEO) status. Having in mind that this status may be granted to businesses that, during the certain period of time, inter alia, have not committed serious infringements of customs and tax laws and that can prove their financial solvency, it can be expected that the established system will

⁶⁰ *ERIAN* is a an expert system module primarily intended to provide *online* evaluation of declarations processed by the declaration processing system in accordance with the specifics of the risk model (profile) compiled by risk analysts in *ERIAN*'s central risk profile archive.

⁶¹ *ERIAN* system was initially deployed in February 2016 to oversee national transit (NT) and common transit procedures (T1, T2, T-) as part of the New Computerised Transit System (*NCTS*).

further facilitate trade whilst providing certainty in the appropriate calculation and timely collection of import duties.

During the reporting period, as a part of the implementation of FMC at the Customs Administration, Operational Risk Register and Methodological Guidelines for its Internal Audit Department was developed.

Modernisation of the Customs Laboratory represents one of the key activities of the Customs Administration that is aimed at the establishment of a modern goods examination system for purposes of their identification, classification and appropriate calculation of duties. Results of the project “Creating conditions for strengthening the capacity of Serbian Customs Laboratory”, which ended in December 2017, laid the groundwork for the process of future modernization of the Customs Laboratory. Training session was delivered in 2018 to familiarise staff members with standards of laboratory work⁶², whilst in 2019 an expert mission under the Technical Assistance and Information Exchange instrument (*TAIEX*) “Improvement and development of Customs Laboratory in Serbia” was conducted, that looked at ways for enhancing laboratory management policy, quality assurance systems, procedures, and working methods in accordance with legislation, standards, and EU best practice.

The EC noted in its Serbia 2020 Report, within the Chapter 29 – Customs Union, that Serbia was at a good level of preparation in the area of Customs Union, and that limited progress had been made by the adoption of regulations governing the Customs Service. In the following period, Serbia should in particular further upgrade the customs processing system by integrating risk management, and further develop the IT system of the customs service in order to enable its integration with EU systems.⁶³

The Customs Administration has also strengthened its capacity in areas covered by Negotiation Chapter 33, Financial and budgetary provisions, inter alia, a simulation of accounting rules and monthly EU reporting for EU traditional own resources was conducted.

Efficient public debt management, along with efforts to ensure its downward trajectory and sustainability, are among key features of a sound PFM system. Serbia has reversed its public debt trend, with the debt to GDP ratio down in 2017 by some 10 percentage points relative to the 67.8 percent seen in 2016. This trend continued into 2018, allowing the share of general level government public debt in the GDP to fall to 52.9 percent⁶⁴ at year-end 2019, which is approximately 15.8 percentage points lower than in 2016. Serbia’s introduction of Covid-19 relief measures resulted in renewed growth of public debt in 2020, however, despite the major adverse impact of the pandemic on the economy, public debt stood at no more than 58.2 percent of GDP at the end of 2020. As the relief package has produced tangible results, this indicator is expected to continue rising in Q1 2021, with short-term growth thereafter likely to reverse into a downward trend in the public debt to GDP ratio. This estimate is based on the assumption that economic growth is set to continue in 2021, as well as that new borrowing will decelerate.

The Public Debt Administration (PDA) has instituted capacity-building measures through training sessions and software development, which are crucial for appropriate public debt management. During the period of the 2016-2020 PFMRF, the PDA enhanced its capacity

⁶² SRPS ISO/IEC 17025:2006 Standard

⁶³ EC Serbia 2020 Report, p. 112, available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_report_2020.pdf

⁶⁴ Monthly Report, Analysis of Public and General Government Debt, December 2019. Available at: <http://www.ujd.gov.rs/upload/Bilteni/2019%20Mesecni/Decembar%20final/Mesecni%20izvestaj%20Uprave%20za%20javni%20dug%20-%20CIR%20Decembar%202019%20-%20finalni%20podaci.pdf>

by strengthening its human capacities and learning from best practices, with initial steps also made to introduce a new risk monitoring methodology and public debt management software. The public debt management software was developed in late 2018 and has assisted the PDA in overcoming challenges and improving its analytical capacities.

In 2020, the PDA together with consultants at the Project for complementary assistance “Support to the Ministry of Finance under the PAR Sector Reform Contract” continued activities to enhance its risk management system. As part of the Project, the PDA developed and adopted an initial design for a future risk management model, together with accompanying technical IT specifications, which correspond to cutting-edge global trends in the field. The new risk management model, which falls under the category of complex stochastic models, is expected to be developed in the software form by the end of 2024 and will enhance the quality of Serbia’s public debt management.

The *PEFA* Assessment for the Republic of Serbia found the debt management system to be well developed. Public debt information was kept up-to-date and published at the monthly and quarterly level, being one of the major results of efforts invested by the PDA into making public debt figures of Republic of Serbia more transparent. Another positive finding was that the PDA was the sole government institution tasked with government borrowing.

After a period of more than seven years, in 2020, the Republic of Serbia completed again a major issue of dollar-denominated bonds. A total of \$1.2bn was raised from this issue of ten-year treasury bonds with a yield rate of 2.35 percent, a coupon rate of 2.125 percent and a euro coupon rate, following a hedging transaction, of 1.066 percent. These funds were used to good effect, allowing the country to repay in advance \$900mn in bonds issued and sold in 2011.

In above mentioned transaction public debt management in the Republic of Serbia has been raised to the higher level, through contracting of first transactions by using financial derivatives. Cross-currency swaps were contracted in four transactions, whereby borrowing terms were altered to replace the \$1.2bn exposure to long-term dollar-denominated bonds at an interest rate of 2.125 percent with euro exposure at a rate of 1.066 percent. These transactions constituted a significant step towards aligning the currency structure of public debt with the objectives of the Public Debt Management Strategy.

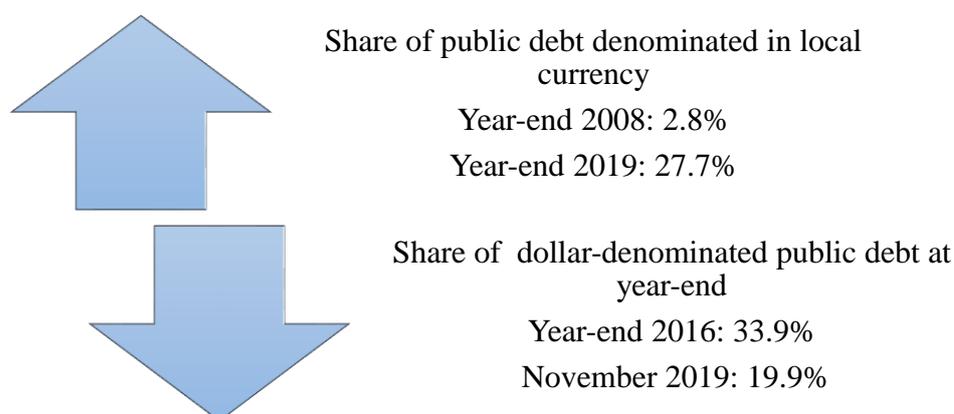


Figure 3: Shares of public debt denominated in local currency and in US dollars

When considering the most important public debt indicators, a significant advance was made with increasing the share of central government public debt denominated in local currency, which rose from 2.6 percent in 2008 to 30.5 percent at the end of 2020, mainly

contributed by issues of government securities in the local securities market. Moreover, primarily due to transactions during 2020, when early redemption of costly dollar-denominated Eurobonds issued in 2011 and 2013, the share of dollar-denominated debt in overall public debt has significantly decreased.

The Public Procurement Office (PPO) is responsible for establishing and maintaining an efficient procurement system and developing procedures to ensure effective and transparent spending of public funds, thus contributing to the general efforts of the Government of Serbia's and its objective to reduce corruption. The strategic framework for developing the public procurement system was established in 2014 with the adoption of the Public Procurement Development Strategy for the period 2014-2018, followed in November 2019 by the Public Procurement Development Programme in the Republic of Serbia for the period 2019-2023 in line with the Planning System Law. The Programme envisages four specific objectives and one general objective "Further development of an up-to-date and efficient public procurement system", including in one part electronic public procurement, with the aim of ensuring a modern, effective public procurement system. Comprehensive improvements to the public procurement system contributed to Serbia's opening of Negotiation Chapter 5 "Public procurement", in December of 2016.

In recent years, development of primary and secondary legislation governing public procurement has led to increased transparency and efficiency of public procurement procedures by introducing the requirements for contracting authorities to publish their procurement plans on the Public Procurement Portal. Partial alignment of the Law with EU directives in 2015, and additional steps to ensure full alignment were taken with the adoption of the new Public Procurement Law⁶⁵, which entered into force on 1 July 2020, and its accompanying bylaws, as well as the introduction of the new Public Procurement Portal, which is fully compliant with the Law, and allows: e-submission of tenders, e-contract awards, e-auctions, dynamic procurement system, e-planning, e-complaints, and e-catalogues⁶⁶. Contract notices have also been fully aligned with the EU directives⁶⁷. The *PEFA* Assessment confirmed that the 2019 established framework, that ensured competitive methods to accounted for 84.10 percent of the total value of contracts, and that transparency of public procurement procedures is at high level. In addition to that, the World Bank positively evaluated content of the new Public Procurement Portal, which allowed interested parties to access up-to-date procurement plans and notices, and contract awards, as well as annual public procurement statistics.

The PPO has prepared and published a variety of template contract documents and instructions to facilitate to contracting authorities the preparation of bids, ensure better compliance with laws and rules governing public procurement, and reduce the numbers of irregularities in procurement processes. In addition to that, with support of the project "Support for Further Improvement of Public Procurement System in Serbia", implemented by GIZ under IPA 2013, the PPO prepared and published a Methodology for preparation of Framework Agreements⁶⁸, as well as template contract documents for open procurement procedures and procurement involving conclusion of framework agreements, which will greatly contribute to

⁶⁵ "Official Gazette of the Republic of Serbia", number 91/19

⁶⁶ The new Public Procurement Portal is hosted at: <https://jnportal.ujn.gov.rs/>

⁶⁷ The types and contents of contract notices and the manner of their publication are regulated by multiple EU Directives (2014/23, 2014/24, 2014/25, 2009/81, and the Remedies Directives) and Regulation (EU) 2015/1986 of 11 November 2015.

⁶⁸ <http://eupodraska.ujn.gov.rs/dokumenta/>

the reduction of the administrative burden and time required for implementation of public procurement procedures.⁶⁹

Institutional and administrative capacities for public procurement has been increasing year after year as certification of public procurement officers, publishing public procurements, has progressed, while the target number of certified public procurement officers has been exceeded. Namely, out of 2,300 planned certifications by year-end 2017, certificates were issued to 3,762 individuals, that represents 63% increase above the target value; four training sessions were also held in 2016 and 2017 for more than 80 selected officers and decision-makers⁷⁰ before the PFM RP was revised. Training sessions for contracting authorities and bidders continued further, with some 15 sessions/workshops delivered from October 2019 to late 2020 alone on the application of the new Public Procurement Law and the Public Procurement Portal, which became mandatory on 1 June 2020. Also, further strengthening of administrative capacities and certification progressed at pace in 2019. During 2019, 25 examinations for public procurement officers were organized, where 759 candidates took examination, out of which 481 passed. From October 2014, when the second round of public procurement officer certifications began, to 2019, a total of 145 examinations were organized and 4,844 candidates participated at examination, with 2,917 passing exam and become certified public procurement officers. Together with other measures, this training sessions contributed to a reduction in the share of suspended procurement procedures from 13 percent in 2014 to 9 percent in 2019.

Over the past four years, progress has been made in following environmental procurement policy and developing green public procurement. Environmental procurement policy aims at procuring products and services that are environmentally acceptable, and the Public Procurement Law introduces principles of environmental protection and energy efficiency as one of the key principles in public procurement. In this regard, the PPO has developed a set of Guidelines for Calculation of Life Cycle aiming to further promote green procurement, analyses of the state of play in green procurement was also prepared in order to assess to what extent contracting authorities were using criteria for energy efficiency and environmental considerations while initialing public procurement procedures, as well as what the key obstacles were to buying green products or services. Based on the results of this analyses the Guidelines on Improvement of Green Public Procurement for contracting authorities and economic bidders, that contain green procurement recommendations and best practices, were prepared. Efforts invested into green procurement are consistent with environmental policies and environmental protection, which is in turn one of the major areas in which progress has to be achieved as part of Serbia's EU accession process.

REFORM MEASURES PLANNED FROM 2021 TO 2025

Measure 2.1 - Efficient collection of budget revenues under the STA competence

⁶⁹ A framework agreement is an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, and which allows savings of cost and time to be achieved for procurements expected to recur annually.

⁷⁰ Key topics of trainings for aimed at officers and decision-makers included centralised public procurement and use of framework agreements, green procurement, format and methods of negotiating in competitive negotiated procedures, technical evaluation of tenders, use of the most economically advantageous tender method, protection of rights in public procurement, and use of the Public Procurement Portal.

In line with the recommendations by the European Commission⁷¹, the STA will remain committed to pursuing its successful implementation of the Transformation Programme after the completion of the first stage of its reorganisation. According to recommendations, the plan is that the core tax activities will remain in focus. The process of consolidation of the STA's organisational units will continue in line with identified needs to achieve a new organisational structure necessitated by the redesigning of business processes intended to increase effectiveness in tax collection and reduce taxpayer compliance costs. Focus is on the improvement of existing services, with new ones intended to be developed in accordance with taxpayers' needs, together with enabling communications channels that will be based primarily on online communication via the "personal e-portal" as the single point of contact.

Business processes are to be reengineered over the coming two years. They will allow institutional, legal, and procedural changes to the STA, with the aim of facilitating more effective work of STA. Capacity-strengthening in functional areas implies the implementation of an efficient tax compliance management system. In addition to that, business process reengineering will additionally provide support for further modernisation of taxpayer services, with an emphasis on the provision of a comprehensive online service. The introduction of a new fiscalisation system, which will improve the efficiency of revenue collection and, consequently, better the overall condition of public finance system is also planned. The new fiscalisation system will create conditions for more effective tracking and control of all retail delivery of goods and services provisions, including advance payments received for future deliveries of goods and provision of services. Since it is an *online* fiscalisation system, with "real-time" transfer of information, and as such emphasis will be placed on controls performed remotely from the STA Head Office ("remote" controls), which will reduce the need for field controls and the associated administrative costs, and allow better human resources management. In addition, noted shortcomings of the current fiscalisation system will be eliminated (such as authorisation/de-authorisation of fiscal cash registers, regular servicing, retention of control tapes, and the like), which will reduce costs for businesses, reduce the administrative burden, and create better business environment. Such fiscalisation system also allows possibility for buyers of goods, or users of services to verify, in real time, immediately after a fiscal receipt is issued, whether the fiscal receipt complies with legal requirements, which will enhance control by other stakeholders.

Enhancement of the STA information systems is of critical importance for continued improvement of its operations. As such, by late 2024, infrastructure will be improved to accommodate a commercial off-the-shelf solution (hereinafter referred to as: COTS) system, also intended to be procured, in support of operational improvements at the STA. Modernisation of the STA's ICT system will focus on areas where such enhancements are envisaged to result in more adequate performance. Areas will be selected for improvement following an assessment of the functional components of the existing information system to identify which of these meet the requirements of an up-to-date revenue administration system and are able to be integrated into the planned COTS without impacting its efficiency (potential areas include tax control and collection – document management system; reporting – data storage resources; 'E-Taxes' portal (E-porezi); internal businesses; ITC technological resources – licences and equipment; etc.).

Moreover, in line with the STA's needs for improved efficiency in collaborating framework with EU, the efforts will be focused on establishment of the information sharing

⁷¹ EC Serbia 2020 Report, p. 91, available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_report_2020.pdf

system under the Global Forum on Transparency and Exchange of Information for Tax Purposes pursuant to EU and international standards. Transparency and efficient exchange of information for tax purposes are of huge importance for both meeting EU accession requirements and efforts for preventing Base Erosion and Profit Shifting (BEPS).

In support of reforms to its human resources management function, the STA will make enhancements to a number of segments of its existing human resources information management system. The goal is to optimise the currently underperforming human resources support system through preparation and implementation of technical specifications for the current IT system of the STA, in order to improve it to the level of fully functional system and align it with international standards. Progress that will be achieved by enhancing this information system will set the necessary conditions for the implementation of changes in organisational culture which will involve continued strengthening of values, assumptions, and modes of conduct that support organisational change. By acknowledging the overarching importance of investing in its staff members, the STA will develop an up-to-date comprehensive human resources strategy that will permit efficient deployment of its employees, whilst functionality of the enhanced information system will provide appropriate support to these activities. The STA human resources management system will be improved in areas that critically enhance efficiency in resource management, such as staff records (of qualifications, skills, and competencies), planning and delivery of training, performance evaluation, setting of evaluation goals, and the like. In addition to that, establishment of digitalisation of processes at the STA that govern employee rights and responsibilities, as well as improvement of performance-based resource management, will significantly enhance performance-based rewards, and career advancement arrangements, which will help make the STA an attractive working environment.

To finalise the business processes fiscalisation and digitisation process, the Ministry of Finance should complement this system by introducing a register of electronic delivery notes in a form of an adequate IT system. Prior to this, analysis of amendments to relevant pieces of legislation and enhancement of administrative capacities and connecting of this registry with e-billing system are planned. This system would significantly improve the operation of both state entities and the economy.

Measure 2.2 - Modernisation of business processes at the Tobacco Administration

In the following period, the Tobacco Administration will continue efforts to establish a new single register system to consolidate all registers and record lists so as to enhance the efficiency of services provided by the Tobacco Administration.

This will help promote efficiency in responding to the needs of business operators, and exchange of information with other relevant authorities for purposes of conduct of inspection controls to businesses operating in the tobacco and tobacco products market, and repressing illicit trade.

In accordance with the reform steps envisaged in the previous PFMRP, apart from the full implementation of a single register in 2021, the Tabaco Administration will pursue continued enhancement of its capacities for use of the new information system and enhanced efficiency of service delivery in the area of competence of the Administration. Also, it is planned to improve the capacity of partner institutions and raise awareness of businesses operating in the tobacco and tobacco products market by means of information sessions, meetings, video-instructions, and manuals.

The end result of these activities will provide increase in transparency and facilitate information-sharing among relevant authorities, aiming to ensure greater efficiency in revenue collection due to simplified process of issuing licenses.

Measure 2.3 - Enhancement of administrative capacity of the Customs Administration

In the coming five years, the Customs Administration will remain committed to continuously increasing revenue collection in the area of import duties, which will be quantified by the share of these revenues in GDP.

The Customs Administration will continue strengthening capacity of its services in charge for implementing commitments undertaken in Negotiation Chapter 33 - Financial and budgetary provisions. Indicator of progress in this area will be measured by level of improvement to the administrative capacity of the Customs Administration in areas covered by Negotiation Chapters 29 and 33, that will be assessed in the EC's annual reports on Serbia in the EU integration process.

The activities for the implementation of aforementioned measures imply continuation of enhancement of collateral arrangements for securing customs debt in collaboration with the Serbian Banks' Association. Namely, the Customs Administration is mandated to maintain standing dialogue with financial institutions with the aim of promoting the financial stability of the budget of the Republic of Serbia, and thereby further reduce the risk of any budget revenues remaining uncollectable. This activity will be highly significant over the coming four to five years, especially in the post-Covid-19 period, given the importance of ensuring financial stability. The relevant steps will be more clearly defined in dialogue and consultation with the banking sector.

Analysis of the legal framework and administrative capacity for full-fledged implementation of EU regulations on traditional own resources and reporting of EU revenues remains one of the key activities of the Customs Administration in the upcoming period. In addition, targeted training session in management of EU traditional own resources are planned for customs officers. Efforts that will be invested by the Customs Administration into meeting the requirements of EU accession process, both under commitments for Chapter 33, and in terms of Serbia's preparedness to administer EU traditional own resources, will permit more efficient reporting of EU revenues once Serbia has joined the EU, which is of huge importance for the public finance system of the Republic of Serbia in general.

Control of customs goods is crucial for both collection of customs duties and international trade more broadly. As such, in the coming five years the Customs Administration will endeavour to enhance capacity for efficient follow-up controls, especially with regard to appropriate customs valuation and proper assessment of customs value. This strengthening of capacities will result in better revenue collection by the Customs Administration due to more accurate assessment of goods value as a basis for VAT collection. In addition, capacities will be strengthened to implement preferential rules of origin and classification of goods, which will additionally improve efficiency of the Customs Service. The result of presented reform measures to be implemented by the Customs Administration will result in more accurate assessment of customs debt and revenue collection, and thus strengthen entire public finance system.

The Customs Administration will continue to focus on the process of improvement of the Customs Laboratory in the following period. To meet the requirements of a modern Custom Laboratory in regards the laboratory goods analysis, for the needs of goods identification and more accurate classification in line with the CT, and to successfully address the challenges of

piracy and illicit trade, the Customs Administration will endeavour to organise and facilitate the work and functioning of the Custom Laboratory in line with the regulations and standards applied in the work of the EU Custom Laboratories, during the process of Custom Laboratory modernisation. Also, one of the modernisation phases will be development of necessary human resources and enhances HR management, procurement of modern and sophisticated equipment required for goods sample testing and efficient functioning of the Custom Laboratory, as well as securing adequate premises where the Customs Laboratory should be situated. Upon completion of the “Development of three scenarios of the modernisation of the Customs Laboratory facility and assessment of financial costs of each of the three scenarios” and after strategic decision of the Ministry of Finance for an optimal scenario for ensuring adequate Customs Laboratory facility after 2022, additional donor assistance is expected for the procurement of equipment necessary for successful functioning of the Customs Laboratory. Its functioning is key not only for work of Customs Administration in collection of customs duties, but also for control of international trade. To this end, the Customs Administration will continue adopting best practices employed by EU Member States’ customs authorities, where it will rely on support from the Project “Public finance reform – 2030 Agenda” implemented by the GIZ, as well as on IPA funding.

In addition to support for improving the Customs Laboratory, the Customs Administration expects to receive assistance for the development of special-purpose customs warehousing infrastructure and for improvement of management and public sale of confiscated goods. Public auctions of goods confiscated by the Customs Administration will raise additional public revenue in the budget of the Republic of Serbia on the bases of sales, which will greatly contribute to the overall goal of effective revenue collection in the competence of the Customs Administration. Appropriate warehousing is one of the key elements for implementation of measures of control of goods, as goods are kept in these storage facilities until processed by customs. Due to inadequate warehousing capacities, prior sampling is not conducted, which would determine proper storage requirements, but these parameters are rather based on documentation accompanying the goods presented by offender. To be better able to handle goods confiscated in the customs procedure, the Customs Administration has to procure storage facilities for oil and oil derivatives every year. Currently, large amount of funds is allocated for these public procurements, with the tendency to allocate additional funds to that end, for it is very difficult to meet the needs for renting above-ground and underground storage and associated storage maintenance services, as the quantity of confiscated petroleum products has been increasing annually, and has in recent years ranged from 270,000 to 500,000 litres.

As the PEFA Assessment for Republic of Serbia has highlighted the need to reduce tax arrears, in the coming period, the Customs Administration will focus on building capacity for efficient follow-up controls, determination of customs valuation, preferential rules of origin, and classification of goods, which will together enhance improvements in revenue administration.

Moreover, pursuant to recommendations of the PEFA Assessment for Republic of Serbia, the Customs Administration will remain committed to risk analysis and management system improving. The *ERIAN* software is planned to be integrated, until the end of 2021, with entry-exit records for empty freight vehicles recorded by the Customs Service Information System (hereinafter referred to as: ISCS). The AES/AIS, and the Export Control System (hereinafter referred to as: ECS) are being rolled out. Amendments to the system of processing of customs declarations will have a positive impact on revenue collection, system of guarantee management, and risk management system, provided that new areas are included into risk profiles.

With the aim of further modernisation, the Customs Administration of the Republic of Serbia plans to have full-fledged implementation of the automated import system (AIS) and automated export system (AES), with the financial support by the European Union. The Project will be implemented through three contracts: service contract for the development and implementation of the *AIS/AES* and *CDMS* software; service contract for technical assistance and supervision over the execution of the contract for the software development; and contract for the procurement of IT equipment for the implementation of the *AIS/AES* and *CDMS* systems. Upon the realisation of the mentioned contracts, the work on the operational implementation of the automated import and export systems (*AIS/AES*) and custom decision management system (*CDMS*) will commence, both of them entailing a lot of benefits, such as paperless business operations, protection of citizens' interests through better import and export control, improvement of safety and security aspects, more efficient public revenue collection and the similar.

Upon the full-fledged implementation of the automated import and export systems, the Customs Administration plans to introduce an Integrated tariff management system in order to further harmonise its tariff system with the EU one. The project entails the implementation of the *TARIC* system, *Quota* system, surveillance system, implementation of *BTI* (*Binding Tariff Information*) and implementation of *BOI* (*Binding Origin Information*).

Also, one of the important segments of the Customs Administration is data collection, processing and provision of complete and accurate reporting to other state authorities, other customs administrations, etc. Enhancing data analysis and reporting will contribute towards timely fact-based business decisions, and will also improve transparency, operational response to risk analysis and control of subsequent approval, as well as projections and analysis of patterns to be subsidised in the anti-fraud activities. The Customs Administration will conduct procurement for Data Ware House. The project includes the development of software, procurement of hardware, licences for software solutions, training sessions.

Measure 2.4 – Efficient public debt management

Reform measures to be undertaken by the PDA in the upcoming period will primarily be aimed at enhancing IT systems, strengthening strategic management, and improving administrative capacities of the PDA. Aiming to further strengthen capacities of the PDA, it is planned to include improvement of knowledge in the area of risk analyses and costs. In this regard, the development of the new risk management modelling software solution will be approached, which will greatly increase the PDA's ability to analyse the relationship between the risks and costs of borrowing, and will significantly facilitate the development of Serbia's borrowing strategy in the medium to long term.

In parallel with the development of this new model, staff members will undergo appropriate training sessions, including in the use of all of the model's functions. Moreover, until 2025 the current IT system (Public Debt Management System, PDMS) will be upgraded to include business intelligence tools, which will enable improvements in reporting and facilitation of maintenance of the public debt management system.

The Public Debt Administration will consider introducing a primary dealer system and continuing to promote development of the domestic market in debt securities. This activity is planned to include the drafting of bylaws that will regulate requirements and procedure for becoming a primary dealer and for its mode of performance, and provide a set of templates with operating procedures and templates of agreements outlining the rights and obligations of primary dealers.

Introduction of primary dealer system represents one of important steps to further development of the local securities market. It is expected to thus create conditions for generation of higher volume of demand for government securities that is to improve liquidity level of government bonds in the local primary market, with certain effects expected to impact the secondary market. As one of the preconditions for introducing this system include development of the local market and issuing benchmark dinar-denominated bonds, an activity closely co-ordinated by the PDA with the IMF. The IMF has recommended a staged approach to introducing primary dealers for auctions of dinar-denominated government bonds. In order to observe all effects of the primary dealer system, a pilot project will be implemented before a final decision is made.

Measure 2.5 - Improvement of the online public procurement system

Over the coming two years, the PPO will remain committed to improving e-procurement, chiefly by upgrading the new e-Public Procurement Portal, through development of new modules, and creating a mobile app that will facilitate access and simplified following by bidders and contracting authorities throughout the public procurement process, from publication to contract award. In this regard, the PPO will, in cooperation with NALED and the United Nations Development Programme (UNDP), deliver training aimed at familiarising contracting authorities and bidders alike with the new modules of the online system that will make implementation of the public procurement process easier and quicker. A new public procurement policy document in the area of public procurement is envisaged for adoption by the end of 2024, after the current 2019-2023 Programme has expired. The new policy document will be compliant with the Planning System Law, with the ultimate aim of ensuring appropriate alignment between the public procurement policy document and the 2021-2025 PFMRP, as the umbrella PFM document, which will contribute to more efficient public spending on public procurement.

SPECIFIC OBJECTIVE III IMPROVING BUDGET DISCIPLINE AND MORE TRANSPARENT USE OF PUBLIC FUNDS

Effective financial control is a key step in reforms aimed at establishing budgetary discipline and enhancing accountability in public financial management. Responsibilities and roles in formulating and implementing the framework of internal control are clearly dividing within the established structure. In line with that, the Central Harmonization Unit of the Ministry of Finance is tasked with designing, co-ordinating, and monitoring the frameworks of public internal financial control (PIFC), and the functioning of the established systems for management, risk monitoring and application of PIFC rules is subject to review by an independent, decentralized internal audit of public funds beneficiaries. Ex-post control of the compliance of financial transactions and operations of public funds beneficiaries in relation to applicable legislation is entrusted to the Budget Inspection, and the roles of financial management, control, irregularity management, combating fraud and audit of EU funds use are assigned to organizational units and institutions within the system of indirect management of EU funds in the Republic of Serbia.

Lack of technical administrative capacities in the organisational units and institutions pertaining to the system of indirect management of EU funds in the Republic of Serbia is one of the key systemic weaknesses the Program seeks to rectify. Ever since the introduction of the indirect management system, Department for EU Funds Management within the Ministry of Finance has been understaffed and it lacked expertise to find irregularities in the first line of

control, thus preventing efficient functioning of the system which would in case of early identified irregularity be able to rectify it within the system, prior to an audit. On the other hand, lack of capacities in the body competent for auditing EU funds management system prevents an efficient audit, and results in higher number of audit findings by European Commission. As per inspection control conducted by the Department for Inspection Control within the Ministry of Finance, lack of administrative capacities limits the number of controls that can be conducted in line with control requirements, while a successfully implemented centralisation process would enhance capacities of the budget inspection, harmonise its operations and competencies at all levels. That would significantly contribute towards the increase in number of controls carried out.

In the upcoming period, implementation of reforms in this area will be monitored through the improvement of three important aspects:

1. Institutional capacity-building of institutions responsible for the audit EU funds;
2. Increased efficiency of inspection controls conducted by Budget Inspection, and
3. Strengthening system for more efficient, effective and transparent use of EU funds.

ACHIEVEMENTS MADE TO DATE

Adequate progress has been made in the area of Regional policy and coordination of structural instruments - Chapter 22, thanks to both the experience Serbia gained in decentralised management of EU funds and improvements to the FMC system and audit practices.

The first step in this regard was a functional assessment of the Governmental Audit Office of EU Funds (hereinafter referred to as: GAO) aimed at enhancing its capacity and functionality.⁷² Recommendations resulting from this assessment served as a base for the drafting of legislative instruments to re-institutionalise the GAO. Although an amended legislative framework for re-institutionalisation had been drafted by late 2017, its final adoption was delayed due to the lack of institutional and economic justification for changes to the GAO's organisational status, seeing as such alterations would have required additional public funding.⁷³

Organisational, technical, and administrative capacity of the GAO were, however, improved in accordance with the requirements of the EC and IPA II rules, which improved its audit function. Specifically, as recommended by the workload assessment, in 2018 the GAO was initially able to take on new staff members (ultimately numbering 27 employees), however major outflow of personnel was registered in 2019. Under the new analytical staffing assessment, the maximum number of employees for GAO is 33 employees.

Administrative capacities of national financial management, control, and audit systems were additionally enhanced to ensure compliance with the requirements of decentralised management of IPA funds, which ensured a higher efficiency of EU funds auditing. This outcome was verified in the EC Serbia 2020 Report.⁷⁴ It was achieved primarily with assistance from the IPA 2013 project "Introduction of AuditDoc audit and document management

⁷² The functional review of the Governmental Audit Office of EU Funds was undertaken in early 2016 by national IPA bodies (National Authorising Officer, NAO; head of the Governmental Audit Office of EU Funds; and National IPA Co-ordinator, NIPAC), as envisaged by the IPA II Framework Agreement and following a workload assessment. The review was completed ahead of the time limit envisaged by the previous PFM RP.

⁷³ The main proposer of the law was initially MoPALG, after which the role was assumed by MEI.

⁷⁴ EC Serbia 2020 Report, p. 101, available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/serbia_report_2020.pdf

software”, implemented in 2018 to promote a more efficient and effective work by implementing the software which greatly simplifies GAO’s document management. In the upcoming period, the software is planned to undergo further improvement.

Managing irregularities and coordination and cooperation in combating fraud involving EU funds are highly relevant and significant for both the interests of the Republic of Serbia and the EU. The Government of Serbia has invested considerable effort in ensuring transparency and appropriate use of EU funds, in parallel with seeking to do the same with the use of national funds. The comprehensive strategic framework for addressing irregularities and fraud and ensuring the security of EU funds is based on the Strategy for Combating Irregularities and Fraud in Handling of EU Funds in the Republic of Serbia for the period 2017-2020 (hereinafter referred to as: the AFCOS Strategy) and its accompanying Action Plan.

The previous period also saw the planning and completion of a SIGMA assessment which was focused on estimating options for streamlining the work of Budget inspection and the Anti-Fraud Coordination Service (hereinafter referred to as: AFCOS) Unit under a single management structure in compliance with current legislation. The SIGMA report found that the Budget Inspection and AFCOS Unit ought to remain separate until Serbia’s accession to the EU, with AFCOS implementing the AFCOS Strategy and its corresponding Action Plan, while the Budget Inspection will work on improving its performance based on its own planning document outlining the development of budget controls. Both units should be able to set their own operating methodologies and establish joint practices for information-sharing and collaboration in addressing the shortcomings of the system.

As of January 2017, the parties can report irregularities involving EU funds on the official web site of the Ministry of Finance.⁷⁵ This option facilitates reporting and allows anyone with information on irregularities involving EU funds to submit it whilst either withholding or disclosing their identity.

Inter-institutional Co-operation and cooperation with the EU is one of the key preconditions for effective operation of the AFCOS. In that regard, the Anti-Fraud Coordination Network has also sought to prevent irregularities and fraud involving EU funds⁷⁶ for assistance programmes financed up to 2020. On the other hand, AFCOS maintained close cooperation with the European Anti-Fraud Office (*OLAF*), with which it exchanged information on irregularities and suspected fraud involving EU funds, and co-ordinated support for national institutions and *OLAF* inspectors in conducting investigations in Serbia. Under this arrangement, *OLAF* received information on the course of investigations pursued by Serbian authorities. Since August 2018, AFCOS has been able to share information on irregularities and suspected cases of fraud involving EU funds through the Irregularity Management System (*IMS*) operated by the EC and the European Anti-Fraud Office (*OLAF*). The disruption due to the ongoing pandemic for most of 2020 has significantly affected cooperation with *OLAF*, even though substantial efforts were invested by both sides to verify

⁷⁵ Reports about suspected irregularities or fraud involving EU or Serbian funds: <https://www.mfin.gov.rs/kontrola-javnih-sredstava/prijave-nepravilnosti/>

⁷⁶ Also known as the AFCOS Network, this arrangement was established by the Decision of the Government of Serbia to Establish the Anti-Fraud Coordination Service Network (“Official Gazette of the Republic of Serbia”, Nos. 78/2015, 43/2017, 74/2018, 15/2019, and 63/2020) as a temporary Governmental working party meeting as and when required, or at the least once every two months. The AFCOS Network was composed of officers of the MoF (EU Funds Management Department; Department for Contracting and Financing of European Union Funded Programmes; Budget Inspection Department; Tax Administration; Treasury Administration; Administration for the Prevention of Money Laundering; and Customs Administration); MoI; MEI; Ministry of Agriculture, Forestry, and Water Management; National Public Prosecutor’s Office; SAI; Anti-Corruption Agency; and the GAO.

suspected instances of irregularity and fraud, share information, and work with relevant prosecutors' offices in the territory of the Republic of Serbia.

In meetings of the Sub-Committee on Economic and Financial Issues and Statistics held in 2019 and 2020, EC representatives confirmed their satisfaction with cooperation aimed at protecting EU financial interests coordinated by the AFCOS.

Enhanced co-operation with other institutions was accompanied by improvements to the legislative framework governing the system for preventing irregularity and fraud involving EU funds. In September 2019, the Minister of Finance adopted the Directive on Operations and Conduct of the Anti-Fraud Coordination Service Unit in Connection with Reported and Otherwise Recorded Irregularities and Suspected Fraud Involving the use of EU Funds in the Republic of Serbia. The Directive is intended to strengthen the AFCOS Unit and allow it to undertake administrative checks of reported instances of irregularities involving EU funds. The AFCOS Unit also drafted the Methodological Instructions on Managing Risk in Connection with Irregularities and Fraud Involving EU Funds and a set of accompanying annexes⁷⁷, which were formally enacted by the Minister of Finance on 7 November 2019.

A process of preparation of the new public policy document - Strategy to Combat Fraud and Manage Irregularities Involving EU Funds and the Action Plan for its implementation was initiated during 2020.

An ex-post impact assessment questionnaire, together with instructions for respondents, was prepared and disseminated to the AFCOS Network for the purpose of receiving the answers to the posed questions. The questionnaire was divided into four areas (relevance/importance, effectiveness, efficiency, and sustainability) and comprised questions which relate to the current state of play and assess activities envisaged by the Strategy. Due to the constraints imposed by the Covid-19 pandemic, adoption of this new strategic document has been postponed to late 2021.

Enhancing the appropriate mechanism to recover irregularly spent funds is a major reform objective envisaged in the AFCOS Strategy, as is developing a risk management policy to prevent irregularities and fraud involving EU funds. The objective is to improve a legislative and procedural framework that allows these recoveries to be made in a timely and efficient manner and to ensure that relevant staff have sufficient capacity and technical knowledge to identify irregularities and manage and oversee recovery procedures within their scope.

In the previous period, the primary role to design the funds recovery mechanism and build capacities was assigned to the Department for EU Funds Management, with AFCOS playing a co-ordinating role. The first step was making the NAO primarily responsible for funds recovery⁷⁸, seeing as the NAO has overall responsibility for financial management of IPA assistance to Serbia and is accountable for the legality and regularity of expenditures.⁷⁹ Thereafter, 2019 saw the adoption of the Decree on Management of EU Pre-Accession Assistance under the IPA I Transition Assistance and Institution Building Component, 2007 to 2013, and the Decree on Management of EU Pre-Accession Assistance under IPA II, 2014 to 2020.

⁷⁷ The Methodological Instructions were developed in collaboration with experts engaged by the GIZ on the project Public finance reform – 2030 Agenda and enacted by the Minister of Finance in November 2019. The document is available at: <https://www.mfin.gov.rs/UserFiles/File/afcos/Metodolosko%20uputstvo.pdf>

⁷⁸ Article 41 of Laws on Ratifying Framework Agreements for the periods 2007 to 2013 and 2014 to 2020

⁷⁹ As regulated by the Budget System Law and the Decree on Management of EU Pre-Accession Assistance, which elaborate the rules for reimbursement of irregularly spent funds in more detail.

Appropriate *ex-post* control of public funds spending is the responsibility of the Budget Inspection, which was constrained by limited staffing and technical resources prior to the adoption of the PFMRP 2016-2020. During the previous period the Budget Inspection greatly improved its administrative capacity and scope of action in order to achieve a level of efficient system of protection of budget funds of Republic of Serbia. Namely, vertical functional analysis of the Ministry of Finance conducted by the World Bank in 2016 identified a need for the Budget Inspection to secure a sufficient number of appropriately qualified staff.

Based on findings of this analysis, the new Rulebook on systematisation of the Ministry of Finance was adopted in December 2018 which envisaged 40 positions in the Budget Inspection Department, compared to 23 in the previous period. The Budget Inspection was removed from the Department for the Control of Public Funds and transformed into a separate Budget Inspection Department, which is currently composed of the Budget Inspection Division and the Division for normative, study-analytical affairs, risk assessment and management. This change has improved the performance and efficiency of the Budget Inspection. Additionally, 2019 was very important in terms of capacity building of the Budget Inspection with the development and delivery of a training Programme for budget inspectors.⁸⁰

In the period 2017-2019, apart from strengthening of administrative capacities, there was a significant improvement of the legislative framework which involved the adoption of a series of byelaws which broadened the Budget Inspection's coverage and increased its powers⁸¹ whilst also enhancing its functionality. Finally, the Budget Inspection Operating Methodology was adopted in 2019 in order to promote consistency and regularity in the operations of the Budget Inspection Department of the Ministry of Finance, the Budget Inspection Service of the Autonomous Province, and Local Self Government budget inspection units.

Thanks to the enhanced legislative framework, strengthened capacities, and more systematic approach to work, the budget inspection units greatly improved their performance in 2019, with the number of inspections rising from 15 in the previous year to 43, i.e. 286 percent increase or 2.5-fold increase.

The public health situation and restrictions on official travel and visits introduced due to the Covid-19 pandemic have resulted in incomplete execution of the Budget Inspection's 2020 Work Plan. In 2020, the Budget Inspection conducted inspections of 34 users in 23 scheduled and 11 unscheduled controls. A total of 27 controls were completed (22 regular and 5 unscheduled ones), whilst the implementation of remaining 7 controls will continue in 2021. In addition, a draft Strategic Plan of the Budget Inspection of the Ministry of Finance for the period 2021-2026 was prepared in the course of 2020, and its adoption was postponed for 2021 due to public health situation caused by the pandemic.

⁸⁰ In 2019, budget inspectors underwent training delivered by the NAPA, NALED, PPS, GIZ, Organisation for Security and Co-operation in Europe (OSCE), Treasury Administration, and Gi Group HR Solutions.

⁸¹ The byelaws were the Decree on the Operations, Powers, and Insignia of the Budget Inspection (*Official gazette of the Republic of Serbia*, No. 93/17), the Rulebook on Specific Risk Assessment Elements, Frequency of Inspection Oversight and Risk-Based Controls, and Specific Elements of Inspection Oversight and Control Programmes in the Remit of the Budget Inspection Department (*Official gazette of the Republic of Serbia*, No. 90/18). Also adopted were the Rulebook on Oversight by the Budget Inspection of Compliance with the Law on Late Payments in Commercial Transactions (*Official Gazette of the Republic of Serbia*, No. 78/19), which regulates oversight of compliance with this law in transactions where payment is due from public-sector entities to businesses and transactions between public-sector entities, as well as access to data on outstanding payables owed by SOEs in the Treasury Administration information system.

Measure 3.1 - Establishing a base for strengthening the institutional and administrative capacity of the Governmental Audit Office of EU Funds, which enables effective audit of the EU control system

The GAO was established by the Decree Establishing the Audit Authority. However, in line with the recommendations of the EC, it is necessary to adopt a higher-level Government enactment regulating this institution with the purpose of enhancing its efficiency. The GAO's re-institutionalisation would encompass its administrative capacity and permit it to make relevant recommendations related to IPA structures in order to improve decentralised (indirect) management of EU pre-accession funds. This process began in Q2 of 2019 with the adoption of the new Rulebook on Job Classification⁸². The following planned activities, including those related to the adoption of the new legal framework - are in line with the EU Cohesion Policy Action Plan - Chapter 22 - Regional Policy and Coordination of Structural Instruments⁸³ and the Action Plan for the Transposition, Adoption and Implementation of the Acquis communautaire in the field of agriculture and rural development in the framework of pre-accession negotiations⁸⁴.

In addition to establishing a new regulatory framework and pursuing re-institutionalisation, the GAO will remain committed to strengthening its administrative capacity by ensuring professional development of current staff and new hiring pursuant to the current analytical assessment of staffing needs, within funds allocated to it in the budget of the Republic of Serbia. An intensive programme of staff training and certification of newly employed staff members will be undertaken in accordance with a training plan which will be delivered by NAPA. Moreover, it is planned to further build its capacities by recruiting new staff members so as to intensify efficiency and effectiveness of its auditing of EU funds management system in line with the EU legal framework. In addition to hiring new staff members and their continuous capacitating, the planned improvement of the GAO's organisational structure will contribute to more efficient management of cohesion policy and fulfilment of obligations stemming from the Chapter 22 requirements.

Measure 3.2 - Strengthening the system for more efficient and effective management of European Union funds

The EC's Serbia 2020 Report identifies the need for further improvement of administrative capacity at key institutions tasked with managing EU funds. Strengthening the EU funds management system is one of the key priorities for the Ministry of Finance in the upcoming five-year period. The process of strengthening the system was initiated in 2019, when new staffing and organisation Rulebooks for the Department for EU Funds Management and the Department for Contracting and Financing of EU Funded Programmes improved these units' organisational structures. In addition, the adoption of the Procedures for Decentralised Funds Management in July 2019 initiated the process of improving the entire system, which included introducing best practices and responding to findings of the GAO and the EC Auditors. In the upcoming period, the strengthening of the EU funds management system will be directed through the preparation of a comprehensive policy for staff retention within the IPA structure, in accordance with the measures to be adopted at the national level for state administration

⁸² The rulebook is compliant with the new Decree on the Competencies of Civil Servants (*Official Gazette of the Republic of Serbia*, No. 4/19).

⁸³ Adopted by the Government in its Conclusion 05 No. 337-3121 / 2019-1 of 4 April 2019.

⁸⁴ Adopted by the Government in its Conclusion 05 No. 337-3121 / 2018-1 of 18 October 2018.

bodies and government services. public administration activities related to the management of EU pre-accession assistance funds. New improved operating procedures, methodological guidelines, and other tools applicable to institutions that manage EU funds will be adopted by late 2021, which will reduce the administrative burden faced by these institutions when undertaking mandatory controls pursuant to their annual plans and increase the efficiency of field controls. Improvement of procedures is based on the adopted audit findings and lessons learned from the practice thus far. Moreover, efforts will be invested to enhance administrative capacity and ensure adequate numbers of staff to ensure on-the-spot checks of public fund beneficiaries. Greater efficiency and frequency of these controls will both reduce the risk of irregularities and fraud and strengthen the decentralised EU funds management system.

Apart from development of new enactments, the PEFA Assessment for the Republic of Serbia has identified a need for clear definitions of risk and irregularities management so that IPA beneficiaries are able to clearly understand and comply with them in order to prevent irregularities and fraud involving EU funds. In that regard, the Department for EU Funds Management will work with the Department for Contracting and Financing of EU Funded Programmes to establish and deliver continuous training and mentoring in governance, system oversight, financial management and control related to EU funds, and management of risk and irregularities involving EU funds until the end of 2023. This activity will be a continuation of the practice first introduced in 2019 with regular meetings of the AFCOS Network, which have improved the awareness of how to deal with irregularities by r exchange of experiences and increased participation of all irregularities officers from the various institutions making up the IPA structure. Continued training on the topics of risk and irregularities will enhance capacities of staff members to handle irregularities in the course of the first-instance control, so as to eliminate them within the system. This involves timely reporting of suspected irregularities to the competent institutions.

In the upcoming period, apart from enhancing procedures and strengthening administrative capacity to improve the decentralised EU funds management system, the Department for EU Funds Management will invest efforts into developing its management information system (*MIS*) designed to support business processes for system management, contract implementation, and management of funds. The MIS will extend to indirect management of EU funds, including preparation of tender documentation and contract implementation, financial management, financial control and accounting, monitoring of key performance and risk indicators, human resources management, and irregularity management. The implementation if this IT system will significantly optimise work processes and support the staff in managing the EU funded programs, implemented through indirect management. Moreover, the upgraded MIS will significantly facilitate timely monitoring, prevention of delays, and transparency in spending EU funds, which is of crucial importance for the overall system of public finances.

Measure 3.3 – Increasing the efficiency and effectiveness of inspection control

In the context of the Chapter 32, the EC Serbia 2020 Report identifies the need for further capacity-building of the budget inspection function in order to extend its coverage to all budget beneficiaries and ensure their efficient control. In accordance with this recommendation, the Budget Inspection is planning to increase the number of inspectors from 17 to 38 by the end of 2025.

The Budget Inspection also intends to continuously develop its staff members through trainings in order to enhance their efficiency and performance. Four training sessions that will

cover areas such as initiating misdemeanour and criminal procedures, making formal statements, time management, and ethics and integrity in the civil service are planned in 2021.⁸⁵

In addition to the mentioned trainings, provided public health restrictions due to the epidemic allow it, the Budget Inspection will also take part in training offered by the CEF, based in Ljubljana⁸⁶, Slovenia, and trainings delivered by NAPA. Continuous training for current staff members and new hiring will increase the number of inspection controls, which will considerably raise budget discipline and promote transparency of public spending.

Adoption of technical and methodological instructions regulating operations of the Budget Inspection in its various controlling areas, planned for 2021, will facilitate the more efficient work of BI. Three sets of instructions are envisaged to be adopted in 2021: Instruction on Oversight of Compliance with the Budget System Law with Regard to Preparation and Adoption of Budgets and Financial Plans and Budget Execution; Instruction on Oversight of Compliance with the Law on Public-Private Partnerships and Concessions; and Instruction on Inspection Audits of Scheduled and Unscheduled Inventories at Beneficiaries of Public Funds.

The proposal of the Strategic Plan of the budget inspection of the Ministry of Finance for the period 2021-2026 has been adopted in 2021, as well as the accompanying Action Plan which defines in detail the measures and activities to be undertaken in order to increase legality in the field of material and financial operations and purposeful and legal use of funds of budget beneficiaries, thus achieving long-term goal in the field of budget inspection. The general objective is to enhance compliance in material and financial operations and ensure proper use of public funds by budget beneficiaries, organisations, enterprises, legal entities, and other entities envisaged in the Budget System Law. This objective is planned to be achieved by increasing the number of inspection controls and enhancing their efficiency and effectiveness and beneficial effects on the budget of the Republic of Serbia.

In addition to continuous strengthening of administrative capacities and adoption of by-laws regulating the work of budget inspection, amendment to the Budget System Law of the Republic of Serbia is planned, i.e. adoption of a new Law on Budget Inspection to define budget inspection control procedure in a clear fashion, and to enable the budget inspection to detect in an efficient manner and then prosecute unlawfulness and irregularities in public funds spending. Moreover, observing a broader plan, the adoption of the amendments made to legal framework will contribute towards connecting strategic and organisational objectives of the budget inspection with the objectives of the national policy and the overall reform efforts by the Government in the process of public finance management reform.

SPECIFIC OBJECTIVE IV: IMPROVEMENT OF PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM IN PUBLIC SECTOR

Public internal financial control (hereinafter referred to as: PIFC) compliant with international standards was first introduced into the public sector of the Republic of Serbia in the 2009 Budget System Law. At that time, modern management result-oriented methods were instituted that aimed at improving the efficiency, effectiveness, economy, and transparency of PFM. Conceptually, managerial accountability is a precondition for PIFC, but in practice these two concepts permeate and have positive impacts on one another. In and of itself, the

⁸⁵ This training will be delivered with assistance from the GIZ Public finance reform – 2030 Agenda project.

⁸⁶ CEF - Center for Financial Excellence

introduction of PIFC constitutes a major change in managerial and organisational culture, marking a shift from old-style bureaucratic management to modern objective-oriented practices. This is why the reform has been ongoing for more than a decade, and even though all the necessary instruments are in place, its implementation ought to be quicker and more efficient.

Public internal financial control is comprised of: financial management and control of public funds beneficiaries (hereinafter referred to as: FMC), internal audit of public fund beneficiaries (hereinafter referred to as: IA), and harmonisation and coordination of FMC and IA, which is the responsibility of the Central Harmonisation Unit (hereinafter referred to as: CHU). A sound PIFC system ought to ensure that taxpayer funds are spent lawfully, economically, efficiently, and effectively.

FMC comprises all aspects of public-sector organisational management, including:

1. *Strategic planning*, which links organisational objectives with the Government's overall vision;
2. *Operational planning*, which connect operational goals with application of resources (budget, staff and other resources);
3. *Monitoring and reporting* on the attainment of objectives against resources used;
4. *Risk identification and management* in support of attaining operational objectives;
5. Development of *models to evaluate FMC quality*, which includes addressing operational risks and risks of fraud or loss of financial or physical assets or information held by the organisation; and
6. *Communication of accurate, relevant, and timely information* in connection with financial and operational performance within and outside the organisation.

IA is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps organisations accomplish its objectives by bringing a systematic, disciplined approach to assess and evaluate risk management, controls, and management processes.

The set decentralised FMC and IA system in public fund beneficiary places responsibility in the hands of their managers. On the other hand, the CHU as the central organisation tasked with FMC and IA, is responsible for setting common criteria, following international standards and principles and familiarising the Serbian public sector with them, providing technical assistance for their application and elaboration, and monitoring the state of play with regard to PIFC.

Implementation of the measures and activities envisaged under this Objective directly depends on the progress made in specific areas covered by the PAR Strategy and individual elements of the PFM RP. In turn, this progress largely hinges on whether PFBs are proactive, as these institutions have a legal requirement to implement internal control standards and provide the appropriate capacity for the functioning of internal control system.

ACHIEVEMENTS MADE TO DATE

In the context of European integration, PIFC development has always been subject to strategic planning and monitoring through multiple chapters of the *acquis*, the primary one being Chapter 32, Financial control⁸⁷. The EC's Progress Reports have in the past verified improvements in this regard and made recommendations for continued upgrading of PIFC. The latest Serbia 2020 Report notes that Serbia is moderately prepared with regard to Chapter 32, with good progress made in 2020. More than 95 percent of all recommendations made for Chapter 32 by the EC in its 2019 report have been implemented, especially a pilot project to introduce/develop managerial accountability and an exercise to reassess the quality of internal controls. The remaining recommendations will be implemented going forward. Nevertheless, it has been suggested to invest additional efforts to incorporate managerial accountability into the organisational culture of public administration, as well as to strengthen FMC and IA.

As this area is an integral part of both PFM reform and broader PAR reforms, in consultation with the EC it was decided to not produce a new strategy for beyond 2020 once the current 2017-2020 PIFC Development Strategy expires, but, rather, to incorporate this area into the 2021-2025 PFMRP. This will ensure the continuation of systematic and sustainable development of FMC and IA, in compliance with the Planning System Law. Moreover, doing so will also permit enhancement of managerial accountability, which has been included in the Accountability and Transparency pillar of the 2021-2030 PAR Strategy that envisages improving managerial accountability by enhancing the regulatory and methodological framework and providing overall support for its implementation (such as training and educational materials). Particular emphasis has been placed on improving performance management, both in individual entities and among hierarchically related organisations.

In the time frame of the previous strategy, the PIFC system was completed and modernised. Major progress was made with improving the legal and methodological framework and producing training materials aligned with international standards and EU best practices. A Rulebook on Continual Professional Development of Certified Internal Auditors in Public Sector⁸⁸ was enacted to regulate eligible areas and criteria for recognition, reporting, and recording related to professional development. The Rulebook is expected to contribute to improved performance and continued strengthening of the role of public internal auditors. A second piece of regulation enacted was the Rulebook on Joint Criteria and Standards for Establishing, Functioning and Reporting of the System of Financial Management and Control of the Public Fund Beneficiaries⁸⁹ ('the FMC Rulebook'), which introduced the Declaration on Internal Controls, a declaration whereby managers of PFBs confirm the alignment of their FMC systems with international standards for internal control. The use of these declarations ought to raise managers' awareness of their roles and tasks and strengthen managerial accountability, which has been recognised as a challenge for FMC implementation. The FMC Rulebook complies with amendments to international PIFC standards (INTOSAI) that include the 2013 COSO framework "Internal Control – Integrated Framework"⁹⁰. This piece of regulation develops the concept of managerial accountability and management of irregularities in greater detail. The FMC Rulebook was subsequently amended and published⁹¹, with key

⁸⁷In addition to Chapter 32 of the *acquis*, PIFC arrangements are also assessed in Chapters 22 and 23.

⁸⁸ "Official Gazette of the Republic of Serbia", number 15/19

⁸⁹ "Official Gazette of the RS", number 89/19

⁹⁰ „*Internal Control - Integrated Framework*”

⁹¹ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/FUK-prirucnik-Compressed.pdf>

changes involving the introduction of the new COSO 2013 framework⁹² and inclusion of updated FMC tools, which has permitted compliance of management of PFBs institutions with the latest global PIFC developments and facilitated the deployment and visibility of these international principles. A pilot project was implemented within Twinning which involved implementation of best FMC practices to a number of pilot institutions⁹³ and introducing the managerial accountability concept. Managerial accountability guidelines and a methodological framework were developed in accordance with best practices. A total of 13 sets of guidelines, models, and video training materials covering a variety of IA issues⁹⁴ were produced, with most published in the CHU e-Learning section of the MoF web site. The IA Manual was also updated, and a set of complementary guidelines was adopted⁹⁵. Even though the Twinning project provided the most support, PIFC enhancements were also aided by the *SECO/UNDP* project *Enhancement of Municipal Audit for Accountability and Efficiency in Public Finance Management*, the *SIDA/UNDP* project *Accountable Public Finance Management Platform*, and the *SECO Local Finance Reform Project -RELOF*, with overall GIZ support from the project *Public Finance Reform – 2030 Agenda - PFR A2030*.

In the previous period, the FMC Rulebook has been aligned with the 2013 COSO framework, which required the CHU to also update in 2019 the training materials for its five-day FMC training course. Since its establishment, the CHU has used these courses to train **2,607** staff members from a variety of public-sector institutions. Additionally, 197 managers were trained at one-day training courses. As a result of these activities, a greater number of public fund beneficiaries have undergone the training and submitted their first annual FMC system reports.

In view of the marked need for internal auditors in public sector, and given the limited capacity of CHU staff members and in line with the recommendations made by the EC, efforts have commenced to shift responsibility for basic training from the CHU to the NAPA and this process will continue in the coming period.

STRATEGIC PLANNING: GOVERNMENTAL OBJECTIVES ACHIEVED THROUGH ORGANISATIONS' OBJECTIVES

Adopted Planning System Law⁹⁶ of the Republic of Serbia and its implementing byelaws have created a fully-fledged policy management and medium-term planning system. The Law regulates the format and mandatory content of the various planning documents and so allows their standardisation. Particularly important in this regard are performance indicators, which permit performance evaluation of policy documents. The Law calls for coordinated policy planning by the relevant entities tasked with enacting policies, which are to be compliant with both interests of other planning stakeholders and their own sectoral objectives. Namely, it ensures that planning documents at all levels are aligned with the Action Plan to Implement the Government Programme and requirements of the EU accession process. At the same time, this piece of legislation provides for a vertical hierarchy of policy documents, with the

⁹² A set of principles organised within five interlinked elements covering environmental controls, risk management, control activities, communication and information, monitoring and assessment (oversight)

⁹³ NEO, MoPALG, MoF and PPS

⁹⁴ In cooperation with the Twinning Project, the Guidelines produced within the Pilot Project are the following: Guidelines for System to Delegate; Guidelines for Performance Management; FMC Guidelines for Small Public Funds Beneficiaries; Guidelines for Financial Units; Guidelines for Management of Irregularities; Guidelines on Managerial Responsibility (updated), and Guidelines for Risk Management, Guidelines for Quality Control of Internal Control.

⁹⁵ A set of guidelines were produced on the pilot project in collaboration with the Twinning partner covering delegation, performance management, FMC for small spending units, financial units, irregularity management, managerial accountability (updated), risk management, and internal quality review.

⁹⁶ "Official Gazette of the Republic of Serbia", number 30/18

development plan, national investment plan, and national spatial plan at the top, followed by strategies, programmes, and action plans. On the other hand, the mandatory practice of medium-term planning means that entities required to enact these plans, as governed by Article 26 of the Law, must use them to link together particular measures or activities from their respective remits that are set out in their policy documents.

Since the budget being an instrument designed to permit policy execution, medium-term plans, covering three-year periods, enable policies to be linked with the medium-term expenditure framework. Budgeting reforms implementing have emphasised the fact that programme budgeting permits alignment between medium-term planning and budgetary allocation, and ensures better policy management. In this process it ought to be borne in mind that the programme budget is a broader concept and that it should reflect key institutional scopes and medium-term objectives, rather than just focusing on public policy implementation. The same holds true of PIFC, which primarily relates to management of the totality of operations of public sector entities.

In parallel with budget planning, better linkages between organisational objectives and the Government's vision are also promoted by the medium-term budgeting framework and structural reform requirements under Chapter 17 - Economic and monetary policy. Since 2015, as a part of pre-accession phase, the Republic of Serbia, as a candidate country for EU membership, has been involved in the coordination of the economic policies with the EU in a way that it submits a three-year Economic Reform Programme (hereinafter referred to as: ERP) sine 2015. The ERP is based on national priorities and in accordance with the recommendations of the EU Economic and Financial Affairs Council (ECOFIN) and the EC's Guidance Note for the Economic Reform Programmes. Current extenuating circumstances linking planned objectives with budgets is facilitated by the fact that the ERP must be submitted is to be submitted after the adoption of the Budget System Law of the Republic of Serbia.

Nevertheless, as noted in the EC Serbia 2020 Report, further improvements are required to capacities for economic planning and inter-institutional coordination and budgeting. Moreover, optimisation of the current strategic framework was identified as the key challenge to medium-term planning. As some 40 policy documents elapsed in 2020 and new ones are set to be enacted in compliance with the Planning System Law of the Republic of Serbia, and given the feasibility of assessing current practices, the broader linkages among public policies and organisational objectives and the budget are expected to improve in the upcoming period.⁹⁷

OPERATIONAL PLANNING LINKING OPERATIONAL OBJECTIVES AND RESOURCES

As noted above, by regulating the planning framework, the Planning System Law of the Republic of Serbia mandates the articulation of general and specific policy objectives. General objective is long-term one that seek to define desired condition at the level of society as a whole, whilst specific objective is set against individual entities or areas to which a policy applies. Attainment of specific objectives is the precondition for attaining a general objective, and the measures set out in strategies and programmes indicate how both objectives and goals are to be achieved. It is only at the level of action plans for implementation of strategies or programmes that the most granular level of detail is provided, including activities, timeframes, responsible institutions, links with the programme budget, funding, and performance indicators for each measure.

⁹⁷ As elaborated in greater detail at Specific Objective I, Capacity improved for budget planning and public investment management.

Identification of primary and partner stakeholders responsible for implementing measures and activities can be regarded as a means of introducing both vertical and horizontal performance management. For instance, the activity “Development of training module for Application of Managerial Accountability Principles for Managers”⁹⁸, proposed in the draft 2021-2030 PAR Strategy, has a specific department (the CHU) at the MoF as the responsible institution, whereas the NAPA is recognised as a horizontal partner institution. At the same time, vertical performance management is facilitated by requiring ministries’ medium-term plans to also comprise medium-term plans of their subordinate administrations.

In addition to the Ministry of Finance being required to present activities over the appropriate three-year period in its medium-term plan, where an activity results in costs to the NAPA, allocations to finance such costs must be accounted for in the appropriate budget programme or project.

The aforementioned considerations mean that action plan, medium-term plans, and elements of the programme budget (programmes, activities, and projects) in various ways represent operationalization of exercising scopes of PFBs. Examples of planning instruments that are not by definition policy documents, but may be regarded as operational plans, are the STA Transformation Programme for the period 2018-2023, and the Activity Plan for the Development and Deployment of Electronic Systems of the MoF Customs Service, 2020-2024, both of which were adopted by the Government.

Medium-term plans become institutions’ key managing instruments due to the fact that they are based on policy documents whilst taking into consideration Government priorities, available capacities and resources, and changes to the actual state of affairs relative to the point in time at which the policy documents were adopted. However, decisions should be made at the operational plan that are contingent on the availability of staffing, budgets, and other resources. To return to the training module used for illustration above, its introduction requires understanding the costs involved and their scheduling, as well as the required and available funds. This is one reason why, to facilitate costing, action plans to implement the PAR Strategy have included Gantt charts used for rough assessment of the time needed by the existing civil servants to perform the activities envisaged.

Since human resources planning is a process which links an organisation’s human resources needs with its strategic and operational objectives, in the previous period, the World Bank has completed a series of functional reviews that have informed the Assessment and Guidelines for Integrating Strategic, Operational, and Financial Planning and Internal Control Functions⁹⁹. Setting so called analytical Units¹⁰⁰, which was planned in the last iteration of the PIFC Strategy, respond to the key requirement of these Guidelines and the three activities envisaged in the previous Action Plan of 2017-2020 PIFC Strategy. These Analytical Units will provide critical support for administration and strategic and operational management.

The primary objective of the Civil Servants Law was to introduce the notion of competencies into the human resources management system. The sets of competencies needed for effective performance of duties in public authorities are regulated in detail in the Decree on the Competencies of Civil Servants¹⁰¹. Behavioural competences are particularly relevant for

⁹⁸ Measure 4.1.1, Establishment of systemic managerial accountability arrangements in public administration bodies (enhancement of independence)

⁹⁹ http://upravljanjepromenama.gov.rs/wp-content/uploads/2019/02/3.2mera_Akcioni-plan_Horizontalna-funkcionalna-analiza_Smernice-za-stratesku-konsolidaciju.pdf

¹⁰⁰ The Decree on Principles ... is expected to be amended to require the designation of an organisational unit with these responsibilities

¹⁰¹ “Official Gazette of the Republic of Serbia”, number 4/19

a performance-based management system. The specific competency “Task management and result achieving” requires staff members and appointees serving as heads of core organisational units to plan time, resources, and staff economically with a view to achieving results. Competencies that ought to be particularly highlighted are “Human resources management”, which entails competency-based employee guidance and development intended to ensure attainment of strategic objectives and optimise performance, and “Strategic management”, which involves setting and achieving organisations’ strategic objectives. Human resources and PIFC provided a major impetus to overall efforts aimed at improvement of managerial accountability, as performance evaluations made it mandatory to articulate the objectives of all organisational units at state administration institutions¹⁰².

DECENTRALISED MANAGERIAL ACCOUNTABILITY AND DELEGATION OF AUTHORITY

A key feature of performance management system is the vertical linking of organisational objectives with the individual, i.e. personal objectives of managers of PFBs, which underpins managerial accountability. Chapter 32 - Financial control requires, among other thing, effective and transparent management systems, including accountability arrangements for the achievement of objectives. Amendments to the Budget System Law have defined managerial accountability in compliance with the internationally recognised framework and standards and EU best practices for PIFC based on decentralised managerial accountability. Moreover, 2019 saw the adoption of the new Rulebook on joint criteria and standards for establishing, functioning and reporting of the system of financial management and control in PFBs¹⁰³, which further elaborates the managerial accountability system in detail. This regulation requires managers of PFBs to establish hierarchical systems of delegation and accountability and appropriate lines of reporting, including clear objectives and performance indicators, that will ensure the attainment of objectives of each public fund beneficiary.

Initial steps of most of reforms are moderate due to a need to understand and accept innovations, and this has been particularly true for managerial accountability due to concerns that the delegation system would dilute influence over decision-making. A number of instruments were prepared to help public fund beneficiaries to understand and introduce managerial accountability, namely the Managerial Accountability Guidelines¹⁰⁴, Delegation Guidelines¹⁰⁵, Guidelines for the Concept of Managerial Accountability, and a dedicated questionnaire, all of which have been published on the CHU *E-Learning* platform hosted on the MoF web site¹⁰⁶.

When the introduction of programme budgeting was in its earliest stages, there was no insistence on authorities having to designate responsible officers for programmes, activities, and projects, since emphasis was placed on ensuring that all stakeholders understood the importance of programme budgeting and its differences from the previous budgeting arrangement. As more knowledge was accumulated, and after programme performance reporting was mandated, it became appropriate to require designation of responsible officers. Moreover, one should bear in mind that the Serbian Planning System Law has introduced the principle of accountability, which requires the unambiguous designation of institutions responsible for implementing policy measures and activities. Additionally, the Medium-Term

¹⁰² This aspect is elaborated in greater detail in the human resources development objective of the PAR Strategy, whilst its features related to human resources development are described at Control Environment below..

¹⁰³ “Official Gazette of the RS”, number 89/19

¹⁰⁴ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-o-upravljackoj-odgovornosti.pdf>

¹⁰⁵ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/smernice-o-delegiranju.pdf>

¹⁰⁶ <https://www.mfin.gov.rs/o-ministarstvu/e-learning-upravljacka-odgovornost/>

Planning Manual recommends that a responsible officer be designated for each objective, measure, or activity of a medium-term plan who will be tasked with planning, monitoring, and reporting on the attainment of the objective or progress with the measure or activity.

Notwithstanding these examples of both delegation and performance management arrangements, the managerial accountability concept, which entails delegation of responsibility, with clear lines of accountability between institutions, and institutional performance measurement, is yet to be fully implemented in practice. As such, new activities are required in the upcoming period to promote its broader take-up.

The Twinning project undertook a pilot exercise in which it tested the delegation and performance management arrangements of the current statutory framework. This effort found that, even though the Public Procurement Law and the Budget System Law permitted managers of PFBs to delegate some of their powers to other staff members within their organisations, delegation was not fully practised in Government ministries at levels below State Secretaries, who are also political appointees.

It is important to stress that the system already includes many performance management features. Organisational structures and lines of supervision are established in systematisation acts; performance monitoring and assessment of organisational units and individual employees are practised; and goals and objectives are set in programme budgets, policy documents, and internal acts. The so called “Analytical Units” are expected to be mandated and they will monitor performance and achievement of goals and objectives by each organisation. Performance indicators have entered into the public administration system through the programme budget, IPA framework, and policy management structure. Lastly, arrangements for vertical supervision among institutions are envisaged and mandated and there is always an entity tasked with oversight, but practice has shown these provisions to be overly vague and not unified in their application.

CONTROL ENVIRONMENT

A well-developed control environment in which the public sector is sustainable and effective is materialised through a broad-based legislative framework that regulates the organisation of public administration and the overall public sector. This legislative framework governs the delegation of authority, lines of reporting, ethical standards and values, and human resources management.

The Constitution of the Republic of Serbia¹⁰⁷, Law on State Administration¹⁰⁸, Law on Civil Servants¹⁰⁹, Code of Conduct for Civil Servants, and Law on the Protection of Whistleblowers¹¹⁰ make up the fundamental framework that ensures the integrity of the national governance, state administration, and the civil service, sets out the relevant values, and regulates in detail the prevention of conflicts of interest and rights and obligations in connection with investigating and reporting irregularities and waste of public resources. Issues of integrity are also governed by the Law on Prevention of Corruption¹¹¹, which regulates a further set of rights and obligations, including requirements such as the development of integrity plans.

¹⁰⁷ “Official Gazette of the Republic of Serbia”, number 98/06

¹⁰⁸ “Official Gazette of the RS”, no. 79/05, 101/07, 95/10, 99/14, 30/18 – Other Law и 47/18

¹⁰⁹ “Official Gazette of the RS”, no. 79/05, 81/05 - Corrigendum, 83/05 - Corrigendum, 64/07, 67/07 - Corrigendum, 116/08, 104/09, 99/14, 94/17, 95/18 и 157/20

¹¹⁰ “Official Gazette of the Republic of Serbia”, number 128/14

¹¹¹ “Official Gazette of the RS”, no. 35/19 и 88/19

The legislative framework has been enhanced in recent years, through the efforts to strengthen staff integrity and ethical standards through the PAR Strategy and initiatives to address corruption by promoting prevention mechanisms. The Law on State Administration was amended to permit stakeholder participation in decision-making and development of regulations. This outcome had also been envisaged by the Action Plan to Implement the National Anti-Corruption Strategy¹¹², which had called for the introduction of mechanisms to allow participation by stakeholders and the public in legislative activity at all levels of government.

Apart from introducing the aforementioned introduced competencies, the Law on Civil Servants was also amended to reflect requirement of Chapter 32 and the “Managerial Accountability in the Western Balkans”¹¹³, a document wherein SIGMA clearly identified the need to institute lines of accountability in government bodies and the devolution of accountability from heads of authorities to senior public servants.

In practice, ethical standards are at times buttressed by special legislation and/or activities envisaged by planning documents. For instance, Objective II of this PFMRP, the Customs Law¹¹⁴, and the Customs Service Law¹¹⁵ all envisage the attainment of one aim of the Customs Service, namely that administrative capacity-building and promotion of anti-corruption policy contribute to a professional, ethical, and transparent Customs Service.

Apart for the state administration, the 2020-2026 Judicial Development Strategy, particularly its part focusing on accountability and transparency, observed the issue of enhancing integrity and ethical standards in the public administration, as outlined on one of the EU/OECD pillars of public administration and human resources management¹¹⁶.

The PAR Strategy aimed at enhancing oversight throughout public administration by improving the legal framework and capacities of the Anti-Corruption Agency, Ombudsman, Commissioner for Freedom of Information and Personal Data Protection, and the SAI. Regulations governing the Anti-Corruption Agency were amended in 2019 and its former name was changed. Amendments to the Law on Free Access to Information of Public Importance have been announced for 2021. In addition to enhancing capacities of the mentioned independent authorities, following a long hiatus, in 2019 and 2020 Parliament reviewed their annual operating reports in plenary session and adopted a number of conclusions that call on the executive authorities to follow their recommendations.

One of these recommendations has been to institute an appropriate PIFC system, just as the Budget System Law requires PFBs to introduce internal control systems that permit monitoring and evaluation of their efficiency and effectiveness.

Public administration rules require government authorities to oversee the operations and performance of other public authorities and holders of public authority in the performance of the duties with which they are entrusted. Internal oversight consists of oversight of

¹¹² Action Plan to Implement the National Anti-Corruption Strategy of the Republic of Serbia from 2013 to 2018 (*Official Gazette of the Republic of Serbia*, No. 61/16))

¹¹³ <http://www.sigmaweb.org/publications/Managerial-accountability-in-the-Western-Balkans-SIGMA-Paper-58-November-2018.pdf>

¹¹⁴ “Official Gazette of the RS”, no. 95/18, 91/19 - Other Law и 144/20

¹¹⁵ “Official Gazette of the RS”, no. 95/18, 91/19 - Other Law и 144/20

¹¹⁶ *Public Service and Human Resource Management*, Principle 7 - Measures for promoting integrity, preventing corruption and ensuring discipline in the public service are in place. See OECD/SIGMA, Principles of Public Administration, 2017 Edition, p. 50, available online at [sigmaweb.org/publications/Principles-of-Public-Administration-2017-edition-ENG.pdf](http://www.sigmaweb.org/publications/Principles-of-Public-Administration-2017-edition-ENG.pdf). For a detailed discussion, see the Accountability and Transparency section of the 2021-2030 PAR http://www.sigmaweb.org/publications/Principles_of_Public_Administration_2017_edition_SER.pdf

operations, inspection control by the Administrative Inspection, and other types of oversight as regulated by specific laws.

In this regards, the legislation governing oversight in the public sector has also been enhanced. Whereby it is critically important to stress the coordinated efforts to amend legislation, given that the Law on Inspection Control was amended to be aligned with both the new Law on General Administrative Procedure Law¹¹⁷ and the amended Law on State Administration. The Law prescribes that the inspection control plan should include not only the mandatory features common to annual plans of all public authorities, but also objectives the inspection service seeks to attain in the planned period, presented with reference to measurable impacts and alongside actions for achieving them, being one step towards performance management.

As mentioned above, legislation governing public sector employment has been improved to strengthen managerial accountability. In particular, amendments were made to the Law on Employees of Autonomous Provinces and Local Authorities¹¹⁸ and the Law on Public Service Employees¹¹⁹ to emphasise the new competency-based approach to public-sector human resources management.

Regulations that govern internal organisation and job classification in the public sector constitute the fundamental framework for internal control at each PFB, are linked to the relevant COSO principles.

PFBs adopt staffing plans that set out the number of positions required for each fiscal year, depending on the funds they have at their disposal. Criteria and competencies assessed at the time of recruitment, and the procedures for such assessment, are laid out in the Decree on Internal and Public Advertisements of Vacancies for Government Recruitment¹²⁰.

Given the need to systematically approach the issue of staff retention, amendments to the Law on Civil Servants have allowed the HRMS to produce the Methodological Instruction for Monitoring and Assessing the State of Play in Regard to Staff Outflow and its Impact on Government Operations¹²¹, which informs its reporting on the state of play in this area and development of measures to mitigate the impact of attrition.

As had been envisaged in the 2015-2017 Action Plan to Implement the 2015-2017 PAR Strategy¹²², the NAPA was established as the central national institution tasked with professional development of public administration staff under the Law on the National Academy for Public Administration¹²³. The NAPA has permitted comprehensive and sustainable professional development, standardisation of the process and expected results, evaluation of all aspects of the process, and greater alignment between professional development activities. As envisaged by the Law on Civil Servants, the NAPA annually adopts a general training programme, a training programme for managers, and specialised training programmes.

¹¹⁷ “Official Gazette of the Republic of Serbia”, number 18/16

¹¹⁸ “Official Gazette of the RS”, no. 21/16, 113/17, 95/18 и 113/17 - Other Law

¹¹⁹ “Official Gazette of the RS”, no. 113/17, 95/18 and 86/19

¹²⁰ “Official Gazette of the Republic of Serbia”, number 2/19

¹²¹ “Official Gazette of the Republic of Serbia”, number 28/19

¹²² Measure 2.3, Development and coordination of basic human resources management functions for a broader system of public administration by the end of 2017 of the sustainable system for professional development of the employees in public administration.

¹²³ “Official Gazette of the Republic of Serbia”, number 94/19

Professional development programmes aimed at public-sector managers have positively enhanced their professional development and managerial skills. Additional efforts still ought to be invested, however, into setting up a sustainable and stable managerial structure in public administration.

A clear line of accountability between institutions, the third pillar of managerial accountability, was supposed to be improved through organisational and functional restructuring of public administration.¹²⁴ In this regard, the World Bank completed four functional assessments under the project “Restructuring and Optimisation of Public Administration”, including the horizontal functional assessment (HFA) entitled “Public Administration Plus”. These activities are described in greater detail in the new 2021-2030 PAR Strategy.

This basic framework is complemented by regulations governing the management of EU funds. The Decree on Management of EU Pre-Accession Assistance under the IPA I Transition Assistance and Institution Building Component, 2007 to 2013¹²⁵, the Decision Appointing Responsible Individuals and Bodies in the System for Management of EU Pre-Accession Assistance for the Period from 2007 to 2013¹²⁶, the Decree on Management of EU Pre-Accession Assistance under IPA II, 2014 to 2020¹²⁷, and the Decision Appointing Responsible Individuals and Bodies in the System for Management of EU Pre-Accession Assistance (IPA II) for the period from 2014 to 2020¹²⁸ together set out the structure, lines of accountability, powers, and remits of all Serbian government stakeholders involved in managing EU pre-accession assistance programmes.

In addition, the Decree Appointing the Body for Auditing the System for Management of EU Pre-Accession Assistance under the Instrument for Pre-Accession Assistance regulates the role and competencies of the authority charged with auditing EU funds¹²⁹.

As described above, recommendation made in Serbia progress reports have informed amendments to legislation and activities undertaken aimed at providing a sound foundation for future management of EU structural instruments.

So as to ensure a reliable control environment, actions will continue to be taken to guarantee an optimal framework that will permit spending units to execute their approved budgets and other allocations efficiently and effectively and in accordance with principles of sound financial management.

RISK ASSESSMENT

The Budget System Law requires PFBs to introduce FMC systems that, inter alia, include risk management. The FMC Rulebook defines risk management as activities undertaken to detect, evaluate, and control possible events and situations that could adversely affect the attainment of objectives of the PFB and are required to provide reasonable assurance that the objectives of the organisation will be attained.

Risk management ought to be considered a key part of any FMC system. It is due to the fact that appropriate FMC framework provides a reasonable degree of assurance of effective

¹²⁴ Measure 1.1 in the 2015-2017 Action Plan to Implement the 2015-2017 PAR Strategy

¹²⁵ Official Gazette of the Republic of Serbia, number 15/19. This new Decree regulates the concept of administrative check and broadens the remit of the AFCOS Unit

¹²⁶ “Official Gazette of the Republic of Serbia”, number 10/19

¹²⁷ “Official Gazette of the RS”, no. 101/17, 68/18 and 3/19

¹²⁸ “Official Gazette of the Republic of Serbia”, number 26/19

¹²⁹ “Official Gazette of the Republic of Serbia”, number 113/13

risk management presence. Risk management means that an institution has set objectives, assessed risks to inform decision-making on how those risks will be managed, evaluated the risk of fraud, and identified and assessed any changes of relevance to the internal control system. According to the 2019 Consolidated Annual PIFC Report, challenges persist with identification of risk connected with core business processes and assessment of risk to the attainment of specific objectives were not set to a satisfactory extent.

In order to better understand and promote its use, the CHU has developed a set of Risk Management Guidelines¹³⁰ and the Model Risk Management Strategy¹³¹. The Model Strategy will prove useful to managers of public fund beneficiaries, who are required to enact risk management strategies, update them once every three years, and adjust them to reflect any major changes to the control environment.

Control that reduces risk to an acceptable level must be assessed and updated at least once a year. Risk management entails the introduction of appropriate risk mitigation control pursuant to global standards of internal control.

Improvement of the management of risks that threaten organisational objectives has been enabled with the introduction of the requirement in the Planning System Law of the Republic of Serbia for medium-term plans to set out risks and preconditions to attain measures, if any, as well as for ex-ante impact assessments to have steps for assessing risks¹³² to the implementation of certain options of public policies and identification of potential risks for the implementation of public policy. This Programme and the 2021-2030 PAR Strategy include separate sections devoted to risk assessment and risk management.

In practice, PFBs assess various types of risks they are faced with, focusing more on law and regulation compliance-related risk, and less on performance-related risks.

As a positive approach to risk management, the MoF and its subordinate administrations have initiated the following activities:

As mentioned under the Objective II of this PFMRP, the STA has adopted its Tax Compliance Plan, which is based on the OECD compliance risk management model that promotes voluntary compliance with regulations and integrated approach to risk management. The STA has also established a Strategic Risk and Taxpayer Services Department. Two separate organisational units were established – Department for Strategic Risks and Department for Provision of Services to Taxpayers and Education. The Customs Administration has enhanced risk management by using the *ERIAN* application for automated risk evaluation and control orientation and establishing its Operational Risk Register. A Risk Management Strategy is currently at the drafting stage whilst a Strategic Risk Register is in development and an assessment of the corruption risk facing the legal framework for the customs system is also envisaged. The Public Debt Administration has taken initial steps in introducing a new risk monitoring methodology.

Aiming to institute an efficient fiscal risk management mechanism, in 2019 the MoF established its Fiscal Risk Monitoring Department. In accordance with the Budget System Law,

¹³⁰ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/Smernice-za-upravljanje-rizicima.pdf>

¹³¹ <https://www.mfin.gov.rs/wp-content/uploads/2020/02/%D0%9C%D0%BE%D0%B4%D0%B5%D0%BB-%D0%A1%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D1%98%D0%B5-%D1%83%D0%BF%D1%80%D0%B0%D0%B2%D1%99%D0%B0%D1%9A%D0%B0-%D1%80%D0%B8%D0%B7%D0%B8%D1%86%D0%B8%D0%BC%D0%B0-%D0%9F%D0%98%D0%A4%D0%A6-%D1%82%D0%B2%D0%B8%D0%BD%D0%B8%D0%BD%D0%B3.pdf>

¹³² Article 30 of the Decree on Policy Management Methodology, Policy and Regulatory Impact Assessment, and Content of Individual Policy Documents (Official Gazette of the Republic of Serbia, number 8/19).

fiscal risks are integral part of the Fiscal Strategy. They pose exposure of public finances to circumstances that may cause deviations from the projected fiscal framework, which Serbia had previously faced with. The Fiscal Risk Monitoring Department has defined the scope of fiscal risks to be monitored against: 1) operations of public enterprises and companies that perform activities of public interest, banks majority owned by the state, and public enterprises' guarantees and subsidies both budgeted and executed; 2) other business risks, including disaster risk and its financial impact on central and local budgets, as well as risks of legal disputes, public-private partnerships, and the like. Models have been developed to assess and monitor fiscal risks of public enterprises. In partnership with international institutions, methodologies and legal frameworks are being developed for the Department's Group tasked with monitoring fiscal risk relative to operations of public enterprises and companies performing activities of public interest and a Group for monitoring other business risks. These instruments will detail approaches to quantifying and mitigating risks in focus of the mentioned groups under the Fiscal Risk Monitoring Department.

Preventing and combating fraud is a key aspect of risk management. Guidance and suggestions from the European Anti-Fraud Office (*OLAF*) has informed the adoption of a set of measures that are chiefly aimed at assessing the risk of fraud involving EU funds.

Fraud risk assessment related measures focusing on EU funds management designed to maximise protection of the EU's financial interests have been implemented pursuant to the AFCOS Strategy¹³³. As envisaged by the Budget System Law, the Government has been adopting annual AFCOS reports¹³⁴ on suppression of irregularities and fraud, and submitting them to Parliament.

CONTROL ACTIVITIES

Control activities constitute measures, policies and procedures set in place through policies that ensure the implementation of management directives, guidance or instructions and are undertaken to reduce risks that pose threats to objective attainment.

Elements guiding execution of the central budget are governed by the Budget System Law and the Rulebook on the Central Budget Execution System of the Republic of Serbia. The Budget System Law delineates a clear framework of accountability and envisages the separation of duties in combination with the division of competencies. The budget is executed by means of the Budget Execution Information System (ISIB). Other information systems that contain data relevant for execution of the budget include the Payments Register (RINO) and the Central Invoice Register (CRF). The Rulebook on the Central Budget Execution System regulates the various stages of budget execution and sets out the control responsibilities of the relevant stakeholders. A system for tracking commitments has introduced an additional layer of control that ensures funds are available to meet the commitments undertaken and identifies commitments that threaten financial stability. The CRF was established by the Law on Payment Terms for Settlement of Financial Obligations in Commercial Transactions and is designed to facilitate recording, tracking, and reporting of outstanding liabilities, whilst the RINO was set up to track time limits for payment. The greatest challenge in this regard has been establishment of adequate IT structures though strengthening the Treasury Administration and budget beneficiaries' capacities. Integrating these two systems with the ISIB will allow recording

¹³³ "Official Gazette of the Republic of Serbia", number 98/17

¹³⁴ <https://www.mfin.gov.rs/wp-content/uploads/2019/10/zakljucak-i-izvestaj-o-radu-AFKOSa.pdf>

assumed, outstanding liabilities, which will in turn permit this information to be presented in financial statements.

The Rulebook on Budget Execution Systems for local self-government units was enacted to permit financial control of the execution of LGs' budgets. Amendments to the Rulebook on Payment Operations Using the Treasury Single Account has made it possible to control costs based on programme budget structures of local governments.

Similarly, control activities in public procurement are governed by the Public Procurement Law and the relevant by-laws.

The Law on E-Government¹³⁵ and the Law on Information Security¹³⁶ have been recently adopted. Digitalisation and e-Government have made major strides, with public administration moving away from a purely regulatory role to become a citizen-oriented service. These developments are described in greater detail in the PAR Strategy.

Financial control is a constituent component of overall control activities, and as such is crucially important for ensuring operational efficiency and effectiveness. Additional efforts ought to be invested to define specific control activities designed to mitigate risk and incorporate them into day-to-day operations.

The volume of control activities has been increasing, but, nonetheless, PFBs should be encouraged to shift focus from compliance risk to performance risk, as indicated in the CHU's guidelines.

A major aim of public administration is to pivot to e-Governance and e-Government, and to that end the PAR reforms include a dedicated group of activities designed to enhance and promote e-government throughout the public sector that envisages new and innovative control techniques that will be rolled out across the sector, in compliance with the E-Government Development Strategy.¹³⁷

INFORMATION AND COMMUNICATION

PFBs produce reports for both internal and external use that are integral parts of the internal control system. Human resources management reports, progress reports, are prepared regularly in accordance with various timetables for the needs of management structure. These reports include information on management of internal control systems, but in most cases this issue is not addressed in separate internal control reports.

Managers of PFBs organise and regulate internal reporting in their institutions in accordance with their needs. The FMC Manual recommends that PFBs to establish FMC Working Groups to manage their regular internal control activities.

Within single organization, information is most commonly exchanged in meetings involving senior and middle managers (so-called 'staff meetings'). Managers of PFBs generally schedule these meetings frequently to permit monitoring of institutional operating plans and address any emerging issues, as well as to plan the institution's activities between two staff meetings. Internal control is also discussed at these events, but not necessarily consistently or systematically. Topics primarily include staff related issues, expenditure monitoring, and the like. Generally, the extent to which these meetings review internal control

¹³⁵ "Official Gazette of the Republic of Serbia", number 27/18

¹³⁶ "Official Gazette of the RS", no. 6/16, 94/17 and 77/19

¹³⁷ Measure 2.1, Establishment of strong co-ordination mechanisms to allow harmonised development and operation of e-government and creation of a statutory framework and procedures for development of e-government, 2016-2020 PFM RP

matters is directly proportional to the awareness of the benefits and importance of FMC at the institution.

The CHU will continue helping managers of PFBs to better understand all benefits of a fully functional FMC system, which is intended to help with organizational management. In that regard, in addition to training managers in the formal and statutory requirements on FMC and internal audit, the CHU will also clarify how FMC tools can be used to collect, process, and disclose information about management of the internal control system, with the ultimate aim of improving performance and effectiveness of these institutions.

Greater level of transparency and visibility of work of PFBs will be targeted by measures contained in the Action Plan to Implement the PAR Strategy.

As mentioned above under Specific Objective I of this PFM RP, development of the Budget Information System (BIS) and its programme performance monitoring and reporting modules has contributed to progress made with budgeting. Moreover, the Planning System Law has introduced the Common Policy Planning, Monitoring, Coordination and Reporting Information System. To achieve linkages between policy documents and the budget, institutions share the relevant files between the BIS and the JIS into which action and medium-term plans are input. Both systems contain information on objectives and performance indicators.

In accordance with the Budget System Law, budget funds beneficiaries must submit six-monthly programme performance reports at the time they propose their individual budgets ('financial plans') and are also required to provide annual performance reports when proposing their priority areas for funding. Programme performance reports for the central budget are not publicly available. By contrast, the Planning System Law regulates progress reporting for policy documents. Progress reports on Action Plans must be submitted within 120 days from the end of each calendar year following enactment of an action plan. All these reports are published using the JIS.

Thanks to these information systems performance data will be publicly available, in addition to financial information.

MONITORING ACTIVITIES

Strategic planning is linked with budget allocations through arrangements that allow monitoring of policy documents (above all action plans and medium-term plans) and programme performance reports. Programme monitoring is focused on regular collection of data on performance indicators with the aim of enhancing effectiveness and efficiency of public spending and improving service delivery. At the same time, Reports on policy document progress provide information on the performance of policies and indicate whether activities envisaged in action plans have been completed as and when required by these policy documents, and, if not, what the underlying reasons are. Performance information include indicators for general objectives, specific objectives, measures, and activities (if any). As medium-term plans are based on policy documents, integrate them, and link them to medium-term expenditure frameworks, indicators contained in policy documents are directly copied into medium-term plans. Performance monitoring of programmes and policy documents ought to answer the question of whether the envisaged outputs, outcomes, and impacts have been achieved, and whether the desired end-state has been reached. Monitoring will also indicate the underlying causes if this is not the case, and will help managers to alter their decisions-making appropriately.

Under the Medium-Term Planning Methodology¹³⁸, entities required to produce medium-term plans must prepare annual progress reports for medium-term plans and annual programme budget performance reports for the previous fiscal year by 15 March of any given year.

Mandatory annual reporting to the CHU is an opportunity for PFBs to self-assess their FMC systems. Based on FMC and IA reports collected from PFBs, the CHU and the MoF prepare the CAR on the state of play of PIFC for the Government. The content and format of the CAR have been improved in accordance with EC recommendations.

In CAR on PIFC for 2019, the analytical approach to the CAR, as well as its content, structure, format, and statistics were all substantially improved in collaboration with SIGMA consultants. Recommendations are generally systemic in nature and less narrowly directed at the CHU. Separate sections deal with perspectives of the SAI and Budget Inspection as part of the CAR chapter that provides an overview of how the COSO framework and external oversight of FMC work in practice i.e. external FMC system oversight that is regularly included in the CAR. In 2020, the SAI conducted its performance audits – Effectiveness of the establishment of internal financial control within the ministries and Effectiveness of establishment of internal financial control in health-care institutions. These reports also contain recommendations to improve the operations of the CHU, which also relate to the CAR preparation.

The 2020 reporting cycle introduced regular reporting on irregularities to the CHU and submission of signed Internal Control Declarations.

Emphasis has also been placed on monitoring compliance with recommendations of the annual EC progress report for Serbia, systemic weaknesses identified and recommendations for PIFC improvements made by the CHU, and status of implementation of objectives set out in the PIFC Strategy. Particular attention is being paid to the findings of performance assessments of IA and internal control.

For 2019, the CAR was additionally improved with the introduction of a comprehensive approach to the *COSO* framework and aligned with organisation through its principles, and more attention was devoted to ensuring a closer analysis of IA. The self-assessment questionnaire has been improved and fully aligned with the new 2013 *COSO* framework, and one-half of all budget fund beneficiaries that have submitted their annual reports have opted to do so online.

The new online reporting software was used by PFBs for the first time to submit their 2019 CARs to the CHU, which permitted faster data processing and improved accuracy through automation process. The CHU will work with PFBs to additionally enhance online reporting, which is set to contribute to greater efficiency of analyses of the condition and improve the overall PIFC system.

The commitment of all levels of government to comprehensive and adequate setting of PIFC is borne out by the Government of Serbia's strong support for introduction and improvement of the PIFC system, as line ministries, the High Judicial Council, and the State Prosecutorial Council have been instructed to comply with CAR recommendations for the first time since the 2018 CAR.

Internal audit is an activity providing an independent and objective assurance and consultation to management in order to improve an organisation's operation. It helps

¹³⁸ "Official Gazette of the Republic of Serbia", number 8/19, Article 18.

organisations accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the internal control system established by the management of public fund beneficiaries.

The Budget System Law obliges each PFB to establish an IA function, whilst the requirements for and modalities of organization of IA and standards are set out in in the IA Rulebook.

According to the IA Rulebook, PFBs may establish IA function by setting up a separate, functionally independent organisational units; this is a mandatory requirement for all ministries and PFBs that employ more than 250 staff; through establishment of a joint IA units upon a proposal of two or more PFBs; one PFB may benefit from the IA function of another PFB in line with agreement; and, exceptionally, if a PFB is unable to establish an IA unit, this service can be provided by an individual internal auditor employed by the PFB.

Internal audit of indirect budget beneficiaries that have not opted for any of the aforementioned options for establishing IA functions is performed by the IA unit of the relevant direct budget beneficiary pursuant to its operating plan.

Autonomous provinces, the City of Belgrade, and other towns have also established separate functionally independent IA units which are authorised to perform IA tasks for those entities, within their respective competencies and in accordance with their operating plans.

Annual reports on audits conducted and IA activities submitted to the CHU have revealed a number of specific shortcomings of internal control at PFBs that ought to be addressed. Apart from shortcoming relative to internal control systems, public procurement and accounting and reporting are also critical areas that PFBs should tackle by enhancing compliance with legislation; leading sectoral institutions at the national level tasked with coordinating activities in these areas should also contribute in a way to further analyse and overcome these shortcomings¹³⁹.

Some PFBs have still not establish IA functions. Main reasons thereto are lack of prospective auditors with suitable qualifications, low salaries, mismatch between pay grades and work complexity and workload; and financial challenges and competitiveness of the private sector. Additionally, annual reports speak of an absence of an intensive collaboration among internal auditors and their managers, which is a prerequisite for an effective IA.

The functional independence of budget fund beneficiaries' internal auditors is directly proportional to the overall awareness of their managers of the role and benefits of internal control, with managers now better able to understand the role of internal auditors in providing independent and objective opinions and advice on the quality and performance of the internal control system. This way a greater level of functional independence of the IA functions within these institutions will be secured, which will in turn enhance the quality of internal audit reports. Addressing these issues requires continuous support from the CHU to PFBs in their efforts to raise awareness of internal control and understanding on the part of each institution, together with a consistently proactive approach by internal auditors to educating and raising managers' awareness of the role of IA and the added value it provides to general management efforts.

In the ten years since the first provisions to this effect were incorporated into the 2009 Budget System Law, by 2019 a national certification scheme for public finance auditors was

¹³⁹ Specific measures are set out in Pillars 3 and 5 of the PFMRP that target systemic issues requiring improvements in public procurement, accounting, and monitoring and reporting.

developed in compliance with International Standards for the Professional Practice of Internal Auditing (*ISPPIA*), with 491 internal auditors duly certified. Of these, 67 percent are women whilst 33 percent are men. According to reports indicate that 310 of the 485 internal auditors currently employed hold public finance auditor certification.

Functional internal audit covers over 80 percent of the budget allocated to DBBs at the central level, compulsory social insurance organisations, Autonomous Province of Vojvodina, towns, and Pes at the central-level. There was a 9 percent increase in the number of PFBs with functional IA relative to 2018. The number of positions envisaged in institutions' job classification rose by 7 percent, although the increase in filled positions amounted to a mere 0.4 percent in 2019 in comparison to one year previously. Audit engagements for advisory services increased by 13 percent in 2019 relative to previous year.¹⁴⁰

The CHU has completed the necessary analyses and considered the option of recognising relevant internal auditor certificates. Much effort has been invested in updating existing learning materials and developing new ones. The Faculty of Economics at the University of Belgrade has accredited a course in internal audit that will become available to students in the coming academic year, but some topics from this curriculum have already been incorporated into current teaching. A total of ten case studies were produced as of December 2020 (intended for internal auditor training), together with Methodological Guidelines for Internal IT Audit. These learning materials will provide the basis for possible organisation of *e-learning* training in IA¹⁴¹. The CHU is active in finding modes to mobilise all available resources in the Republic of Serbia to ensure internal auditors receive the best possible preparation for their work. Most of the activities in this regard have been done together with the *SECO-UNDP* project.

A Rulebook on Continuous Professional Development of Certified Internal Auditors in Public Sector¹⁴² has been enacted to regulate areas and criteria for recognition, reporting, and records of professional development. The Rulebook is expected to contribute to improved performance and continued strengthening of the role of internal auditors in public sector. Article 7 of the Rulebook requires internal auditors in public sector to obtain at least 50 professional development credits in one year, of which at least five through organised professional development courses. Based on professional development reports received to date, 68 percent of certified public finance auditors have complied with this obligation, whilst 25.6 percent do not. A total number of certified public internal auditors that submitted their reports, failed to get 6.5 percent of credits. All educational activities have suffered due to the 2020 pandemic, so professional development of internal auditors is also expected to see a decline in course attendance rates.

It should be noted that in the previous period, om-the-spot quality review of the FMC systems performed by CHU was regulated and strengthened. Performance of IA units is measured both internally (through regular reviews done by heads of IA units and internal auditor self-assessment questionnaires) and externally.

The first FMC Quality review performed by the CHU at the National Employment Service tested and adjusted the original SIGMA quality review methodology for the national

¹⁴⁰ Source was 2019 CAR

¹⁴¹ An online FMC course is under preparation in partnership with the NAPA and the RELOF Project and should improve compliance with global FMC principles and managerial accountability. The course is envisaged to be part of the NAPA's manager training programme and ought to be targeted at all managers and political appointees, heads of lower-ranked organisational units, and FMC coordinators.

¹⁴² "Official Gazette of the Republic of Serbia", number 15/19

level. Following the first FMC Quality Review, the CHU also developed a risk assessment methodology that will be used as a base for selection of PFBs for review. The CHU has regularly conducted quality review of IA work since 2015. These exercises were conducted at ten PFBs in 2019, whilst 2020 review remain ongoing. An quality review of IA work based on peer review is currently being piloted, with the CHU ready to produce an assessment programme and methodology for use with this method. A rulebook to regulate this issue has also been drafted.

The primary objective of quality review is to assess the quality of established PFBs' IA functions with the objective of improving current practices with ISSPIAs. External quality review focuses on evaluation of internal auditors' self-assessment questionnaires and both desk and field review to ensure compliance with regulations, IA definitions, applicable standards, and the Code of Ethics, as well as to assess the efficiency and effectiveness of internal auditors and identify likely areas for improvement.

PFBs that use EU pre-accession funds lack the required number of auditors, i.e. auditors familiar with the specific requirements of managing EU assistance. The CHU and the GAO (Audit Authority) has been investing constant and coordinated efforts in designing and delivering training for internal auditors at these institutions to raise their awareness of how EU funds are managed and enhance their technical capacity to audit their institutions' structures tasked with managing EU funds, in compliance with the Decree on Management of EU Pre-Accession Assistance under the IPA I Transition Assistance and Institution Building Component for the period 2007 to 2013¹⁴³ and the Decree on Management of EU Pre-Accession Assistance (IPA II) for the period 2014 to 2020¹⁴⁴.

BUDGET INSPECTION

The Budget Inspection based on reported irregularity signals performs inspection controls and, where it finds noncompliance or irregularities in the use of public funds, orders by its decision to the PFB to reimburse the national budget for any non-eligible funds paid or spent. The Budget Inspection's annual report to the Government contains information about the execution of its operating programme for the preceding year, inspection controls undertaken, found illegalities and irregularities, and measures proposed to remedy them, orders issued requiring offenders to take action, financial impact of these controls, and any proposals to amend inspection control regulations. The BI annual operating report for the previous year is adopted by the Government and submitted to Parliament at the latest by 31 March of the current year. The Budget Inspection is discussed in detail in PFMRP Specific Objective III, BUDGET DISCIPLINE AND TRANSPARENT USE OF PUBLIC FUNDS IMPROVED.

In line with the EC Serbia 2019 Report, the Consolidated Annual PIFC Report includes an overview of SAI recommendations for PIFC, measures taken in any given year to address recommendations made in audit reports, overview of inspection controls performed by the Budget Inspection, and overview of the SAI's Annual Operating Report.

REFORM MEASURES PLANNED FROM 2021 TO 2025

¹⁴³ "Official Gazette of the Republic of Serbia", number 140/14

¹⁴⁴ "Official Gazette of the Republic of Serbia", number 86/15

The previous PIFC Strategy was aimed at establishing and enhancing of quality of FMC and IA systems. In the course of that period, substantial results have been achieved, many lessons have been learnt, and recommendations have been adopted from the EC's annual progress reports for Serbia that address weaknesses identified in particular aspects of the Consolidated Annual PIFC Report of the Republic of Serbia. As such, in the 2021-2025 PFMRP the CHU will focus its activities on further improvements to the **implementation** of the PIFC system, thereby shifting focus from the introduction of PIFC to its substantial functioning.

Through its CAR, the CHU monitors the state of play in the PIFC. Apart from monitoring performed by the CHU on the basis of information provided by PFBs, the information, weaknesses and conclusions of external assessment reviews (SIGMA, PEFA), EC assessment from the progress report regarding Chapter 32, main conclusions of external quality reviews of IA and FMC performed by the CHU have been taken into account. The CHU regularly cooperates with other relevant state authorities, colleagues from PFBs, internal auditors and coordinators for FMC within PFBs. In addition, the latest amendments made to the FMC Rulebook (irregularities management and declaration on management) have introduced novelties into the PIFC system. Digitisation possibilities have emerged, and previous AP PIFC strategies have already intensified activities to improve the quality of IA operations through mandatory professional development and improvement through ensuring quality within the IA area, so these areas are also in need of additional support to be fully operational. Based on all of the mentioned sources of information, measures and activities were formulated to focus on main issues that can improve the PIFC implementation to the significant extent.

The following reform measures in the area of PIFC are envisaged in the 2021-2025 PFMRP:

Measure 4.1. Improvement of FMC in public-sector institutions;

Measure 4.2. Improvement of public-sector IA functions in compliance with international standards and principles;

Measure 4.3. Enhancement of PIFC monitoring; and

Measure 4.4. Modernisation of the training system in the PIFC field.

Bearing in mind linkages with objectives of the PFMRP and the 2021-2030 PAR Strategy described above, the text below contains the explanations of the aforementioned measures.

STRATEGIC PLANNING: GOVERNMENTAL OBJECTIVES ACHIEVED THROUGH ORGANISATIONS' OBJECTIVES

Since, public internal financial control reforms do not occur in isolation, but should rather help achieve strategic goals. As such, continued enhancement of medium-term planning mandated by the Planning System Law in the context of Specific Objective I of this 2021-2025 PFMRP: Capacity for budget planning and public investment management improved, will include a review of how organisational objectives can be better linked with national policies.

Additional capacity enhancements are needed in the areas of planning, inter-institutional cooperation, and budgeting. Moreover, many policy documents expired in 2020, which means that the new ones conform to the Planning System Law will be adopted in the coming period. As such, the overall quality of linkages among policies and organisational objectives and the budget can be expected to improve.

As detailed above at Specific Objective I, Measure 1.3, Improvement of medium-term planning, assistance by PPS will remain available to medium-term plans reporting entities and their medium-term plans will continue to be assessed for compliance with policy documents, which will result in progress with linking strategic and organisational objectives. Specific Objective I, Measure 1.1, Enhancement of the programme budget, also envisages analysis of programme budget elements that will focus on existing links among policy documents and budget funding.

OPERATIONAL PLANNING LINKING OPERATIONAL OBJECTIVES AND RESOURCES

The programme budget has been in existence and has been improved throughout this period which has resulted in substantial progress being made, in particular given the complementary enhancements to the planning system, which is now governed by a comprehensive set of regulations and fully functional. In the coming period both programme budgeting and the planning system are expected to see further strengthening to permit their full compliance with the relevant legislation. In response to the Serbia 2020 Report, more efforts will be invested into improving capacity for economic planning, inter-institutional coordination, and budgeting. A detailed description of the measures envisaged in this regard is available at Specific Objective I of this PFMRP, Capacity for budget planning and public investment management improved.

DECENTRALISED MANAGERIAL ACCOUNTABILITY AND DELEGATION OF COMPETENCIES

Special emphasis will be placed on ensuring that public-sector managers adhere to the principles and concept of managerial accountability, in particular by continuing to promote the culture of management in the public sector, training managers and staff, building a performance management system, delegation, and coordination with activities envisaged by the Transparency and Accountability pillar of the 2021-2030 PAR Strategy, specifically its measures *Establishment of systemic arrangements for managerial accountability and decentralisation of governance in public authorities (increase of autonomy) and Enhancement of vertical and horizontal supervision and monitoring in public administration (Performance management framework for public authorities established)*, which are the key actions targeting this broad topic.

Since there have been various interpretations of legal framework regarding possibilities for delegation of authority at ministries originally enabled by the Budget System Law and Public Procurement Law, the legal framework ought to be reviewed once again and consider the need for its clarification in that respect. To that end, Measure 4.1.1 of the PAR Strategy Specific Objective: *Accountability and transparency* is dedicated to development of systemic solutions that ought to enhance managerial accountability. This measure involves detailed mapping of the legal framework and support for implementation.

Even though many features of performance management already exist in practice, they need to be harmonised, completed, and fully applied. In this regard, Measure 4.1.2 under the Accountability and Transparency Specific objective of the PAR Strategy is aimed at both vertical and horizontal improvement of managerial accountability. This action seeks to make changes to the regulatory and methodological framework, extend the reach of pilot initiatives to beyond the exercise performed by the Twinning project, and provide comprehensive support for implementation.

These regulatory improvements are planned to be accompanied by training for managers in the application of managerial accountability principles. Lessons learnt from the

activity implemented under previous activity, Guidelines will be developed to improve performance reporting, containing a common performance assessment methodology – including control of operations, supervision, internal and external performance reporting – that will also prescribe mandatory elements of annual operational plans. This PFMRP should also emphasise as important feature that one of initial step in linking the aforementioned elements of the *COSO* framework with the planned activities is creation of preconditions for units for analysis (Analytical Units) and planning within PFBs; these units should also be continuously strengthened to facilitate policy and budget planning¹⁴⁵ and coordination of FMC at the institutional level. These efforts are particularly important as there have been delays in introducing Analytical Units as a means of support for planning and management.

CONTROL ENVIRONMENT

As detailed above, reliability of the control environment will be enhanced through activities that will guarantee an optimal framework in which PFBs will be able to execute their budgetary appropriations and other approved funds efficiently and effectively and in compliance with the principles of sound financial management.

Ethical standards will be addressed under the Accountability and Transparency Specific objective of the PAR Strategy. Continued human resources development is also envisaged as a separate specific objective of the PAR Strategy. The regulatory framework is also expected to be adjusted in the context of IPA 3.

In PIFC area, the Measure 4.1 envisages a review of the current legal framework governing the FMC and IA system. The planned changes will entail the defining a priority group of institutions that ought to form the backbone of the reporting system, as well as other minor improvements of a smaller extent found to be necessary.

Facing a large fluctuation of staff members in rather large group of staff that was trained in PIFC and expressed major training needs in this area, but also limited CHF capacities for training delivery, the **Measure 4.4** is envisaged. It focuses on **Modernisation of the PIFC training system**, and entails the shift of delivery of PIFC training from CHU to the NAPA. This will require preliminary assessment and identification of constraints posed by the legal framework, together with an implementation plan that may include recommendations for amendment of regulations and amendment and/or creation of learning materials and procedures in support of this collaborative process involving the CHU and the NAPA. Internal auditor certification is also envisaged to be improved with a view to enhancing its efficiency. Training outreach will be enhanced by modernization of internal control trainings and adapting to an online distance learning model.

RISK ASSESSMENT

Perennial PIFC monitoring has indicated that the risk management require further improvements. Out of all *COSO* framework elements, this represents a major novelty in the PFBs management. Activities undertaken within the previous iteration of the PIFC Strategy that resulted in the application of special methodological tools pertaining to this area and additional improvement of training, are yet to take hold in an adequate fashion. In addition, it has been proven true via direct communication with PFBs and cooperation with donors' projects that direct technical support to PFBs in these matters is often needed so as to mitigate capacity related problems presented by PFBs in their annual reporting. **Measure 4.1:**

¹⁴⁵ 2016-2020 PFMRP, Result 6.2, Analytical and Planning units in Public Administration Bodies introduced to support budget planning linked to policy planning.

Improvement of FMC in public-sector institutions, will involve a review of the current regulatory and methodological framework for risk management and identification of likely improvements. As part of several activities, support priority institutions is planned and it will also cover support to risk management. Methodological tools will be prepared for individual groups of IBBs across selected sectors, including healthcare facilities, as well as local IBBs.

The CHU's further efforts to improve implementation of risk management in PFBs will be accompanied by complementary actions to be taken by the Tax Administration, Customs Administration, and Public Debt Administration within their respective remits, as envisaged under Specific Objective II of this PFMRP. The MoF is actively working with the IMF and the World Bank to introduce fiscal risk monitoring methodology (outlined at Specific Objective I, Measure - Enhancement of capacity of the Fiscal Risk Monitoring Department). In particular, progress reports for action plans and medium-term plans should be analysed to identify whether they accurately recognise risks and whether these have been appropriately managed.

CONTROL ACTIVITIES

The Treasury Administration is planning to introduce a Common Information System for Planning, Reporting, and Accounting for Central Budget Beneficiaries - SPIRI, an initiative aligned with the overall aim of developing and promoting e-government across the public sector.

The ongoing wide-ranging digitalisation efforts in the Republic of Serbia, and continued enhancement of the IA function will serve as the primary avenues for development of control activities.

In this regard, priority institutions will receive additional support as part of **Measure 4.1: Improvement of FMC in public sector institutions**. Direct technical support will provide support to PFBs and will ensure adequate capacity, along with preparation of practical tools pertaining to this area. Activities will cover priority PFBs from both central and local level, and practical instruments will also be developed for IBBs at the central and local level.

INFORMATION AND COMMUNICATION

The information systems described in the foregoing sections will permit public access to both financial and performance information. Here, Specific Objective I, Measure 1.1, Enhancement of the programme budget, envisages activities designed to improve performance reporting so that these reports are better able to inform budget allocation and to ensure at least two performance reports are produced – with one containing a summary overview for the Government, and the other, more detailed, providing useful information to both decision-makers and the community of experts.

Lastly, the rolling out of the JIS will permit organisations to monitor progress with planning documents (see more at Specific Objective I).

MONITORING ACTIVITIES

Many external reviews, along with CAR, are used to establish the needs to further improve the level of the implementation of the IA and CAR recommendations given to the auditees and PFBs, respectively. Essentially, most of recommendations cover several years and they are hard to be followed within one-year period. However, automation of the monitoring process will definitely contribute to the improvements in this area.

Measure 4.3, Enhancement of PIFC monitoring, calls for the full implementation of online reporting using the application. This activity will also ensure improved continuous oversight of implementation of PIFC recommendations, by addressing findings and monitoring deadlines for the implementation of recommendations. To achieve this objective, a common PIFC information system is planned to be introduced. This system should comprise software for managing and documenting IA engagements and registering and tracking the status of findings and recommendations made by IA and those made by the CHU in the CAR and FMC quality review. Additionally, the system would include a module for an internal auditor register, complete with professional development information. This information system would automate the CHU's operations, thereby strengthening its monitoring function.

Moreover, current PFBs reporting system to CHU has proven to be unrealistic and thereby hard to manage. The CHU has planned to ensure through **Measure 4.1 Improvement of FMC in public sector institutions**, under Activity 4.1.1. clear focus to the priority PFBs, thereby making monitoring activities more effective and of better quality.

The adequacy of recently introduced irregularity reporting and the requirement to submit signed Declaration on Internal Controls will be reviewed and assessed under **Measure 4.1, Improvement of FMC in public-sector institutions, under the same activity**.

Measure 4.2 – Improvement of public-sector IA functions in compliance with international standards and principles calls for activities focused on improvement of public sector IA functions in compliance with international standards and principles. To directly impact on the greater efficiency and effectiveness of the IA through regulations, an assessment and amendment of the regulatory and methodological framework with a view to optimising public-sector IA. Additional efforts will be invested to develop a programme for professional development of certified public finance auditors. Existing tools for IA will be reviewed and improved, and new ones introduced. Particular emphasis will be placed on external quality review of IA using a peer review model for the first time used in the previous strategic period, but the complexity of the issue has required a more systematic and resource-intensive approach. The PIFC IT system will consolidate document management for IA engagements and facilitate recording and follow-up of internal audit findings and recommendations.

One of the major challenges in the implementation of the PIFC has been insufficient number of auditors in the PFBs for many years. It has been determined that professional status of internal auditors must be improved, and therefore activity 4.2.3 has been designed.

BUDGET INSPECTION

Specific Objective III, Measure 3.4 - Improvement of efficiency and effectiveness of inspection controls, envisages actions to be taken by the Budget Inspection in the upcoming period. In particular, this service will adopt technical and methodological instructions for performing controls in a variety of areas.

SPECIFIC OBJECTIVE V

PUBLIC ACCOUNTING WITH THE APPLICATION OF INTERNATIONAL PUBLIC ACCOUNTING STANDARDS IMPROVED

The importance of budget accounting stems from the Budget System Law, in particular its rules that govern the integrity of the budget system and mandate the provision of comprehensive, relevant, and reliable information about the work of the Government. Financial statements are comprised of forms that systematically present accounting data and information. In order to enable comparison of financial information in various legal systems, the International Public Sector Accounting Standards (hereinafter referred to as: *IPSAS*) have been introduced.

Given the interconnected nature of accounting and financial reporting, any changes to these two systems must be complementary. The Treasury Administration is investing significant effort into aligning regulations, providing training, and strengthening IT capacity in order to provide the maximum quality of data which serve as a base for decision making.

Despite the progress made in the period from 2016 to 2020 in the area of reporting, budget transparency has not yet reached the desired level. Therefore, efficiency and effectiveness of reporting should be improved in line with the best international practice and through the implementation of the international accounting standards. Budget execution report needs to be timely issued and detailed, so as to cover all general government beneficiaries; should contain report on programme performance and other data necessary for the informed decision making.

The quality and coverage of data provided in financial statements require additional enhancement. In-year budget execution reporting should be made more comprehensive, actually in line with 3 (three) Es - economy, efficiency and effectiveness, which all together ensure greater transparency.

Simultaneously with the improvement of the financial reporting quality, it is necessary to improve public accounting through increased number of additionally trained/capacitated staff members, ensuring translation and application of the *IPSAS*, and adequate IT solutions. In line with the afore mentioned, the following progress in the public finances will be made:

- 1) Improved decision-making basis;
- 2) Enhanced transparency;
- 3) More effective/efficient/economic programming of budget resources;
- 4) Strengthened accountability;
- 5) Creation of conditions for data comparison.

In addition to programme measures and activities planned for the period 2021-2025 in accordance with the available resources, in the coming period, indirect budget beneficiaries in the field of education will be included in the budget execution system. In order to further increase budget transparency, the annual budget execution report will be published by the end of next month. In addition to the existing six-month and nine-month budget execution reports, the possibility of reporting frequency (quarterly) as well as the level of detail contained in the reports and their public disclosure will be considered.

The establishment of a unified Information System for Planning, Reporting, and Accounting for Budget Beneficiaries of the Republic of Serbia (SPIRI) will make it possible to dispose of the data in each required reporting period.

As in the pre-accession period, the Statistical Office of the Republic of Serbia is expected to regularly submit official statistics of satisfactory standard and quality, and further

joint activities to ensure them will continue. In this regard, the exchange of information and data of common importance will continue.

ACHIEVEMENTS MADE TO DATE

During the preparation of the first PFMRF, in the period from 2016 and 2020, one of the reform pillars was devoted to accounting and financial reporting, and needs for reforms was recognised in a variety of subsystems in this area. The legislative framework (comprising the Budget System Law, the Decree on Budget Accounting¹⁴⁶, and the Decree on Implementation of IPSAS¹⁴⁷) was to have been enhanced. To that end, the activities primarily targeted improvements to existing cash-based accounting arrangements and the application of IPSAS in public sector.

In addition to placing the accrual basis in a long-term framework, a comparative analysis of the application of *IPSAS* standards was conducted, taking into account countries in the region that have already switched to accrual-based accounting, especially given the uneven practice in this area in EU member states. On the basis of that, it has been concluded that legal, technical and staff-related conditions should be ensured for adequate implementation of public accounting standards.

Also, a draft *cost-benefit* analysis was prepared, i.e. an analysis of options, their costs and benefits and risks, in connection with the reform of the accounting system and the implementation of *IPSAS* in the Republic of Serbia

Apart from that, as a part of the Enhancement of Public Sector Financial Reporting¹⁴⁸ of 2018, the World Bank conducted gap analysis between generally accepted accounting principles in the public sector of the Republic of Serbia and *IPSAS* standards, which provided clear indicators regarding those RS public sector accounting principles aligned with *IPSAS* standards.¹⁴⁹

In parallel with the plan to improve accounting, there was a clear need to improve the skills of public sector accountants. Their lack of knowledge of *IPSAS* standards has been identified as a risk for achieving changes in the system, which has led to the need for regular training for accountants. Strengthening the capacity and resources both in the Ministry of Finance - Treasury, and among users of public funds, is recognized as one of the main prerequisites for the effective implementation of accounting reform in the public sector.

It is recognized that there are no clear and harmonized legal requirements relating to the professional education of accountants, chief accountants and heads of accounting services. One of the first activities of the future Commission for the Application of International Accounting Standards for the Public Sector to strengthen human resources should be the adoption of a national standard of education for professional accountants governing the acquisition of knowledge, educational programs, licensing of professional qualifications, right and obligation of continuing education. In the previous period, the Treasury Administration was involved in an international project of certification of public sector accountants, within

¹⁴⁶ "Official Gazette of the RS", number 125/03, 12/06 and 27/20

¹⁴⁷ "Official Gazette of the RS", number 49/10 and 63/16

¹⁴⁸ *Serbia - Public sector accounting review: report on the enhancement of public sector financial reporting (English)*, (Report on the Enhancement of Public Sector Financial Reporting– REPF)

<http://documents.worldbank.org/curated/en/637021520634430574/Serbia-Public-sector-accounting-review-report-on-the-enhancement-of-public-sector-financial-reporting>

¹⁴⁹ Even though the Decree on Implementation of IPSAS mandates the use cash accounting, a modified model is employed in practice that is neither a modified cash accounting method nor a modified accrual model.

which the Training Program for obtaining the certificate of accountant was implemented, in accordance with international standards and practice.¹⁵⁰ The total of 25 participants obtained the international certificate. The Treasury Administration conducted two trainings on *IPSAS*, which were attended by 138 participants.

In order to bring RS closer to EU accounting standards in the wider field, the Ministry of Finance, in addition to *IPSAS* implementation plans, monitors activities related to the development of "European Accounting Standards for the Public Sector" (hereinafter referred to as: *EPSAS*) the introduction, according to the European Commission, is one of the most extensive reforms in European history¹⁵¹.

The Treasury Administration, being the key stakeholder in reforms, amended the Rulebook on the Central Budget Execution System¹⁵² of the Republic of Serbia in late 2017, and the new Budget Execution Information System (hereinafter referred to as: ISIB) became operational on 1 January 2018, thus permitting additional indirect budget beneficiaries (hereinafter referred to as: IBBs) to be included in the budget execution system. Coverage of the Treasury Administration's budget execution system was extended between 2016 and 2020 to include 529 IBBs (including courts and public prosecutors' offices, correctional facilities, cultural institutions, agencies tasked with facilitating employees' work-related claims, and social welfare institutions). Financial planning for all direct budget beneficiaries covered by the ISIB has also been enhanced. Their move away from using separate accounts has permitted closer oversight of revenues and expenditures, and transparency has been promoted due to the greater coverage and timely access to accurate information. Only IBBs reporting to the Ministry of Education, Science, and Technological Development remain outside the scope of the system, but the system is capable of incorporating new public funds beneficiaries.

Monitoring and reporting of outstanding liabilities was improved with the establishment of a database for registering invoices and other payment claims, the Central Invoice Register (hereinafter referred to as: CIR) of the Treasury Administration¹⁵³, while the improvements to the ISIB have allowed budget beneficiaries to register financial liabilities in their general ledgers, which has facilitated their accurate stating in financial statements. The establishment of CIR has contributed to more efficient monitoring of commitments and arrears within the deadlines defined by law, which led to a reduction in the number of late payments, better control over the settlement of financial liabilities and improved planning and management of public funds. This enables more successful planning and management of liquid assets, both by economic entities and in the public sector, better transparency of data on creditors' claims from public sector entities in commercial transactions and transparency of data on public sector entities' liabilities in the same transactions. Apart from the Republic level, amendments¹⁵⁴ and adoption of new regulation¹⁵⁵ at the local level, have permitted timely availability of accurate information on local self-government units' revenues and expenditures

¹⁵⁰ The programme was developed by the UK Chartered Institute of Public Finance and Accountancy (CIPFA) and was delivered in collaboration with the Centre for Excellence in Finance (CEF), based in Ljubljana, Slovenia, with financial support from the Slovenian Ministry of Foreign Affairs and the US Agency for International Development (USAID).

¹⁵¹ Web page: <http://www.epsas.eu>

¹⁵² "Official Gazette of the RS", number 20/20 and 151/20

¹⁵³ Amendments to the Law on Payment Terms for Settlement of Financial Obligations in Commercial Transactions (Official Gazette of the Republic of Serbia, number 119/2012, 68/2015, 113/2017, and 91/2019) mandates the registration of invoices and other payment claims issued by creditors in commercial transactions between the public sector and businesses, as well as those within the public sector, in which public-sector entities are debtors.

¹⁵⁴ Amendments to the Rulebook on Payment Operations Using the Treasury Single Account (*Official Gazette of the Republic of Serbia*, number. 91/2020).

REFORM MEASURES PLANNED FROM 2021 TO 2025

Measure 5.1 – Analysis of the current situation in public sector accounting and development and implementation of a Public Sector Accounting Improvement Plan

The Government of Serbia and international financial institutions have recognised the need for continued improvements to budget accounting and financial reporting on a cash basis in Serbia. Cash accounting is a generally accepted accounting practice owing to the emphasis on compliance with annual Budget Laws. The long-term objective of reforms to public sector accounting is to gradually move away from cash basis accounting to accrual accounting and financial reporting and achieve consistent application of *IPSAS* requirements. It was assessed that the implementation of accounting reform in this direction required significant financial and human resources, as well as detailed analytical work, while the reforms themselves should be gradual and planned to be implemented in the medium / long term to provide sufficient time to prepare detailed implementation plans, development of adequate accounting policies and implementation and testing of new systems. In line with the recommendations of the SIGMA assessment, it is first necessary to strengthen the cash-based accounting system in accordance with *IPSAS*, in order to build a good starting point for reforms in this segment of the PFM.

In order to further improve the overall system of accounting in the public sector, the Treasury Administration plans a phased preparation of a plan to improve accounting in the public sector by the end of 2022.

The first envisaged step is the establishment of a Commission for the Application of International Accounting Standards for the Public Sector, whose role will be to oversee and support activities aimed at aligning RS accounting standards with international standards and best practices. The Commission is also tasked with verification of most of the activities envisaged under the measures pertaining to the Pillar V of the PFMRP. Legal grounds to establish the Commission for the Application of International Accounting Standards for Public Sector are set under Article 75a of the Budget System Law.

Ensuring adequate translation of the *IPSAS* set of international accounting standards is recognized as one of the major challenges in their implementation, as well as adequate training of accountants in understanding them. Decree on the application of international public sector accounting standards (*IPSAS*), being legal grounds for the application for these standards, defined that the *IPSAS* have been translated into Serbian language and published in the Official Gazette of the Republic of Serbia. It further states that the mentioned translation of *IPSAS* is confirmed and published by the Government.

In this regard, the Treasury Administration plans to propose the conclusion of an Agreement on the translation and application of international accounting standards for the public sector. It plans to do so with the Serbian Association of Accountants and Auditors (sole representative of the Republic of Serbia before the *International Federation of Accountants - IFAC*).

In addition, by the end of the fourth quarter of 2022, through the implementation of preparatory activities for the translation of the document, it will be possible to apply the Decree on the application of international public sector accounting standards in the Republic of Serbia, and then from the stage of legal and formal application, it transfers into the stage of the practical application.

The adoption of the Public Sector Accounting Improvement Plan as well as the implementation of the mentioned Decree will significantly strengthen the public sector accounting system, providing a clear framework and plan for further reform steps that need to be implemented in order for the accounting system to be in line with international standards.

Measure 5.2 - Improvement of professional competence of accountants in the public sector through adequate trainings

Strengthening the professional competence of public sector accountants is planned to continue as one of the main priorities for improving the overall system. The National Academy of Public Administration - NAPA will conduct general trainings in order to improve accounting professional competencies in the public sector, and preparatory activities are planned for the introduction of certification for the profession of accountants in the public sector. In that regards, the Treasury Administration will continue with the delivery of training sessions on international standards – *IPSAS*, with continuous development of training curricula in line with the progress made in the implementation. Training of the trainers is also necessary in this area.

Preparatory activities to introduce certification for the public sector accountants are also planned. In accordance with the continuation of the planned activities pertaining to the previous PMFRP by the end of 2025, the certification of accountants in the public sector.

The Commission for the Application of International Accounting Standards for the Public Sector plays a critical role in the implementation of the measure 5.2. The Commission proposes method and programme for professional development and the manner of taking the professional exam for obtaining the professional certificates (accountants, independent accountant and certified accountant for the public sector) to keep business records, preparation and presentation of financial statement in accordance with the *IPSAS*.

Measure 5.3 – Enhanced coverage of accounting data through the implementation of international public sector accounting standards

Laws and bylaws that govern public sector accounting must be mutually aligned and compliant with the International Public Sector Accounting Standards (*IPSAS*). The starting point in the long-term process of full implementation of *IPSAS* is the harmonization of the legal regulations of the Republic of Serbia with *IPSAS* on a cash basis, as well as the adoption of the Accounting Policy for Financial Reporting in accordance with cash based *IPSAS*.

Even though accounting data on revenues and expenditures maintained in the Treasury Administration General Ledger permit timely and comprehensive reporting of budget transactions for all DBBs and some IBBs covered by the budget execution system, accounting for transactions involving assets, liabilities, and capital ought to be improved by extending the Public Accounting Improvement Plan to cover these types of accounting data.

In the next four years, the Treasury Administration will be committed to improving the completeness and coverage of accounting data through the adequate introduction of accounting standards, as well as their stating in the Final Account, which will improve the comprehensiveness of cash-based financial statements in accordance with *IPSAS* standards. By mid-2022, the Treasury Administration plans to amend the legal regulations so to harmonize them with International Public Sector Accounting Standards *IPSAS*, Government Finance Statistics Manual of 2014 and the European System of National and Regional Accounts - *ESA* 2010.

Also, with the support of the Commission for the Application of Accounting Standards for the Public Sector, it is planned to adopt clear accounting policies for financial reporting in accordance with *IPSAS* standards for cash accounting basis, as well as publishing financial

statements based on cash basis in accordance with IPSAS. These reform steps will enable further harmonization of accounting standards for the public sector in the Republic of Serbia with international *IPSAS* standards regarding the quality of financial reporting, which is important for the transparency of public finances. In addition, the implementation of *IPSAS* standards for the cash base through this segment is crucial for further reform steps in the field of accounting and financial reporting in the public sector, which on the one hand imply strengthening the cash base, and on the other, long-term gradual transition to accrual accounting.

Despite the progress made in the reporting sphere, budget transparency should be further improved in line with the best international practices. It is therefore planned to fulfil Specific Objective V – Financial statement prepared and presented to the Ministry of Finance of the Republic of Serbia in line with the *IPSAS* requirements for cash base accounting by posting on the web page of the Treasury Administration. Budget execution report should be timely published, with a sufficient level of detail so to cover all general government level beneficiaries, contain performance report and other data necessary for the informed decision-making.

SPECIFIC OBJECTIVE VI

STRENGTHENING EXTERNAL OVERSIGHT OF PUBLIC FINANCES

One of the main objectives in ensuring a stable state public finance system is effective external oversight and well-established monitoring systems, including strict reporting and transparency rules. Since the establishment of the Public Financial Management Reform Programme, the system of external oversight of public finances has been ensured by the partner cooperation of two independent bodies, the State Audit Institution (SAI) and the National Parliament through its Committee on Finance, State Budget and Control of Public Spending. In June 2015, these institutions signed a Memorandum of Understanding, regulating the exchange of information regarding the implementation, adoption and application of policies and regulations, and in connection with projects and other activities and initiatives in the field of financial control and accountability. Mutual cooperation has been established so that the SAI is in charge of supporting the members of the Committee in understanding the nature and importance of the audit findings and identifying appropriate corrective mechanisms to address issues indicated in those findings.

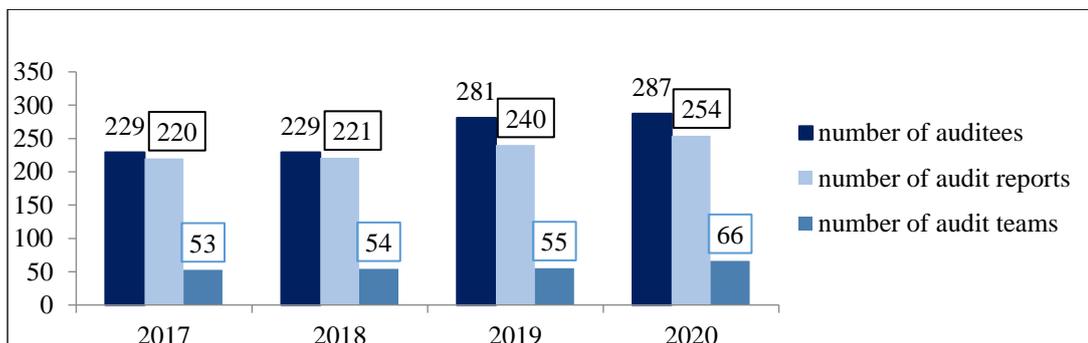
The parliamentary oversight function over public finances was significantly enhanced following the establishment of the Subcommittee for Review of SAI Audit Reports and further improved with the adoption of Guidelines for Review of SAI Reports on Auditing Public Funds Beneficiaries. The Committee, on the other hand, reviews the activities of the SAI and reports to the National Parliament thereof whilst also working on establishing and developing mechanisms to monitor implementation of recommendations given by the SAI and the National Parliament based on SAI reports. In order to ensure a more efficient system of external oversight over public finances it was established that it was necessary to:

- Further improve the coverage, quality and impact of external audits, and
- Strengthen Parliamentary oversight of public finances.

ACHIEVEMENTS MADE UNDER THE PREVIOUS PFMRP

Despite being unable to audit all public administration institutions under its purview every year¹⁵⁶, in the previous period the SAI has nonetheless invested significant efforts to provide high quality audits that positively affect the functioning of the public sector. When planning the audits, the SAI uses a risk-based approach in its decisions, with significant improvements in its work made during the 2016-2020 PFMRP through:

- increased number and quality of audit products;
- increased Percent of recommendations complied with by the auditees;
- increased number of auditors, and
- greater coverage of auditees (detailed breakdown of data for the period 2017-2020 - see the chart below).



Graph 2: SAI achievements in improving the coverage and quality of external audit

Significant progress in the area of external audit is reflected in the adoption of documents covering the audit of financial statements, compliance audit, and performance audit. Audit manuals are harmonized with the International Standards of Supreme Audit Institutions (hereinafter referred to as: *ISSAI* standards). In 2018, a specific Compliance Audit Manual was developed, which has to date been used to produce 58 audit reports with a focus on the areas identified as those posing the highest risks. The Quality Assurance and Quality Control Manual was also adopted¹⁵⁷, and used to conduct six "cold" and 39 "hot" reviews of audit reports in 2018.

Apart from the abovementioned, the improvement of efficiency of the SAI has been achieved by continuous development of staff capacity through the internal and international trainings, and their participation in various organizations and working groups of *INTOSAI*¹⁵⁸ and *EUROSAI*¹⁵⁹. During 2018, the SAI delivered performance audit training sessions that helped increase the number of performance auditors from nine to 48, and organized training sessions for certification of State Auditors.

Since audit reports are not self-sufficient, but should contribute to good governance, transparency and accountability in the public sector, it was necessary to take additional activities to increase the implementation of recommendations given to auditees, which was continuously supported by the National Parliament. The auditees acted on 69.66 percent of SAI

¹⁵⁶ As there are more than 11,000 potential auditees and given the existing capacities (business premises, number and structure of employees, etc.)

¹⁵⁷ This Manual is a result of the *Twinning Light* Project "Audit Quality Control in the State Audit Institution", funded by IPA 2013.

¹⁵⁸International Organization of Supreme Audit Institutions

¹⁵⁹European Organization of Supreme Audit Institutions

recommendations in 2015, while the percent increased in 2019 to 78 percent percent. Of a total of 1,970 recommendations given to the auditees based on audits conducted in 2019, 971 recommendations were designated as "priority one". They must be implemented within 90 days, 834 were " priority two" that must be implemented within a year, and 165 recommendations were " priority three", which require up to three years to be implemented. The rate of implementation of the priority one recommendations was **87.53 percent**.

In order to strengthen partnerships with key stakeholders, primarily with the National Parliament, the SAI has continued enhancing systematic monitoring of the implementation of audit recommendations in parallel with digitising the audit process. The audit process was mapped and requirements defined as part of efforts to develop a tailored *Audit Management System* (hereinafter referred to as: AMS).

At the same time, in the course of its work on increasing transparency, the SAI has published on its website a form for the Response Report of the auditees¹⁶⁰. This form sets out the irregularities identified and measures taken by the auditee to remedy them and/or comply with SAI recommendations. During 2019, the SAI started publishing post-audit reports¹⁶¹ containing assessments of each individual corrective action, opinion whether the corrective actions were satisfactory, and opinion whether the auditee violated the obligation to act in good faith in the event that the corrective actions were found unsatisfactory. Publication arrangements were also altered, which allowed the SAI to publish both reports and their summaries on its web site, in order to make the audit recommendations more transparent, simpler and more understandable to the public.¹⁶²

Parliamentary oversight of public finances, as an important component of overall external oversight, has improved significantly since the start of the 2016-2020 PFMRP, as confirmed by the EC Serbia Progress Reports. The Parliament's principal body for efficient oversight of public finances is the Committee on Finance, State Budget and Control of Public Spending (hereinafter referred to as: Committee), whose role was further strengthened by the establishment of a Subcommittee for Review of SAI Audit Reports (hereinafter referred to as: Subcommittee) in February 2015.

The key activities of the Committee during the term of the 2016-2020 PFMRP were sessions held outside the seat of the National Parliament (so-called hearings) to review the SAI reports, which required the adoption of written rules (Procedural Guidelines). Off-site sessions, held in the form of discussions on reports, should have involved, beside the SAI representatives, the representatives of local self-government units as auditees, and, if necessary, the representatives of relevant ministries and other relevant participants. The purpose of the sessions for the review of the reports on the audit of consolidated financial statements for the budget and compliance of the auditees was to raise awareness of the importance of SAI audit findings and recommendations at the central and local level, and of the role of parliamentary oversight of public finances. After the review, the Committee adopts, at the proposal of the Subcommittee, the Draft Conclusion which is submitted to the National Parliament for discussion and adoption. The proposed conclusions, inter alia, contain suggested corrective measures to facilitate implementation of SAI recommendations in order to harmonize all

¹⁶⁰ Notice for auditees: <https://www.dri.rs/mediji/Obavestjenje-za-subjekte-revizije.n-339.7.html>

¹⁶¹ <https://www.dri.rs/revizije/poslerevizioni-izvestaji/2019-za-rev-2018.442.html>

¹⁶² Audit Report Summary: <https://www.dri.rs/revizije/rezime-izvestaja-o-reviziji/anhiva-2019.460.html>
<https://www.dri.rs/%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B5/%D1%80%D0%B5%D0%B7%D0%B8%D0%BC%D0%B5-%D0%B8%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%D0%B0-%D0%BE-%D1%80%D0%B5%D0%B2%D0%B8%D0%B7%D0%B8%D1%98%D0%B8.405.html>

relevant legal enactments with the Budget System Law, for the purpose of eliminating their inconsistencies, as well as necessary amendments to certain provisions of the law that may have adverse impacts. In the period 2016-2020 the Committee held several sessions outside the National Parliament, where, in the presence of SAI representatives, reports on the audit of consolidated financial statements for local government budgets, SAI sectoral reports, Annual Activity Reports were presented and discussed, as well as the reports on the audit of the Final Accounts of the Budget of the Republic of Serbia.¹⁶³

Alongside the cooperation with the SAI, the Committee signed a Memorandum of Cooperation with the Ministry of Finance in June 2015, thus providing a system for transfer of specific data and information on the execution of the budget of the Republic of Serbia. The MoU allowed the Committee and the MoF Treasury Administration to enter into an Information-Sharing Protocol in December 2015. The signing of the Protocol was a major step forward in the development of IT system - the Portal for Monitoring Public Spending.¹⁶⁴ Under the Protocol, the data are transferred from the MoF Treasury Administration by means of reports, prepared and coded by the Treasury, which are together with codes uploaded to an external server for the Committee purposes. The National Parliament, i.e. the Committee downloads the electronic files with reports from external server of the Treasury to its own information system via the network.

REFORM MEASURES PLANNED FOR THE PERIOD 2021-2025

Measure 6.1 - Improving the scope, quality and impact of external audits (in accordance with the SAI Strategic Plan)

In the previous period, the SAI has invested significant efforts to optimize its organizational structure in order to scale-out its performance audits. In line with the EC 2020 Progress Report, the SAI has significantly expanded the scope of audits covered by the annual programme, despite being constrained by inadequate premises. Accordingly, efforts of the SAI in the next five years will be focused on auditing public finances in accordance with the Audit Programme. The efforts the SAI intends to invest in increasing the number of staff members and audits covered by its Annual Audit Programme will significantly contribute to the oversight and control of the eligible spending of budget funds, which is one of the key elements of a transparent and efficient public finance system.

In addition, in its Serbia 2020 Report, the EC positively assessed the discussions on SAI Reports at the sessions of the National Parliament Committee and Subcommittee and at the plenary session in June 2019, for the first time since the establishment of the SAI. This major progress in cooperation between the two institutions has significantly contributed to the increase of the adopted audit recommendations issued to the auditees by the SAI, since particular conclusions were adopted at these National Parliament sessions requiring the executive power to implement the SAI recommendations. Accordingly, it has been planned to

¹⁶³One such session was held in Novi Sad in 2017. Two followed in 2018, in Subotica and Leskovac, and three were held in 2019 in Kruševac, Zrenjanin, and Čačak. Four such sessions were held in 2020: the first session took place in the Belgrade municipality of Vračar; the second was scheduled to be held in Niš, however due to the introduction of emergency measures it was held at Belgrade's Metropol Hotel instead, with representatives of the City of Niš in attendance. The third session was held in the Province of Vojvodina and the fourth in Vrdnik.

¹⁶⁴The portal is being developed by the National Parliament with the support of the United Nations Development Program (UNDP) and the Swiss Agency for Development and Cooperation (SDC) as part of the project "Strengthening the Oversight Role and Transparency of the National Parliament".

continue with the measure of presenting the report on conducted audits to the competent Committee and Subcommittee of the National Parliament to ensure the review of SAI findings and recommendations and to improve accountability and transparency in public funds spending. The planned progress in the work of the SAI, reflected in the increase of the scope and quality of the audit, will enable audit of a higher number of entities that will receive recommendations to be followed. This positive trend in adopting recommendations and increasing the impact of external audit will greatly contribute towards

the transparency and stability of the overall public finance system, as the legislative branch will strengthen its role in the oversight of the executive branch with a view to ensuring efficient and effective public funds spending.

Measure 6.2 - Ensuring efficient Parliamentary oversight of public finances

As recommended in the *PEFA* Assessment for the Republic of Serbia, the Committee will continue to develop its control function in the next five years, in particular by holding meetings of the Committee and Subcommittee to discuss SAI audit reports in the presence of the representatives of SAI and auditees, and, as and when required, representatives of other relevant central and local level bodies, organizations and institutions. In order to strengthen the parliamentary oversight of public finances, the Committee will monitor the implementation of measures listed in the conclusion of the National Assembly on the occasion of the adoption of the SAI Operating Report. Execution of measures listed in the parliamentary conclusion refers to the drafting of new regulations and by-laws or to amendments to valid regulations listed in the SAI Operating Report, which the Government should submit to the National Parliament for consideration and enactment. To enhance the efficiency of the oversight and monitoring of the compliance with parliamentary conclusions, under the competence of the Government - Ministry of Finance, the Ministry will periodically report on the necessary measures taken in compliance with the National Parliament's conclusions based on the the SAI Annual Operating Report. For the same purpose, an expert team is planned to be engaged, as and when needed, to provide technical support to the Committee and the Sub-Committee members, when reviewing the SAI reports. Depending on the needs, the experts would be engaged from the ranks of academia, in the field of economics, the Audit Office of EU Funds, the Chamber of Certified Auditors, SIGMA, GIZ and the EU Delegation. This will ensure closer oversight and greater transparency of public funds spending by beneficiaries, which will strengthen the overall system of public finances.

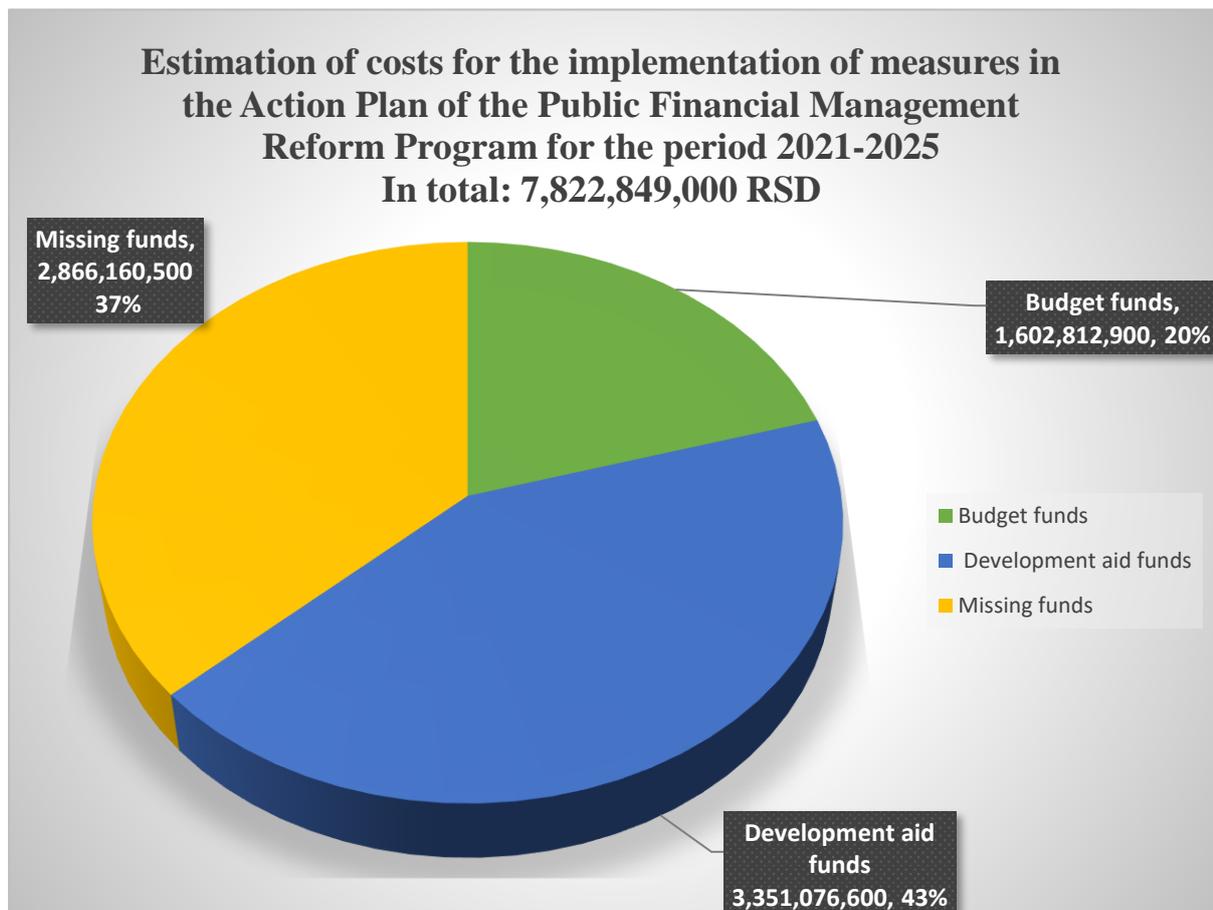
In addition to recommendations to ensure the accountability of the executive power to the National Parliament, the *PEFA* Assessment also suggested creating opportunities for the general public to participate in budget preparation and oversight. Accordingly, beside the steps taken to enhance its oversight function with regards to the executive power performance, the National Parliament Committee plans to organize public hearings for the presentation of the draft Budget System Law of the Republic of Serbia and the draft Law on Final Account of the Budget of the Republic of Serbia. Once any proposed legislation enters parliamentary procedure, the competent Committee may hold a public hearing so as to collect information or expert opinions on the draft law and clarify any of its proposed features or issues relevant for its implementation. To that end, the Committee will organize public hearings to present the draft Budget System Law and the draft Law on Final Account of the Budget, in order to allow the Members of Parliament and other participants to pose questions and receive timely information before the plenary session of the National Parliament.

ESTIMATE OF FUNDS REQUIRED TO IMPLEMENT THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME 2021-2025

The 2021-2025 PFMRP comprises an Action Plan for its implementation covering the same period. The Action Plan sets out detailed measures and activities designed to achieve specific objectives of the PFMRP, including an estimate of the costs, i.e. funds required for its implementation. The total costs for the realization of 2021-2025 PFMRP are estimated at 7.7 billion dinars, of which 382.4 million dinars are budget funds, 4.46 billion dinars are development aid (donations and loans), and 2.87 billion dinars are missing funds.

The costing of the Action Plan for the implementation of the PFMRP is done pursuant to the Handbook for Determining the Costs of Public Policies and Regulations, and the methodology for calculating standard costs for the development of planning documents. Accordingly, the cost estimate is based on the calculation of additional, direct and variable costs incurred due to new activities or increase in the scope of existing ones, which is why regular operations of various responsible actors are not taken into consideration.

As in the previous period, significant support is expected from the IPA and other development aid. Below is a graphic illustration of the necessary funds for the implementation of the Public Financial Management Reform Programme for the period 2021-2025, while a detailed, tabular presentation can be found in the Annex to the document:



RISK MANAGEMENT

The changes aimed to be achieved by developing, adopting and implementing the 2021-2025 2021-2025 PFMRP are subject to certain risks. Some of them have been identified based on previous experience in the implementation of the 2016-2020 PFMRP. Namely, since 2015, when the first PFMRP in the Republic of Serbia was developed and adopted, this public policy document is one of the strategic priorities of the Ministry of Finance. The fact that the PFMRP and its Annual Progress Reports are reviewed and adopted at Government sessions indicates that the risk related to the lack of political support for PFM reform has been minimized, i.e. that there is a full and continuous commitment to this process.

One of the key challenges that had to be overcome during the implementation of previous 2016-2020 PFMRP was the fact that the planning process was not adequate, or that the Action Plan for implementation of 2016-2020 PFMRP was overly ambitious and its time frame not adequately estimated, though it mainly concentrated on the first two years of 2016-2020 PFMRP implementation. This risk was eliminated with the audit of the PFMRP in 2019. Therefore, it was concluded that the new 2021-2025 PFMRP and its accompanying Action Plan ought to be ambitious but remain realistic at the same time, and, crucially, financially feasible – with sufficient resources secured both in the national budget and from donors aid to ensure that all plans could be achieved in due time. Continuous monitoring and enhanced reporting on the implementation of PFMRP activities is an important element for robust implementation of the planned activities.

One of the main risks taken into account during the drafting of the new PFMRP 2021-2025, i.e. the reasons that led to delays in the implementation of a number of activities from the previous 2016-2020 PFMRP, concerned the procedures for adopting new legal solutions that lasted longer than envisaged, often due to a very complex and lengthy public consultation process. Capacity-building in public administration also faced certain constraints in the form of stringent fiscal consolidation measures and the ban on employment in the public sector. Additional risk could be that institutions tasked with implementing the 2021-2025 PFMRP may not be sufficiently motivated to become involved in all the measures or lack required resources for implementation. The same applies to other stakeholders such as business entities, civil society organisations, and citizens.

Inadequate, poorly integrated, and incompatible IT systems that are currently used or are in development phase may pose a significant risk to implementation of certain measures and achievement of agreed specific objectives. Special attention will be dedicated to this segment of the PFM reform, and a substantial portion of the funds earmarked for the implementation of the 2021-2025 PFMRP will be set aside for that purpose. However, key efforts in this regard ought to focus on co-ordination between all institutions and MoF units responsible for IT-related measures in the PFM reform, and co-ordination and collaboration with the Office for Information Technologies and E-Government, the Government entity responsible for the design, harmonisation, development, and operation of the e-government framework and the various information systems and infrastructures of public authorities and Government services. To address this risk, the MoF established its Public Finance Digitalisation Department in 2020, in order to take care of projects in the field of IT technologies and their alignment.

Finally, one of the risks that was certainly not foreseen before and must be taken into account when drafting the new 2021-2025 PFMRP is the global crisis caused by the Covid-19 pandemic. Although the Republic of Serbia, thanks to rigorous fiscal consolidation measures,

has stabilized the macroeconomic situation and is in a position to adequately respond to challenges caused by the pandemic and help the economy and the population appropriately, Covid 19 must be regarded as a risk, especially since the situation at the global level is still unstable and there is no certainty as to how long the crisis will last and what will be the extent of its consequences.

Table 1. Risk analysis for the implementation of PFMRP 2021-2025

Key risks	Risk Assessment	Probability estimate	Risk mitigation measure	Responsible entity for risk
Political commitment to the PFMRP	high	low	PFMRP adopted by the Government Annual PFMRP Progress Reports adopted by Government	Ministry of Finance
Involvement of all relevant institutions and stakeholders in the PFMRP implementation	high	low	All relevant stakeholders involved in PFMRP development, monitoring, and progress reporting Ensured transparent reporting process on achieved results to stakeholders.	All relevant institutions
Inadequate staff capacities for implementing PFMRP	high	moderate	Filling positions in accordance with job classifications.	All relevant institutions
Insufficient funds for financing PFMRP	high	moderate	Planning of necessary appropriations in the state budget. Bilateral and donor assistance planning.	All relevant institutions
Inadequate, poorly integrated and incompatible IT systems	moderate	moderate	Further investments in IT infrastructure and enhanced coordination between institutions. Intensified cooperation with the Office for IT and E-government.	All relevant institutions
Global COVID-19 pandemic	high	moderate	Realistic planning of reform activities, in particular for the first two years of PFMRP implementation.	All relevant institutions

**MONITORING OF IMPLEMENTATION, EVALUATION AND REPORTING
ON THE REALIZATION OF THE PUBLIC FINANCIAL MANAGEMENT
REFORM PROGRAMME 2021-2025**

Coordination mechanism for development, monitoring of implementation, evaluation and reporting on the Public Financial Management Reform Programme consists of the following bodies:

The Steering Committee of the Public Financial Management Reform Programme is tasked with conducting high-level political coordination under the direct authority of the Minister of Finance, who chairs the Steering Committee meetings.

The Steering Committee consists of the following members:

- ✓ Minister of Finance, as Chairman of the Steering Committee;
- ✓ State Secretaries in the Ministry of Finance;
- ✓ President of the State Audit Institution;
- ✓ President of the Committee on Finance, State Budget and Control of Public Spending of the National Parliament;

The Steering Committee meets at least once a year in order to:

- ✓ monitor the implementation of the PFMRP Action Plan against the objectives and performance indicators;
- ✓ review of the PFMRP Progress Report prepared by the Working Group;
- ✓ resolve possible difficulties in coordination and/or implementation of the Programme in the reporting period;
- ✓ define and submit the PFMRP Progress Report to the Government;
- ✓ decide on the necessary resources for the implementation of the PFMRP;
- ✓ identify, consider and assess risks associated with the implementation of the Programme;
- ✓ facilitate coordination with other reform processes; and
- ✓ analyse donor support in the area of public financial management reform.

In the coming period, the Steering Committee will periodically consider the need for revisions of the PFMRP based on the development of that policy, and due to its harmonization with other reform processes.

The Steering Committee is supported by the Technical Secretariat based in the Sector for International Cooperation and European Integration of the Ministry of Finance.

The Working Group for Preparation, Monitoring and Reporting on the Implementation of the Public Financial Management Reform Programme is an operational body that includes all relevant institutions participating in the public financial management reform process.

Working Group for Preparation, Monitoring and Reporting on the Implementation of the Public Financial Management Reform Programme (PFMRP Working Group)¹⁶⁵, chaired by the Minister of Finance, was formed by a decision of the Minister of Finance on 8 July 2020. The PFMRP Working Group consists of representatives of the following relevant institutions:

- ✓ Ministry of Finance (Department for Macroeconomic and Fiscal Analysis and Projections, Department for Fiscal Risks Monitoring, Budget Department, Department for International Cooperation and European Integration, Department for Fiscal System, Department for Customs System and Policy, Department - Central Harmonization Unit, Department for Budget Inspection, Department for Suppression of Irregularities and Fraud in Handling of EU Funds (AFKOS), Department for Management of EU Funds, Tax Administration, Treasury Administration, Public Debt Administration, Customs Administration, Tobacco Administration and Anti-Money Laundering Administration);
- ✓ Committee on Finance, State Budget and Control of Public Spending;
- ✓ State Audit Institution;
- ✓ General Secretariat of the Government;
- ✓ Public Policy Secretariat;
- ✓ Ministry of Public Administration and Local Self-Government;
- ✓ Ministry of Economy;
- ✓ Ministry of European Integration;
- ✓ Public Procurement Office;
- ✓ Governmental Audit Office of EU Funds and
- ✓ Human Resources Management Service.

¹⁶⁵ By the decision of the Minister of Finance, the first PFMRP Working Group was formed in February 2015, and then the membership was alternated on 20 August 2018. The decision on the formation of the Working Group for Preparation, Monitoring and Reporting on PFMRP 2021-2025 Implementation, enacted by the Minister of Finance on 8 July 2020, alternated the membership (Number: 119-01-274/2015-24-02).

The PFMRP Working Group was formed as a key technical body whose role is to establish medium-term objectives, measures, outcomes and activities in the field of PFM, monitoring and reporting on the implementation of identified objectives, measures, outcomes and activities and, if necessary, proposing new ones when reviewing the PFMRP, alignment of PFMRP objectives, measures, outcomes and activities with other relevant strategic documents, enhancing mutual cooperation in order to improve coordination and exchange experiences.

The Technical Secretariat of Public Financial Management Reform Programme is based within the Department for International Cooperation and European Integration of the Ministry of Finance, in accordance with the Decision of the Minister of Finance on the establishment of the PFMRP Working Group, and is tasked with providing professional and administrative support to the PFMRP Working Group and the Steering Committee.

The Technical Secretariat is in charge of providing administrative, technical and logistical support to the Working Group and the Steering Committee during the entire process of drafting, implementing, monitoring, updating and reporting on the implementation of the Public Financial Management Reform Programme, in accordance with the Rulebook on Internal Organisation and Classification of Jobs in the Ministry of Finance.

In accordance with the Planning System Law of the Republic of Serbia, the Technical Secretariat initiates and coordinates the preparation of the Programme Progress Report, which is adopted by the Government within 120 days from the beginning of the year for the previous year, and the Programme enhancement process, or reporting to different forums discussing public financial management reform.

The quality of the PFMRP Progress Report, whereby the Ministry of Finance reports to the Government on the implementation of reform activities envisaged by the PFMRP, has significantly improved in the previous period in line with EC recommendations, and with the help of SIGMA experts, especially with regards to the Report quality due to its structure modification, when the focus shifted from detailed reporting on implemented activities to the results analysis and key challenges.

Given the coherence between the 2021-2030 Public Administration Reform Strategy and 2021-2025 PFMRP, as well as the reporting requirements regulated by the Planning System Law of the Republic of Serbia, the PFMRP Progress Report will be appropriately integrated into the Progress Report on the 2021-2025 PAR Strategy, and representatives of the Ministry of Finance will participate in all working bodies monitoring the implementation of the Public Administration Reform Strategy .

In addition to reporting to the Government, the MoF also keeps PFM reform stakeholders aware of developments in this area. Prior to the adoption of the PFMRP or the Progress Report, the Technical Secretariat prepares a meeting "Dialogue on Public Financial Management Policy", at least once a year, with representatives of all stakeholders, including the EC , donor community, international financial institutions, civil society and academia, in order to take into account the opinion of all relevant factors in this process. This dialogue takes the form of a one-day conference that presents progress with PFM reform and future plans and occurs prior to adoption of the PFMRP Progress Report, with all stakeholders able to raise any issues relevant to the reform. The dialogue has been organized on a regular basis once a year since 2018, except in 2020, when it was cancelled due to Covid-19 measures. The meeting was organized even before the adoption of 2021-2025 PFMRP, on 20 May 2021. In the forthcoming period, the Dialogue on Public Financial Management Policy will be organized once a year prior to the adoption of the PFMRP Progress Report or several times, as needed. Before participating in the meeting, but also continuously, stakeholders are able to submit their

comments and suggestions related to the PFMRP via a special e-mail address created for this purpose: pfmdijalog@mfin.gov.rs.

Coordination with the donor community in the field of public financial management reform will take place, as usual, within the Sectoral Working Group for Public Administration Reform, coordinated by the Ministry of European Integration, through meetings of the Dialogue on Public Financial Management Policy, and at special donor meetings about this reform, held when needed.

FINAL PROVISIONS

Annexes 1 to 4 are an integral part of this Programme.

Action Plan for the Implementation of the Public Financial Management Reform Programme for the period 2021-2025 is an integral part of this Programme.

This Programme is to be published on the Government website, on the e-Government portal and on the website of the Ministry of Finance.

This Programme is to be published in the "Official Gazette of the Republic of Serbia".

05 Number: 400-5898/2021-2
In Belgrade, 24 June 2021

GOVERNMENT

PRIME MINISTER

Ana Brnabić, signed

ACTION PLAN FOR IMPLEMENTATION OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME FOR THE PERIOD 2021-2025

GENERAL OBJECTIVE: TO ACHIEVE A SUSTAINABLE BUDGET WITH A STABLE RATIO OF PUBLIC DEBT TO GDP THROUGH BETTER FINANCIAL MANAGEMENT AND CONTROL, AUDITING AND INTEGRATION OF BUDGET PLANNING WITH GOVERNMENT POLICIES

Name:	Action Plan for Implementation of the Public Financial Management Reform Programme
Institution responsible for monitoring and control of implementation:	Ministry of Finance
Public policy document for which the action plan is determined:	Public Financial Management Reform Programme 2021-2025
Public policy umbrella document	Public Administration Reform Strategy 2021-2030

Indicator(s) at general objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	2021	2022	2023	2024	2025
Realistic GDP growth	Percent (percent)	Fiscal Strategy, Economic Reform Programme			6 percent	4 percent	4 percent		
General government debt level in GDP	Percent (percent)	Fiscal Strategy, Economic Reform Programme			58.7 percent	57.9 percent	56 percent		

SPECIFIC OBJECTIVE I: CAPACITY FOR BUDGET PLANNING AND PUBLIC INVESTMENT MANAGEMENT IMPROVED

Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Performance information for the provision of public services	Rating	PEFA Assessment for the Republic of Serbia	C+	2020	-	-	-	-	B

<i>Measure 1.1: Enhancement of the programme budget</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Budget Sector</i>										
<i>Implementation period: 2021-2025</i>					<i>Measure type: Informative and educational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Analysis of the programme budget implementation performed	number	Analysis performed	0	2020	-	1	-	-	-	
Analysis of the uniform structure of the programme budget of local self-government units performed	number	Analysis performed	0	2020	-	1	-	-	-	
A uniform programme structure for mandatory social welfare organizations and their beneficiaries established	number	Budget System Law	0	2020	-	1	-	-	-	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
1.1.1 Analysis of programme budget implementation and use of performance indicators	Q4 2022	Ministry of Finance	-	donor funds - GIZ	2301-0013	600	0	-	-	-
1.1.2 Analysis of the uniform structure of the programme budget of local self-government units	Q4 2022	Ministry of Finance	-	donor funds - GIZ	2301-0013	600	0	-	-	-

Establishing a uniform programme structure for mandatory social welfare organizations and their beneficiaries	Q4 2025	Ministry of Finance		Republic of Serbia Budget and donor funds	2301-0013	0	600	0	0	0
1.1.4 Workshops and trainings for all users at all levels of government	Q4 2025	Ministry of Finance	National Academy for Public Administration (NAPA)	RS budget	0615-0001	150	150	150	0	0
1.1.5 Study visit for enhancing the performance report	Q4 2022	Ministry of Finance	-	Donor funds	-	0	360	-	-	-
<i>Measure 1.2: Improving the capacity related to the preparation and obligations of the EU member states during the budget preparation process</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Budget Sector</i>										
<i>Implementation period: 2021-2025</i>					<i>Measure type: Institutional management organizational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure		Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
An analysis of the budget preparation process of EU member states performed	number		Analysis performed	0	2020	-	-	1	-	-
Number of study visits	number		Report from study visits	0	2020	-	-	2	1	1
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
1.2.1 Analysis of the budget preparation process of the EU member states and obligations of the Republic of Serbia during budget preparation	Q4 2023	Ministry of Finance	-	Republic of Serbia Budget and donor funds	2301-0013	600	0	0	-	-
1.2.2 Training of employees in the Ministry of Finance and direct budget beneficiaries	Q4 2025	Ministry of Finance	-	Republic of Serbia Budget and donor funds	2301-0013	200	400	400	400	400

1.2.3 Study visit	Q4 2025	Ministry of Finance	-	Donor funds	2301-0013	360	0	360*	0	360*
Measure 1.3: Improvement of medium-term planning										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Public Policy Secretariat</i>										
<i>Implementation period: 2021-2025</i>					<i>Measure type: Informative and educational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure		Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Number of adopted and medium-term plans of the mid-term planning institutions at the national level	Number		Websites of mid-term planning institutions	2	2020	7	22	40	40	40
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
1.3.1 Mentoring support for the development of medium-term plans of mid-term planning institutions at the national level	Q4 2023	Public Policy Secretariat (PPS)	-	Budget Revenues, Donor Funds - (IPA 2015 Complementary Project - Support to Public Administration Reform)	0610 – 0006 (regular allocations)	*	*	-	-	-
1.3.2 Preparation of an analysis of the degree of harmonization of medium-term plans with public policy documents in the relevant areas of planning	Q4 2025	Public Policy Secretariat (PPS)	Ministry of Finance	RS budget	0610 – 0006 (regular allocations)	-	-	-	-	-
Measure 1.4: Improvement of the system for efficient management of capital projects										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector for Fiscal Risks Monitoring</i>										
<i>Implementation period: 2021-2025</i>					<i>Measure type: Regulatory</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure		Source of verification	Initial value	Base year	Target value 2021	Target value	Target value 2023	Target value	Target value 2025

						2022		2024		
Capital projects (except those of special importance for the RS) that have not passed the pre-implementation phase according to the methodology, and are included in the budget of the Republic of Serbia, where line ministries are authorized proposers	Number		Budget System Law / Report for Capital Investment Commission	61	2020	50	20	10	5	0
Trained civil servants from project management units at the level of line ministries and other institutions	percent		Report on workshops held - NAPA	0	2020	0	20 percent	50 percent	70 percent	80 percent
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
1.4.1 Amendments to the legal framework in line with identified weaknesses in implementation	Q4 2022	Ministry of Finance	-	RS budget	2301-004 (Regular allocations)	-	-	-	-	-
1.4.2 Development of a training programme for relevant participants in the capital project management process	Q4 2023	Ministry of Finance	NAPA	RS budget	2301-004	-	-	-	-	-
1.4.3 Preparation of a public report on the status of capital projects monitored in accordance with the methodology	Q4 2025	Ministry of Finance	-	RS budget	2301-004 (regular allocations)	-	-	-	-	-
1.4.4 Development of a Manual with capital project management methodology (design, prepress, proofreading, content consulting)	Q2 2023	Ministry of Finance	-	RS budget Donor funds World Bank	2301-004 (regular allocations)	-	167.7*	-	-	-

1.4.5 Development of an information system for capital project management	Q4 2021	Ministry of Finance	Budget beneficiaries	RS budget	2301-5016	211,200	-	-	-	-
Measure 1.5: Strengthening the capacities of the Department for Fiscal Risks Monitoring										
Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector for Fiscal Risks Monitoring										
Implementation period: 2021-2025					Measure type: Institutional management organizational					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Systematised positions in the Department for Fiscal Risks Monitoring filled	Percent (%)	Ministry of Finance Fact Sheet	33 percent	2020	60 percent	80 percent	90 percent	90 percent	90 percent	
Trained employees in the Department for Fiscal Risks Monitoring	Percent (%)	Report on conducted trainings	0 percent	2020	0 percent	80 percent	90 percent			
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
1.5.1 Training for employees of the Ministry of Finance	Q4 2023	Ministry of Finance	-	Donor funds (SECO)		19,300	19,300	-	-	
1.5.2 Develop methodologies for the Group for monitoring fiscal risks related to public sector operations	Q4 2021	Ministry of Finance	-	RS budget Donor funds (SECO)	2301 (Regular allocations)	12,000	-	-	-	

1.5.3 Develop methodologies for the Group for monitoring other fiscal risks - natural disaster risks and litigations	Q4 2021	Ministry of Finance	-	RS budget Donor funds (SECO)	2031 (Regular allocations)	12,000	-	-	-	-
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SPECIFIC OBJECTIVE II: EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS

Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Actual revenues and expenditures of the general government budget on an annual basis are within the 5 percent rate of the fiscal strategy projections.	Percent (percent)	Fiscal Strategy	Within the 5 percent rate	2019	Within the 5 percent rate				
Annual costs of public debt servicing (interest payments - net amount) as percent of GDP	Percent (percent)	Annual Activity Report of the Public Debt Administration	1.9 percent	2020	1.9 percent	1.9 percent	-	-	1.7 percent
Average duration of open proceedings	Day	Annual report on public procurements	52	2020	50	48	46	45	44

Measure 2.1: Efficient collection of budget revenues under the competence of the Tax Administration

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance-Tax Administration

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Percent of realized collection in relation to the approved budget estimate (income tax, profit tax, gross domestic VAT, gross excise duties)	Percent (percent)	Budget System Law and Tax Administration Report	110.9		100	100	100	100	100	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
2.1.1 Re-engineering of basic function business process	Q2 2022	Tax Administration	Ministry of Finance	World Bank	TAMP project	66,979	133,958	22,326-	-	-

					(loan 8936-YF)					
2.1.2 Introduction of a new fiscalisation system	Q3 2022	Tax Administration	Ministry of Finance	Budget funds		1,153,152		-	-	-
2.1.3 Enhancement of ICT infrastructure - COTS (commercial off-the-shelf solution)	Q4 2024	Tax Administration	Ministry of Finance	World Bank	World Bank TAMP project (loan 8936-YF)	18,759	628,272	586,204	535,499	-
2.1.4 Harmonization of the legislative framework and preparation of technical specifications for the implementation of information exchange systems according to the EU standard (indirect taxation exchange systems and direct taxation exchange systems), as well as compliance with the recommendations of the Global Forum for the Implementation of the International Standard for Information Exchange at Request and for Automatic Exchange.	Q4 2025	Tax Administration	Ministry of Finance	Budget (co-financing) IPA2021	-	-	12,000* 120,000	12,000* 120,000	12,000* 120,000	18,000* 180,000
2.1.5 Improving the human resources management function by developing human resources strategy and enhancing the existing information system for human resources management	Q4 2024	Tax Administration	Ministry of Public Administration and Local Self-Government, Sector for Human Resource Management	World Bank	World Bank TAMP project (loan 8936-YF)	17,117	31,655	52,778	-	-
2.1.6 Introduction of electronic delivery note system - analysis of the legal and administrative framework, and preparation of procurement documents	Q4 2023	Ministry of Finance	-	Donor funds	-	-	-	72,000*	-	-

2.1.7 Introduction of electronic delivery note systems - introduction of IT systems	Q4 2025	Ministry of Finance	-	Donor funds	-	-	-	-	180,000*	180,000*
2.1.8 Introduction of an IT system for management of immovable property of the Ministry of Finance and its Administrations	Q4 2023	Ministry of Finance	-	Donor funds	-	-	-	180,000*	-	-

Measure 2.2: Modernisation of business processes at the Tobacco Administration

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Tobacco Administration

Implementation period: 2021

Measure type: Informative and educational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
A uniform registry system established	Number	Minutes on handover of the public procurement subjects	0	2020	1	-	-	-	-	
All employees of the Tobacco Administration have been trained to work in a uniform registry system	Percent (%)	Lists of participants in trainings	0 percent	2020	100 percent	-	-	-	-	
percent of economic entities operating in the tobacco and tobacco products market and using the electronic services of the Tobacco Administration	Percent ()	A uniform registry system Case registry	0 percent	2020	20 percent	40 percent	60 percent	60 percent	60 percent	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars Source of funding	Link to programme budget Link to programme	Total estimated funds by sources in 000 dinars				
						2021	2022	2023	2024	2025

					budget (PR-PA/PJ)					
2.2.1 Establishment of a uniform registry system that will consolidate all registers and record lists in order to enhance the efficiency of service provision by the Tobacco Administration	Q4 2021	Tobacco Administration	Tax Administration Customs Administration	Budget funds	Programme 2301 Project 0010 regulation of production and trade of tobacco and tobacco products Source of funding 01 general revenues and budget receipts	6,932	-	-	-	-
2.2.2 Strengthening the human resources capacity of the Tobacco Administration and other partner institutions	Q4 2021	Tobacco Administration	Tax Administration Customs Administration	Budget funds		1,383	-	-	-	-
2.2.3 Increasing the digital awareness of economic entities operating in the tobacco and tobacco products market	Q4 2021	Tobacco Administration	-	Budget funds		181	-	-	-	-
Measure 2.3: Strengthening administrative capacities of the Customs Administration										
Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Customs Administration										
Implementation period: 2021-2025					Measure type: Institutional management organizational measure					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Percent of realized collection of customs duties and VAT from imports in relation to the approved budget estimate	Percent (%)	Budget System Law and Customs Administration Fact Sheet	Customs 102.29 percent VAT 101.15 percent	2020	100 100	100 100	100 100	100 100	100 100	

Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
2.3.1 Improving the process for financial security of customs debt	Q4 2024	Customs Administration	-	RS budget	Programme 2303 Project 5012	25,650	25,650	-	-	
				(NCTS 5) Donor funds		-	-			4,203*
2.3.2 Capacity development for full-fledged implementation of TSSEU regulations and reporting on EU revenues	Q4 2025	Customs Administration	Ministry of Finance	RS budget	Programme 2303 Programme activity 0001	-	1,420*	1,376*	-	-
				Donor funds IPA 2015 Complementary Technical Assistance Project "Support to the Ministry of Finance under the Sector Reform Contract"		GIZ 960	IPA 8,640			
2.3.3 Capacity building for effective ex-post controls, determination of customs value and preferential origin and classification of goods	Q4 2025	Customs Administration	Ministry of Finance	RS budget	Programme 2303 Programme activity 0001	-	-	-	-	-
2.3.4 Modernisation of the Customs Laboratory	Q4 2025	Customs Administration	Ministry of Finance	Donor funds		-	-	12,288*	-	-
2.3.5 Preparatory activities aimed at improving the management and public sale of seized customs goods and the development of special-purpose customs warehousing infrastructure	Q4 2025	Customs Administration	Ministry of Finance	Donor funds		-	-	23,520*	-	-
2.3.6 Roll out of import and export automated systems (AIS-AES) and management systems (CDMS)	Q4 2025	Customs Administration	Ministry of Finance	RS budget	Programme 2303	-	14,400	21,600		

				IPA 2020	Project 7081		249,600	220,400	374,000	200,000
2.3.7 Introduction of an integrated tariff management system (ITMS)	Q4 2025	Customs Administration	Ministry of Finance	Donor funds		-	-	152,000*	152,000*	152,000*
2.3.8 Procurement of a warehouse for customs data storage (data warehouse)	Q4 2024	Customs Administration	Ministry of Finance	Donor funds		-	100,000*	100,000*	100,000*	-

Measure 2.4: Efficient public debt management

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Public Debt Administration

Implementation period: 2022-2024

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
The share of domestic currency debt in total public debt - the central level of government	Percent (%)	Quarterly reports of the Public Debt Administration	30.5 percent	2020	31 percent	32 percent	33 percent	34 percent	35 percent
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars					
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024

2.4.1 Strengthening the medium-term public debt management strategy by developing risk management model	Q4 2022	Public Debt Administration	-	"Support to the Ministry of Finance for the implementation of the Sector Reform Contract"	-	14,900	12,000	-	-	-
2.4.2 Implementation of a pilot project for the introduction of the Primary Dealer system and further development of the domestic bond market	Q4 2024	Public Debt Administration	-	Donor funds	-	-	-	12,000	-	-
2.4.3 Upgrading the existing information system (PDMS) - using business intelligence tools, to improve reporting	Q4 2025	Public Debt Administration	-	Donor funds	-	-	-	-	-	15,000*
2.4.4 Upgrading the existing information system (PDMS) with a developed risk management module.	Q4 2024	Public Debt Administration	-	Donor funds				24,000*	24,000*	

Measure 2.5: Improvement of the online public procurement system

Institution responsible for implementation (coordination of implementation) of the measure: Public Procurement Office

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Number of bids per public procurement procedure	Number	Annual report on public procurements	2.5	2019	2.7	2.8	2.9	3	3.1
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars					
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024

2.5.1 Upgrading the Public Procurement Portal with new functionalities	Q4 2025	Public Procurement Office	-	RS budget	0612–programme 7003-project	2,400	3,600*	3,600*	3,600*	3,600*
				International Assistance - IPA 2013 (GIZ) "Support to further improvement of the public procurement system in Serbia" Donor assistance		24,000	36,000*	36,000*	36,000*	36,000*
2.5.2 Creating a mobile application for the Public Procurement Portal	Q4 2021	Public Procurement Office	-	RS budget	0612–programme 7003-project	216	-	-	-	-
				International Assistance - IPA 2013 (GIZ) "Support to further improvement of the public procurement system in Serbia"		2,160	-	-	-	-
2.5.3 Strengthening the capacity of the Public Procurement Office	Q4 2025	Public Procurement Office	-	RS budget	0612-programme	1,800	1,800	1,800	1,800	1,800
2.5.4 Delivering trainings for contracting authorities and bidders	Q4 2025	Public Procurement Office	-	RS budget Donor funds	0612-programme	400	400	400	400*	400*
2.5.5 Development and adoption of a public policy document for the development of public procurement for the period 2024-2028	Q4 2023	Public Procurement Office	-	RS budget	0612-programme	-	-	-	-	-

SPECIFIC OBJECTIVE III: BUDGET DISCIPLINE AND TRANSPARENT USE OF PUBLIC FUNDS IMPROVED										
Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Average number of illegalities and irregularities per control against the total number of performed controls	Number	Annual Activity Report of the Budget Inspection	2	2020	2	2	2	1	1	
Percent of adopted and implemented recommendations given to the entities with indirect management of EU funds by the audit body	Percent (percent)	Annual Audit Report	0	2020	50 percent	55 percent	60 percent	65 percent	70 percent	
<i>Measure 3.1: Establishing a base for strengthening the institutional and administrative capacities of the Governmental Audit Office of EU Funds, which enable effective audit of the EU control system</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Governmental Audit Office of EU Funds</i>										
<i>Implementation period: 2021-2023</i>					<i>Measure type: Institutional management organizational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value in 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Number of EC audit findings against the number of implemented audit recommendations	Number	European Commission Report	16	2020	10	8	6	4	3	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
3.1.1 Strengthening the legislative framework for the reinstitutionalisation of the Governmental Audit Office	Q4 2022	Governmental Audit Office of EU Funds, Ministry of	Ministry of Finance, Ministry of Public Administration and Local Government, Republic Secretariat for Legislation,	Donor funds (GIZ)	-	-	906*	-	-	-

of EU Funds - adoption and implementation of a new legal basis		European Integration	Public Policy Secretariat, State Audit Institution							
3.1.2 Developing a staff retention policy to ensure adequate and stable administrative capacity of the Office	Q4 2023	Human Resources Management Service	Governmental Audit Office of EU Funds, Ministry of Finance	Budget funds	2301	0	13,240	23,276	7,932	-
				IPA (Unallocated funds)		23,600	11,800	-		
3.1.3 Strengthening the capacity of the Governmental Audit Office of EU Funds to ensure an effective system of control and audit of EU funds in line with the EU legislative framework	Q4 2025	Governmental Audit Office of EU Funds, Ministry of European Integration	Human Resources Management Service	Donor funds		-	29,500*	29,500*	29,500*	29,500*

Measure 3.2: Strengthening the system for more efficient and effective management of EU funds

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector for EU Funds Management

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Adopted enactments aimed at staff retention policy	Number	Official Gazette	0	2020	1	1	-	-	1
Percent of trained officers in terms of managing the control of the funds utilisation, risk and irregularity management	Percent (percent)	Reports on conducted trainings	9.5 percent	2020	20 percent	30 percent	35 percent	40 percent	50 percent
On-site inspections carried out at the public funds beneficiaries	Number	Annual plans for on-site inspections of relevant IPA bodies	9	2020	10	12	12	12	12

Percent of irregularities identified during the first-instance control	Percent (percent)		AFIS-IMS reporting system, Annual progress reports submitted to NAO (National Authorising Officer), Management declarations	75 percent	2020	50 percent	55 percent	60 percent	65 percent	70 percent
Percent of business processes supported by the IT system	Percent (percent)		Reports on the IT system functioning	0	2020	0	0	0	50 percent	60 percent
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
3.2.1 Development of new operating procedures, methodological guidelines and other supporting tools for institutions responsible for the management and implementation of EU funds in order to increase the efficiency of controls and reduce the administrative burden	Q4 2023	Ministry of Finance, Sector for EU Funds Management	-	Donor funds		-	12000*	12000*	-	-
3.2.2 Establishment and implementation of continuous professional and on-site training related to system management and supervision, financial management, control of the use of funds, risk and irregularity management	Q4 2025	Ministry of Finance, Sector for EU Funds Management	Ministry of Finance	Budget funds		1,500	1650	495	495*	1800*
				Donor funds	4004-3212	1005*	1155*	-	-	1305*
3.2.3 Ensuring an adequate number of staff and capacity building in terms of expanding the scope and quality of on-site inspections and performing supervisory functions among public funds beneficiaries	Q4 2025	Ministry of Finance, Sector for EU Funds Management	Ministry of Finance	Budget funds		315	378	378	378*	378*
				Donor funds	4004-3212	-	172*	172*	172*	172*

3.2.4 Improving the information system intended to support business processes for system management and contract implementation and use of funds	Q4 2025	Ministry of Finance, Sector for EU Funds Management	Ministry of Finance	Donor funds	4004-3212	0	0	0	35,400*	0
<i>Measure 3.3: Increasing the efficiency and effectiveness of inspection control</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector for Budget Inspection</i>										
<i>Implementation period: 2021-2025</i>						<i>Measure type: Institutional management organizational</i>				
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification		Initial value	Base year	Target value in 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Total number of inspections performed	Number	Annual Activity Report of the Budget Inspection		29	2020	50	52	54	56	58
Percent of planned controls in relation to the number of complaints, applications and control requests received	Percent (percent)	Annual Activity Report of the Budget Inspection		12 percent	2020	15 percent	17 percent	20 percent	25 percent	30 percent
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
3.3.1 Adoption of methodological instructions on the manner of the budget inspection work by areas of control	Q4 2021	Ministry of Finance - Sector for Budget Inspection	-	Donor funds- GIZ	2301-004	283.2	-	-	-	-
3.3.2 Professional development of budget inspectors and other employees in the budget inspection through continuous education	Q4 2025	Ministry of Finance - Sector for Budget Inspection	-	Budget funds	2301-004	3,090	3,182.7	3,278.2	3,376.6*	3,447.9*

				Donor funds- GIZ		141.6 Source 06 - Donations from international organizations	-	-	-	-
3.3.3 Providing the required number of inspectors - 38 in 2025	Q4 2025	Ministry of Finance - Sector for Budget Inspection	-	Budget funds	2301-004	-	1,919	16,738	-	-
3.3.4 Amendments to the Budget System Law and bylaws of the budget inspection / Adoption of the Law on Budget Inspection	Q1 2022	Ministry of Finance - Sector for Budget Inspection	-	Donor funds- GIZ		708	-	-	-	-

SPECIFIC OBJECTIVE IV: APPLICATION OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN THE PUBLIC SECTOR IMPROVED

Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Identified progress related to PIFC within the EC Progress Report for the Republic of Serbia for a specific year	1. Early stage of preparedness 2. Certain level of preparedness 3. Moderate preparedness 4. Good level of preparedness	EC report on Serbia for a specific year (Chapter 32)	Moderately prepared with good progress in 2019	2019	Moderate preparedness	Moderate preparedness	Moderate preparedness	Moderate preparedness	Good level of preparedness

Measure 4.1: Improved FMC system in public sector institutions

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector - Central Harmonization Unit

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
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Percent of priority PFBs ¹⁶⁶ reporting on the FMC system status	Percent (%)	Consolidated annual report	91.49	2020	92 percent	92 percent	93 percent	94 percent	95 percent
Percent of priority PFBs ¹⁶⁷ that compiled the Risk Register	Percent (%)	Consolidated annual report	63.95 percent	2020	65 percent	68 percent	71 percent	74 percent	80 percent
Average rating of the PFBs priority group ¹⁶⁸ updating the Risk Register (perform risk assessment and review the adequacy of measures at least once a year)	Arithmetic mean of self-assessment	Consolidated annual report	3.91	2020	3.95	4.2	4.5	4.8	5
Average rating of the PFBs priority group ¹⁶⁹ in which managers make decisions for managing identified risks (regarding the risk response: acceptance, avoidance, mitigation or risk sharing)	Arithmetic mean of self-assessment	Consolidated annual report	3.68	2020	3.81	4	4.15	4.3	4.5
Average rating of the PFBs priority group ¹⁷⁰ reporting risks to management	Arithmetic mean of self-assessment	Consolidated annual report	3.62	2020	3.81	4	4.15	4.3	4.5
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars					
				Source of funds	Link to programme	2021	2022	2023	2024

¹⁶⁶Ministries, MSIO (Mandatory Social Insurance Organizations), PEs performing activities of public interest and operating in accordance with the Law on PEs, cities. Note: the composition of the category of ministries and PEs varies

¹⁶⁷Ministries, MSIO (Mandatory Social Insurance Organizations), PEs performing activities of public interest and operating in accordance with the Law on PEs, cities

¹⁶⁸ *ibid*

¹⁶⁹ *ibid*

¹⁷⁰ *ibid*

					budget (PR-PA/PJ)					
4.1.1 Cooperation with the Budget Sector regarding the enhancement of the performance management of the organisation (link to the PAR Strategy, measure 4.1.2)	Q4 2025	Ministry of Finance- CHU	Ministry of Finance	Donor funds	-	-	4,200*	1,800*	1,800*	1,800*
4.1.2 Analysis of the application of the existing legal and methodological framework and its improvement (e.g. prioritization of PFBs in terms of reporting on internal controls, improvement of reporting, quality assessment, risk management, irregularity management, management statements, etc.)	Q4 2025	Ministry of Finance- CHU	-	Donor funds	-	-	3,600*	3,600*	3,600*	3,600*
4.1.3 Improving risk management in the PFBs priority group at the central level ¹⁷¹ through direct project support	Q4 2025	Selected PFBs from the priority group ¹⁷²	Ministry of Finance-CHU	Donor funds	-	-	4,012*	4,000*	2,000*	2,000*
4.1.4 Development of practical methodological tools / financial management and control knowledge products adapted to the specifics of certain significant groups of indirect PFBs at central level (selected departments)	Q4 2025	Ministry of Finance- CHU	-	Donor funds	-	-	6,000	8,024	6,000	6,000

¹⁷¹Ministries, MSIO (Mandatory Social Insurance Organizations), PEs performing activities of public interest and operating in accordance with the Law on PEs

¹⁷² *ibid*

4.1.5 Support to the establishment and enhancement of the FMC system at local level ¹⁷³	Q4 2025	Selected LGUs and their indirect beneficiaries	Ministry of Finance-CHU, MoPALG	Donor funds, RELOF/SECO and SCTM through EXCHANGE 6	-	-	-	-	-	-
4.1.6 Development of analysis of PIFC regulations coherence with other horizontal regulations with comparative analysis of EU funds management system and national funds management system from internal control perspective	Q4 2022	Ministry of Finance- CHU	Ministry of Finance MOPALG SAI Public Policy Secretariat (PPS) Republic Secretariat for Legislation Public Procurement Office	Donor Funds (KPMG)	-	8,400	-	-	-	-

Measure 4.2. Improved internal audit function in the public sector in accordance with international standards and principles

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector - Central Harmonization Unit

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
SIGMA adequacy indicator of the operational framework for internal audit	Points	SIGMA Monitoring Report	3/ 5	2017					4/ 5

¹⁷³A more detailed overview of the planned activity is set out in PRSLS (Programme for the Reform of the Local Self-government System) 2021-2025 under specific objective 2: Improving the system of financing local self-government within special measure 2.4: Intensive development of the PIFC system at local level, presented in the Programme and its Action Plan in order to complement the insight into all activities undertaken at the local level in the field of PIFC and for which funds will not be planned or reported under the Action Plan for this programme, but within the PRSLS 2021-2025 Action Plan. Accordingly, the activities from measure 2.4, special goal 2 from PRSL AP, i.e. activities no. 2.4.1, 2.4.4, 2.4.6 and parts of activities 2.4.7 and 2.4.8, are integrated

SIGMA indicator of internal audit functioning	Points	SIGMA Monitoring Report		1/5	2017					3/5
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
4.2.1 Analysis of the application of the existing methodological framework and its improvement (e.g. for performance audit, information security audit, advisory services, etc.)	Q4 2025	Ministry of Finance- CHU	SAI	Donor funds	-	-	3,600*	6,000*	2,400*	2,400*
4.2.2 Preparation and implementation of the Programme for continuous training of internal auditors (link to 4.4.4)	Q4 2022	Ministry of Finance- CHU	NAPA	Indicated in measure 4.4.4.	-	-	-	-	-	-
4.2.3 Staffing of internal audit (promotion of the profession, tools for recruitment and selection of internal auditors, proposal for improvement of the professional position of internal auditors, etc.)	Q4 2022	Ministry of Finance- CHU	HR Management Service MoPALG	*Donor funds (SIDA and UNDP	-	3,626	2,900.8	-	-	-
4.2.4 Support to the establishment and enhancement of R&D at local level ¹⁷⁴	Q4 2025	Selected LGUs	Ministry of Finance- CHU, MoPALG, NAPA	Donor funds, RELOF/SECO and SCTM through EXCHANGE 6	-	-	-	-	-	-

174A more detailed overview of the planned activity is set out in PRSLS 2021-2025 under specific objective 2: Improving the system of financing local self-government within special measure 2.4: Intensive development of the PIFC system at local level, presented in the Programme and its Action Plan in order to complement the insight into all activities undertaken at the local level in the field of PIFC and for which funds will not be planned or reported under the Action Plan for this programme, but within the PRSLS 2021-2025 Action Plan. Accordingly, the activities from measure 2.4, special goal 2 from PRSL AP, i.e. activities no. 2.4.2, 2.4.3, 2.4.5 and parts of activities 2.4.7 and 2.4.8, are integrated

4.2.5 Introduction of external quality assessment according to the peer review method (piloting, methodology, rulebook, training and certification of evaluators, adoption and implementation of the External Quality Assessment Programme)	Q2 2025	Ministry of Finance- CHU	-	Budget funds	2301-0004	2,520	2,520	2,520	2,520*	2,520*
				Donor funds (GIZ)			3,240			
4.2.6 Improving the existing legal framework in order to optimize the organization of internal audit and IA reporting	Q4 2023	Ministry of Finance- CHU	-	Donor funds (IPA 3 and other donors), GIZ	-	GIZ 600	-	3,600*	2,400*	2,400*
4.2.7 Unification of management and documentation of internal audit engagement and recording and monitoring of the status of internal audit findings and recommendations through the application of software (link to 4.3.2)	Q4 2025	Ministry of Finance- CHU	-	Indicated in measure 4.3.2.	-	-	-	-	-	-

Measure 4.3: Enhancement of public internal financial control (PIFC) monitoring

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector - Central Harmonization Unit

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Functional IT system for IC	Yes/No	Consolidated annual report	no	2020					yes

Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
4.3.1 Full implementation of electronic reporting through the application (functional application, trainings, obligation through regulations, link with measure 4.1.5)	Q4 2025	Ministry of Finance- CHU	Ministry of Finance NAPA	Budget funds	2301-0004	1,200	600	600	600	600
4.3.2 Establishment of a single information system for internal control in the public sector (Procurement and implementation of software for managing and documenting internal audit engagement and recording and monitoring the status of internal audit findings and recommendations, recommendations from external quality assessment of internal audit, recommendations from FMC system quality review at PFBs and recommendations from Consolidated Annual Report, database of internal auditors, automation of CHU work, links to the registers of other institutions, database of trainees, database of Analytical units and contact persons for	Q4 2025	Ministry of Finance- CHU	Ministry of Finance	Donor funds			72,000*	36,000*	12,000*	1,200*

FMC, etc. with the possibility of defining additional modules after the system analysis)										
Measure 4.4: Modernization of the training system in the PIFC field										
Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Sector - Central Harmonization Unit										
Implementation period: 2021-2022						Measure type: Institutional management organizational				
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Number of participants in trainings in the field of internal controls, organized by NAPA	Number of participants	NAPA Report on conducted trainings	0	2019	0	200	200	200	200	
Percent of certified internal auditors who collected the required number of points during the continuous professional development	Percent (%)	Consolidated annual report	58.1 percent	2020					85 percent	
Percent of certified internal auditors in priority PFBS ¹⁷⁵	Percent (%)	Consolidated annual report	80 percent	2019					85 percent	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme	2021	2022	2023	2024	2025

¹⁷⁵Ministries, MSIO , PEs at central level performing activities of public interest and operating in accordance with the Law on PEs with more than the prescribed number of employees to form a unit for IA, AP and cities

					budget (PR-PA/PJ)						
4.4.1 Development of a detailed joint implementation plan, with proposed amendments to regulations, relevant materials and procedures to support the transfer of trainings	Q4 2022	Ministry of Finance- CHU	NAPA	Donor funds (IPA 2)		4,200*	4,200*	-	-	-	
4.4.2 Preparation, development and implementation of an improved certification process for internal auditors	Q4 2025	Ministry of Finance- CHU	NAPA	Donor funds		-	3,600*	3,600*	3,600*	3,600*	
4.4.3 Modernization of trainings and training materials in the field of PIFC (expansion of e-learning modules)	Q4 2025	Ministry of Finance- CHU	NAPA	IPA 2 Complementary Technical Assistance Project "Support to the Ministry of Finance under the Sector Reform Contract for the Public Administration Reform Sector"		12,000	1,800	1,800	-	-	
				Regular budget funds (NAPA)							
				Donor funds			4,200*	4,200*	4,200*	4,200*	
4.4.4 Preparation and implementation of trainings for internal auditors through the Programme for continuous professional development of internal auditors in the public sector	Q4 2025	Ministry of Finance- CHU	NAPA	Donor funds		4,800*	4,800*	4,800*	4,800*	4,800*	

Link to measure 4.2.2										
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SPECIFIC OBJECTIVE V: PUBLIC ACCOUNTING WITH THE APPLICATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) IMPROVED

Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Financial statement prepared and presented to the Ministry of Finance of the Republic of Serbia in accordance with IPSAS requirements for cash basis	Number	Treasury Administration website	0	2020	0	0	0	1	1

Measure 5.1: Analysis of the current situation in public sector accounting and development and implementation of a Public Sector Accounting Improvement Plan

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Treasury Administration

Implementation period: 2021-2022

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Public Sector Accounting Improvement Plan adopted	Number	Treasury Administration website	0	2020	0	1	1	1	1

Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025

5.1.1 Drafting a Public Sector Accounting Improvement Plan, in stages	Q4 2021	Treasury Administration	Ministry of Finance	Budget funds Donor Funds (GIZ) - (Public Finance Reform Project - Financing 2030 Agenda)	2301-5007	800 450	1,200	-	-	-
5.1.2 Preparatory activities for the establishment of the Commission for Application of International Public Sector Accounting Standards	Q4 2021	Treasury Administration	Ministry of Finance	Budget funds	2301-5007	800	10,000	10,000	10,000*	10,000*
5.1.3 Activities for the purpose of concluding the Agreement for translation and implementation of IPSAS with the Association of Accountants and Auditors of Serbia (IFAC member)	Q4 2021	Treasury Administration	Ministry of Finance	Budget funds	2301-5007	-	-	-	-	-
5.1.4 Implementation of the Agreement from activity 5.1.3 in order to enable the implementation of the Regulation on the application of International Public Sector Accounting Standards	Q4 2022	Treasury Administration	Ministry of Finance	Budget funds	2301-5007	-	15,000	-	-	-

Measure 5.2: Improvement of professional competence of accountants in the public sector through adequate trainings

Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Treasury Administration

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
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Share of employed public sector accountants trained in “Improving public sector accounting”		Percent (%)	Report on the implementation of the training programme	69 percent	2020	80 percent	100 percent	-	-	-
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
5.2.1 Conducting trainings in order to improve the professional competence of accountants in the public sector	Q4 2022	Treasury Administration	NAPA	Budget funds	2301-5007	1,000	2,000	-	-	-
5.2.2 Preparatory activities for the introduction of certification for the profession of public sector accountant	Q4 2024	Treasury Administration	NAPA	Budget funds	2301-5007	1,000	8,500	-	-	-
5.2.3 Certification of 200 public sector accountants	Q4 2025	Ministry of Finance	Ministry of Finance NAPA	Budget funds	2301-5007	-	-	5,000	19,000*	
				Donor funds						19,000*
<i>Measure 5.3: Improvement of coverage of accounting data through the application of international public sector accounting standards</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: Ministry of Finance - Treasury Administration</i>										
<i>Implementation period: 2021-2024</i>					<i>Measure type: Institutional management organizational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	

Draft cash-based Financial statement prepared in accordance with IPSAS submitted to the Government of the Republic of Serbia	Number	Ministry of Finance		2020	-	-	-	1	1	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
5.3.1 Amendments to relevant national regulations for their mutual harmonization and their harmonization with the IPSAS requirements for cash basis and ESA 2010	Q2 2022	Treasury Administration	Ministry of Finance	Regular activity	2301-5007	-	-	-	-	-
5.3.2 Adoption of Accounting Policy for Financial Reporting in accordance with IPSAS for cash basis	Q2 2022	Treasury Administration	-	Budget funds	2301-5007	-	5,000	-	-	-
5.3.3 Preparation of Cash-Based Financial Statement in accordance with IPSAS	Q2 2024	Treasury Administration	Ministry of Finance	Regular activity	2301-5007	-	-	-	-	-
SPECIFIC OBJECTIVE VI: EXTERNAL OVERSIGHT OF PUBLIC FINANCES ENHANCED										
Indicator(s) at specific objective level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Number of reviewed audit reports	Number	Steering Committee Reports / Minutes from the Steering Committee Meetings	194	2020	205	215	225	235	245	

<i>Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)</i>										
<i>Institution responsible for implementation (coordination of implementation) of the measure: State Audit Institution</i>										
<i>Implementation period: 2021-2025</i>					<i>Measure type: Institutional management organizational</i>					
Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025	
Number of audit reports	Number	SAI Activity Report	254	2020	260	270	280	290	300	
Number of employees	Number	SAI Activity Report	331	2020	360	374	388	402	416	
The number of areas covered by performance audits: social welfare, general public services, defence, public law and order, economic affairs, environmental protection, housing and community affairs, health care, recreation, sports, culture and religion, education.	Number	SAI Activity Report	7	2020	7	8	8	9	9	
Number of for quality control and quality assurance reviews	Number	SAI Activity Report	20	2020	24	28	32	36	40	
Share of operational audits (compliance and performance) in the annual SAI Audit Programme	Percent (%)	SAI Activity Report	40 percent	2020	43 percent	46 percent	49 percent	52 percent	55 percent	
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars						
				Source of funds	Link to program budget (PR-PA/PJ)	2021	2022	2023	2024	2025
6.1.1 Further strengthening of external audit through continuous improvement of audit procedures	Q4 2025	SAI	Auditees	Budget funds	2304	-	-	-	-	-

6.1.2. Presenting the report on performed audits to the competent Committee and Subcommittee to ensure the review of SAI findings and recommendations and to improve accountability and transparency in public funds spending	Q4 2025	SAI	National Parliament - Committee on Finance, State Budget and Control of Public Spending and Subcommittee for Review of SAI Audit Reports	Budget funds	2304	-	-	-	-	-
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Measure 6.2: Ensuring efficient Parliamentary oversight of public finances

Institution responsible for implementation (coordination of implementation) of the measure: National Parliament - Committee on Finance, State Budget and Control of Public Spending

Implementation period: 2021-2025

Measure type: Institutional management organizational

Indicator(s) at measure level (outcome indicator)	Unit of measure	Source of verification	Initial value	Base year	Target value 2021	Target value 2022	Target value 2023	Target value 2024	Target value 2025
Review of the SAI Annual Activity Report with the adoption of the proposed conclusion	Number	Steering Committee Reports/ Minutes from the Steering Committee Meeting	1	2020	1	1	1	1	1
Holding a session/meeting of the Committee for Review of Recommendations for Amendments to the Law in the presence of the SAI and the Ministry of Finance	Number	Minutes of the session/meeting	1	2020	1	1	1	1	1
Activity name:	Deadline for completion of activities	Institution responsible for implementation	Partners in the implementation of activities	Total estimated funds by sources in 000 dinars					

				Source of funds	Link to programme budget (PR-PA/PJ)	2021	2022	2023	2024	2025
6.2.1 Strengthening the control function of the National Parliament by organizing sessions/ meetings of the Committee and Subcommittee for reviewing reports on performed SAI audits	Q4 2025	National Parliament - Committee on Finance, State Budget and Control of Public Spending - Subcommittee for Review of SAI Audit Reports	State Audit Institution	Budget funds Donor Funds (UNDP)	2101-0003	2,000*	2,000*	2,000*	2,000 *	2,000*
6.2.2 Engaging experts as needed in order to better consider the actions of entities in accordance with the conclusions, findings and recommendations contained in the SAI audit reports	Q4 2025	National Parliament - Committee on Finance, State Budget and Control of Public Spending - Subcommittee for Review of SAI Audit Reports	Governmental Audit Office of EU Funds	Budget funds	2101-0003	-	-	-	-	-

6.2.3 Organizing a public hearing on the occasion of the presentation of the Draft Budget System Law and the Draft Law on Final Account of the Budget	Q4 2025	National Parliament - Committee on Finance, State Budget and Control of Public Spending	Ministry of Finance, State Audit Institution	Budget funds Donor funds	2101-0003	250*	250*	250*	250*	250*
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ANNEX 1: ORDER OF IMPLEMENTING THE ACTIVITIES OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME 2021-2025

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025					
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
MEASURE 1.1: PROGRAMME BUDGET IMPROVEMENT																						
<i>1.1.1 Analysis of programme budget implementation and use of performance indicators</i>																						
<i>1.1.2 Analysis of the uniform structure of the programme budget of local self-government units</i>																						
<i>1.1.3 Establishing a uniform programme structure for mandatory social welfare organizations and their beneficiaries</i>																						
<i>1.1.4 Workshops and trainings for all users at all levels of government</i>																						
<i>1.1.5 Study visit for enhancing the performance report</i>																						
MEASURE 1.2: IMPROVING THE CAPACITY RELATED TO THE PREPARATION AND OBLIGATIONS OF THE EU MEMBER COUNTRIES DURING THE BUDGET PREPARATION PROCESS																						
<i>1.2.1 Analysis of the budget preparation process of the EU member states and obligations of the Republic of Serbia during budget preparation</i>																						
<i>1.2.2 Training of employees in the Ministry of Finance and direct budget beneficiaries</i>																						
<i>1.2.3 Study visit</i>																						
MEASURE 1.3: IMPROVEMENT OF MEDIUM-TERM PLANNING																						
<i>1.3.1 Mentoring support for the development of medium-term plans of mid-term planning institutions at the national level</i>																						
<i>1.3.2 Preparation of an analysis of the degree of harmonization of medium-term plans with public policy documents in the relevant areas of planning</i>																						
MEASURE 1.4: Improvement of the system for efficient management of capital projects																						

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025				
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<i>1.4.1 Amendments to the legal framework in line with identified weaknesses in implementation</i>																					
<i>1.4.2 Development of a training programme for relevant participants in the capital project management process</i>																					
<i>1.4.3 Preparation of a public report on the status of capital projects monitored in accordance with the methodology</i>																					
<i>1.4.4 Development of a Manual with capital project management methodology (design, prepress, proofreading, content consulting)</i>																					
<i>1.4.5 Development of an information system for capital project management</i>																					
MEASURE 1.5: STRENGTHENING THE CAPACITIES OF THE DEPARTMENT FOR FISCAL RISKS MONITORING																					
<i>1.5.1 Training for employees of the Ministry of Finance</i>																					
<i>1.5.2. Develop methodologies for the Group for monitoring fiscal risks related to public sector operations</i>																					
<i>1.5.3. Develop methodologies for the Group for monitoring other fiscal risks - natural disaster risks and litigations</i>																					
MEASURE 2.1: EFFICIENT COLLECTION OF BUDGET REVENUES UNDER THE COMPETENCE OF THE TAX ADMINISTRATION																					
<i>2.1.1 Reengineering of basic function business process</i>																					
<i>2.1.2 Introduction of a new fiscalisation system</i>																					
<i>2.1.3 Enhancement of ICT infrastructure - COTS (commercial off-the-shelf solution)</i>																					
<i>2.1.4 Establishment of the legislative framework and preparation of technical specifications for the implementation of information exchange systems according to the EU standard (indirect taxation exchange systems and direct taxation exchange systems), as well as compliance with the recommendations of the Global Forum for the Implementation of the International</i>																					

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025			
	quarter:				1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<i>Standard for Information Exchange at Request and for Automatic Exchange.</i>																				
<i>2.1.5 Improving the human resources management function by developing Human Resources Strategy and enhancing the existing information system for human resources management.</i>																				
<i>2.1.6 Introduction of electronic delivery note system - analysis of the legal and administrative framework, and preparation of procurement documents</i>																				
<i>2.1.7 Introduction of electronic delivery note systems - introduction of IT systems</i>																				
<i>2.1.8 Introduction of an IT system for management of immovable property of the Ministry of Finance and its Administrations</i>																				
MEASURE 2.2: MODERNISATION OF BUSINESS PROCESSES AT THE TOBACCO ADMINISTRATION																				
<i>2.2.1 Establishment of a uniform registry system that will consolidate all registers and record lists in order to enhance the efficiency of service provision by the Tobacco Administration</i>																				
<i>2.2.2 Strengthening the human resources capacity of the Tobacco Administration and other partner institutions</i>																				
<i>2.2.3 Increasing the digital awareness of economic entities operating in the tobacco and tobacco products market.</i>																				
MEASURE 2.3: STRENGTHENING ADMINISTRATIVE CAPACITIES OF THE CUSTOMS ADMINISTRATION																				
<i>2.3.1 Improving the process for financial security of customs debt</i>																				
<i>2.3.2 Capacity development for full-fledged implementation of TSS EU regulations and reporting on EU revenues</i>																				
<i>2.3.3 Capacity building for effective ex-post controls, determination of customs value and preferential origin and classification of goods</i>																				
<i>2.3.4 Modernization of the Customs Laboratory</i>																				

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025				
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<i>2.3.5 Preparatory activities aimed at improving the management and public sale of seized customs goods and the development of special-purpose customs warehousing infrastructure</i>																					
<i>2.3.6 Roll out of import and export automated systems (AIS-AES) and management systems (CDMS)</i>																					
<i>2.3.7 Introduction of an integrated tariff management system (ITMS)</i>																					
<i>2.3.8 Procurement of a warehouse for customs data storage (data warehouse)</i>																					
MEASURE 2.4: EFFICIENT PUBLIC DEBT MANAGEMENT																					
<i>2.4.1 Strengthening the medium-term public debt management strategy by developing risk management model</i>																					
<i>2.4.2 Implementation of a pilot project for the introduction of the Primary Dealer system and further development of the domestic bond market</i>																					
<i>2.4.3 Upgrading the existing information system (PDMS) - using business intelligence tools, to improve reporting</i>																					
<i>2.4.4 Upgrading the existing information system (PDMS) with a developed risk management module.</i>																					
MEASURE 2.5 IMPROVEMENT OF THE ELECTRONIC PUBLIC PROCUREMENT SYSTEM																					
<i>2.5.1 Upgrading the Public Procurement Portal with new functionalities</i>																					
<i>2.5.2 Creating a mobile application for the Public Procurement Portal</i>																					
<i>2.5.3 Strengthening the capacity of the Public Procurement Office</i>																					
<i>2.5.4 Delivering trainings for contracting authorities and bidders</i>																					
<i>2.5.5 Development and adoption of a public policy document for the development of public procurement for the period 2024-2028</i>																					
MEASURE 3.1: ESTABLISHING A BASE FOR STRENGTHENING THE INSTITUTIONAL AND ADMINISTRATIVE CAPACITIES OF THE GOVERNMENTAL AUDIT																					

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025			
	quarter:				1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
OFFICE OF EU FUNDS, WHICH ENABLE EFFECTIVE AUDIT OF THE EU CONTROL SYSTEM																				
<i>3.1.1 Strengthening the legislative framework for the re-institutionalisation of the Governmental Audit Office of EU Funds - adoption and implementation of a new legal basis</i>																				
<i>3.1.2 Developing a staff retention policy to ensure adequate and stable administrative capacity of the Office</i>																				
<i>3.1.3 Strengthening the capacity of the Governmental Audit Office of EU Funds to ensure an effective system of control and audit of EU funds in line with the EU legislative framework</i>																				
MEASURE 3.2: STRENGTHENING THE SYSTEM FOR MORE EFFICIENT AND EFFECTIVE MANAGEMENT OF EU FUNDS																				
<i>3.2.1 Development of new operating procedures, methodological guidelines and other supporting tools for institutions responsible for the management and implementation of EU funds in order to increase the efficiency of controls and reduce the administrative burden.</i>																				
<i>3.2.2 Establishment of the system and implementation of continuous professional training and on-site training related to the management and supervision of the system, financial management, control of the use of funds, management of risks and irregularities.</i>																				
<i>3.2.3 Ensuring an adequate number of staff and capacity building in terms of expanding the scope and quality of on- site inspections and performing supervisory functions among public funds beneficiaries.</i>																				
<i>3.2.4 Improving the information system intended to support business processes for system management and contract implementation and use of funds</i>																				
MEASURE 3.3 INCREASING THE EFFICIENCY AND EFFECTIVENESS OF INSPECTION CONTROL																				

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025					
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
<i>3.3.1 Adoption of methodological instructions on the manner of the budget inspection work by areas of control</i>																						
<i>3.3.2 Professional development of budget inspectors and other employees in the budget inspection through continuous education</i>																						
<i>3.3.3 Providing the required number of inspectors - 38</i>																						
<i>3.3.4 Amendments to the Budget System Law and bylaws of the budget inspection / Adoption of the Law on Budget Inspection</i>																						
MEASURE 4.1: IMPROVED FMC SYSTEM IN PUBLIC SECTOR INSTITUTIONS																						
<i>4.1.1 Cooperation with the Budget Sector regarding the enhancement of the performance management of the organization (link to the PAR Strategy, measure 4.1.2)</i>																						
<i>4.1.2 Analysis of the application of the existing legal and methodological framework and its improvement (e.g. prioritization of PFBs in terms of reporting on internal controls, improvement of reporting, quality assessment, risk management, irregularity management, management statements, etc.)</i>																						
<i>4.1.3 Improving risk management in the PFBs priority group at the central level through direct project support</i>																						
<i>4.1.4 Development of practical methodological tools / financial management and control knowledge products adapted to the specifics of certain significant groups of indirect PFBs at central level (selected departments)</i>																						
<i>4.1.5 Support to the establishment and enhancement of the FMC system at local level</i>																						
<i>4.1.6 Development of analysis of PIFC regulations coherence with other horizontal regulations with comparative analysis of EU funds management system and national funds management system from internal control perspective</i>																						

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025					
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
MEASURE 4.2: IMPROVED INTERNAL AUDIT FUNCTION IN THE PUBLIC SECTOR IN ACCORDANCE WITH INTERNATIONAL STANDARDS AND PRINCIPLES																						
<i>4.2.1 Analysis of the application of the existing methodological framework and its improvement (e.g. for performance audit, information security audit, advisory services, etc.)</i>																						
<i>4.2.2 Preparation and implementation of the Programme for continuous training of internal auditors (link to 4.4.4)</i>																						
<i>4.2.3 Staffing of internal audit (promotion of the profession, tools for recruitment and selection of internal auditors, proposal for improvement of the professional position of internal auditors, etc.)</i>																						
<i>4.2.4 Support to the establishment and enhancement of the internal audit at local level</i>																						
<i>4.2.5 Introduction of external quality assessment according to the peer review method (piloting, methodology, rulebook, training and certification of evaluators, adoption and implementation of the External Quality Assessment Programme)</i>																						
<i>4.2.6 Improving the existing legal framework in order to optimize the organization of internal audit and IA reporting</i>																						
<i>4.2.7 Unification of management and documentation of internal audit engagement and recording and monitoring of the status of internal audit findings and recommendations through the application of software (link to 4.3.2)</i>																						
MEASURE 4.3: ENHANCED MONITORING OF PUBLIC INTERNAL FINANCIAL CONTROL (PIFC)																						
<i>4.3.1 Full implementation of electronic reporting through the application (functional application, trainings, obligation through regulations, link with measure 4.1.5</i>																						

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025					
	quarter:	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	
<i>4.3.2 Establishment of a single information system for internal control in the public sector (Procurement and implementation of software for managing and documenting internal audit engagement and recording and monitoring the status of internal audit findings and recommendations, recommendations from external quality assessment of internal audit, recommendations from FMC system quality review at PFBs and recommendations from Consolidated Annual Report, database of internal auditors, automation of CHU work, links to the registers of other institutions, database of trainees, database of Analytical units and contact persons for FMC, etc. with the possibility of defining additional modules after the system analysis)</i>																						
MEASURE 4.4 MODERNIZATION OF THE TRAINING SYSTEM IN THE PIFC FIELD																						
<i>4.4.1 Development of a detailed joint implementation plan, with proposed amendments to regulations, relevant materials and procedures to support the transfer of trainings</i>																						
<i>4.4.2 Preparation, development and implementation of an improved certification process for internal auditors</i>																						
<i>4.4.3 Modernization of trainings and training materials in the field of PIFC (expansion of e-learning modules)</i>																						
<i>4.4.4 Preparation and implementation of trainings for internal auditors through the Programme for continuous professional development of internal auditors in the public sector</i>																						
MEASURE 5.1 ANALYSIS OF THE CURRENT SITUATION IN PUBLIC SECTOR ACCOUNTING AND DEVELOPMENT AND IMPLEMENTATION OF A PLAN FOR IMPROVING PUBLIC SECTOR ACCOUNTING																						
<i>5.1.1 Drafting a Plan for Improving Public Sector Accounting, in stages</i>																						

MEASURES / ACTIVITIES	2021				2022				2023				2024				2025			
	quarter:				1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<i>5.1.2 Preparatory activities for the establishment of the Commission for Application of International Public Sector Accounting Standards</i>																				
<i>5.1.3 Activities for the purpose of concluding the Agreement for translation and implementation of IPSAS with the Association of Accountants and Auditors of Serbia (IFAC member)</i>																				
<i>5.1.4 Implementation of the Agreement from activity 5.1.3 in order to enable the implementation of the Regulation on the application of International Public Sector Accounting Standards</i>																				
MEASURE 5.2 IMPROVEMENT OF PROFESSIONAL COMPETENCE OF ACCOUNTANTS IN THE PUBLIC SECTOR THROUGH ADEQUATE TRAINING																				
<i>5.2.1 Conducting trainings in order to improve the professional competence of accountants in the public sector</i>																				
<i>5.2.2 Preparatory activities for the introduction of certification for the profession of public sector accountant</i>																				
<i>5.2.3 Certification of 200 public sector accountants</i>																				
MEASURE 5.3 IMPROVEMENT OF COVERAGE OF ACCOUNTING DATA THROUGH THE APPLICATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS																				
<i>5.3.1 Amendments to relevant national regulations for their mutual harmonization and their harmonization with the IPSAS requirements for cash basis and ESA 2010</i>																				
<i>5.3.2 Adoption of Accounting Policy for Financial Reporting in accordance with IPSAS for cash basis</i>																				
<i>5.3.3 Preparation of Cash-Based Financial Statement in accordance with IPSAS</i>																				
MEASURE 6.1 IMPROVING THE SCOPE, QUALITY AND IMPACT OF EXTERNAL AUDITS (IN																				

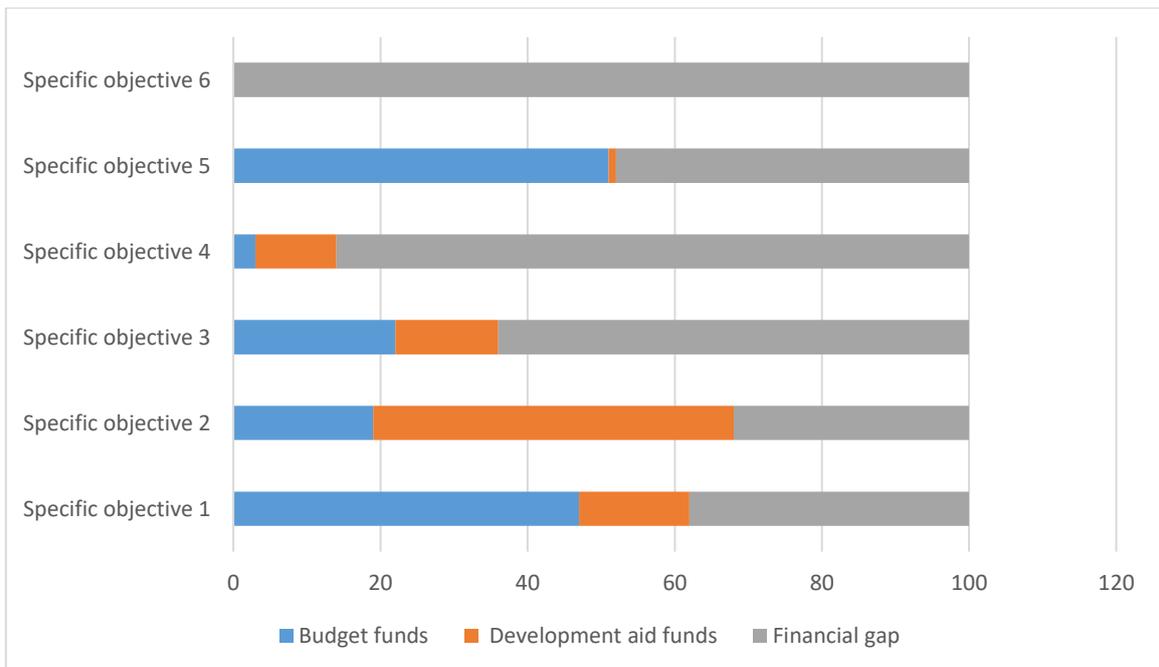
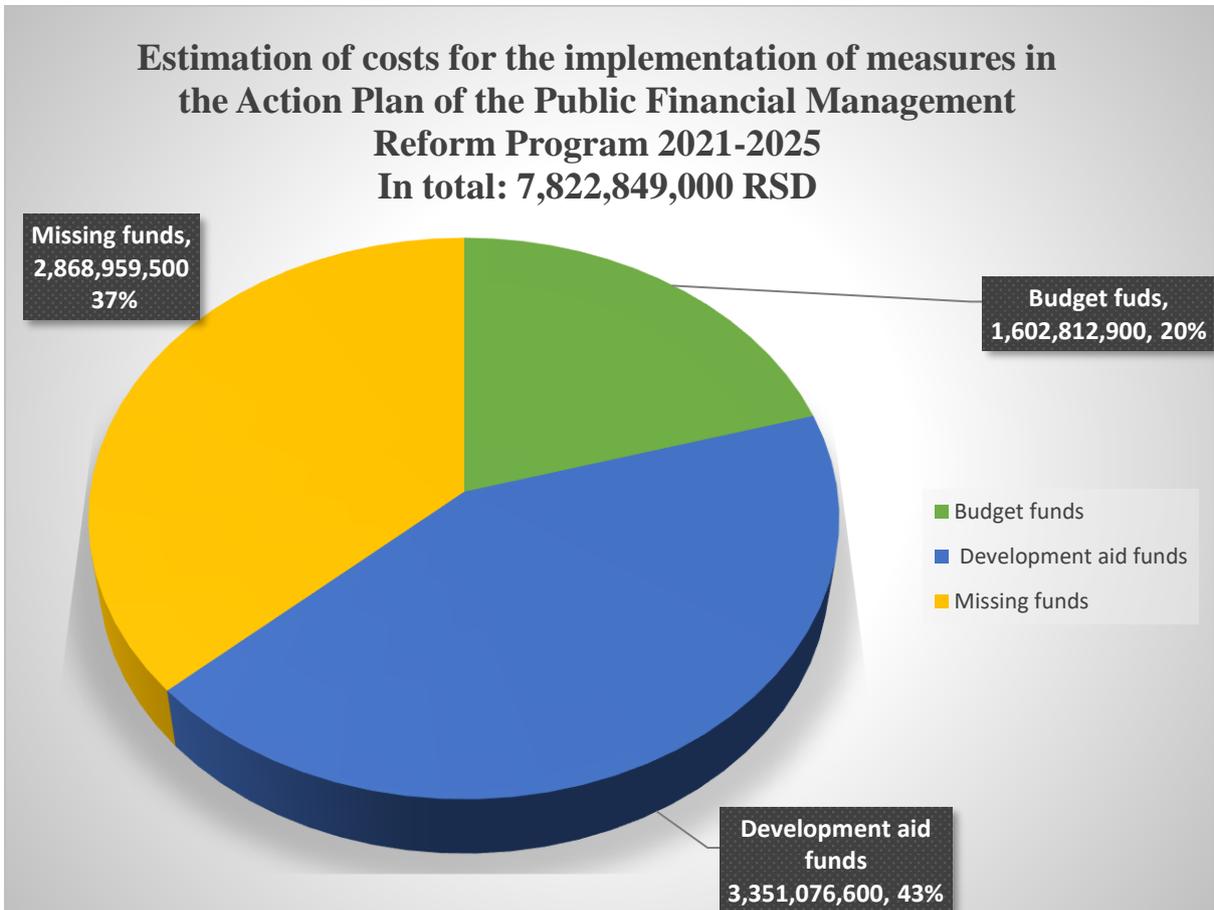
MEASURES / ACTIVITIES	2021				2022				2023				2024				2025			
	quarter:				1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
ACCORDANCE WITH THE STATE AUDIT INSTITUTION STRATEGIC PLAN)																				
<i>6.1.1 Further strengthening of external audit through continuous improvement of audit procedures</i>																				
<i>6.1.2. Presenting the report on performed audits to the competent Committee and Subcommittee to ensure the review of SAI findings and recommendations and to improve accountability and transparency in public funds spending</i>																				
MEASURE 6.2 ENSURING EFFICIENT PARLIAMENTARY OVERSIGHT OF PUBLIC FINANCES																				
<i>6.2.1 Strengthening the control function of the National Parliament by organizing sessions/ meetings of the Committee and Subcommittee for reviewing reports on performed SAI audits</i>																				
<i>6.2.2 Engaging experts as needed in order to better consider the actions of entities in accordance with the conclusions, findings and recommendations contained in the SAI audit reports</i>																				
<i>6.2.3 Organizing a public hearing on the occasion of the presentation of the Draft Budget System Law and the Draft Law on Final Account of the Budget</i>																				

ANNEX 2: OVERVIEW OF FUNDS REQUIRED FOR THE IMPLEMENTATION OF THE PROGRAMME, IN DINARS.

COST ESTIMATE TABLE FOR THE IMPLEMENTATION OF MEASURES IN THE PFM RP ACTION PLAN

Specific objectives and measures	Budget funds	Development aid funds (donations and loans)	Missing funds	TOTAL
Specific objective 1.	211,650,000	67,120,000	169,520,000	448,290,000
Measure 1.1	450,000	2,160,000	0	2,610,000
Measure 1.2	0	2,360,000	1,520,000	3,880,000
Measure 1.3	0	0	0	0
Measure 1.4	211,200,000	0	167,700,000	377,900,000
Measure 1.5	0	62,600,000	300,000	62,900,000
Specific objective 2.	1,261,467,000	3,212,607,000	2,173,407,000	6,647,481,000
Measure 2.1	1,153,152,000	2,093,547,000	1,152,000,000	4,422,250,000
Measure 2.2	8,496,000	0	0	8,496,000
Measure 2.3	87,300,000	1,053,600,000	798,807,000	1,939,707,000
Measure 2.4	0	38,900,000	63,000,000	101,900,000
Measure 2.5	12,416,000	26,560,000	159,600,000	198,576,000
Specific objective 3.	59,435,900	36,532,800	169,656,500	265,625,200
M 3.1	26,516,000	35,400,000	118,000,000	179,912,000
M 3.2	4,716,000	0	44,832,000	49,548,000
M 3.3	28,207,900	1,132,800	6,824,500	36,165,200
Specific objective 4.	9,960,000	34,366,800	275,876,000	320,202,800
Measure 4.1	0	8,400,000	62,036,000	70,436,000
Measure 4.2	7,560,000	10,366,800	27,840,000	45,766,000
Measure 4.3	2,400,000	0	122,400,000	124,800,000
Measure 4.4	0	15,600,000	63,600,000	79,200,000
Specific objective 5	60,300,000	450,000	58,000,000	118,750,000
Measure 5.1.	37,800,000	450,000	20,000,000	58,250,000
Measure 5.2.	17,500,000	0	38,000,000	55,500,000
Measure 5.3	5,000,000	0	0	5,000,000
Specific objective 6	0	0	22,500,000	22,500,000
Measure 6.1	0	0	0	0

Measure 6.2	0	0	22,500,000	22,500,000
TOTAL	1,602,812,900	3,351,076,600	2,868,959,500	7,822,849,000



ANNEX 3: PASSPORT PERFORMANCE INDICATORS

PASSPORT INDICATORS FOR SPECIFIC OBJECTIVES AND MEASURES FOR THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME 2021-2025

INDICATORS AT SPECIFIC OBJECTIVES LEVEL

Indicator at the level of Specific Objective 1

The name of the indicator	Performance information for the provision of public services				
Appropriate general objective, specific objective or measure	Specific Objective 1: Capacity for budget planning and public investment management and fiscal risk monitoring improved				
Indicator type	Qualitative		Indicator at the PFMRP specific objective level		
Unit of measure and nature	Grade (A, B +, B, C +, C, D +, D)		A is the best grade		
Data source	PEFA Assessment for the Republic of Serbia				
Name of the data collection entity	MoF, Budget Sector				
Frequency	Once in four years				
Brief description of indicators and calculation methodology (formulas/equations)	This indicator from the PEFA Assessment examines performance information in terms of public service delivery, provided in the executive budget proposal or its supporting documentation, as well as the documentation accompanying the year-end reports.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
				C+	
Target value data	2021	2022	2023	2024	2025
	/	/	/	/	B
Performance assessment:	The assessment is based on PEFA analysis and the deviation is not acceptable.				

Indicator at the level of Specific Objective 2

Name of the indicator	Actual revenues and expenditures of the general government budget on an annual basis are within the 5 percent rate of the fiscal strategy projections				
Appropriate general objective, specific objective or measure	Specific Objective 2: EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS				
Indicator type	Qualitative		PFMRP specific objective level		
Unit of measure and nature	Percent		Improved planning and management of budget funds		
Data source	Fiscal strategy and macroeconomic and fiscal data (website of the Ministry of Finance)				
Name of the data collection entity	Sector for Macroeconomic and Fiscal Analysis and Projections and Sector for International Cooperation and European Integration of the Ministry of Finance				
Frequency	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator monitors the fiscal projections of actual revenues and expenditures presented in the Fiscal Strategy, thus measuring and improving the planning of public revenues and expenditures, as well as the credibility of fiscal projections. Due to the difference between the results of actual revenues and expenditures and the projected individual figures in the Fiscal Strategy, it is predicted that real revenues and expenditures from 2021 to 2025 will be within the 5 percent margin of fiscal projections for revenues and expenditures in the Fiscal Strategy adopted annually.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2017	2018	2019	
				Within the 5 percent range	
Target value data	2021	2022	2023	2024	2025

	Within the 5 percent range	Within the 5 percent range	Within the 5 percent range	Within the 5 percent range	Within the 5 percent range
Performance assessment:	Credibility of fiscal projections				

Name of the indicator	Annual costs of public debt servicing (interest payments - net amount) as percent of GDP				
Appropriate general objective, specific objective or measure	Specific Objective 2: EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Percent (%)		Improving public debt management, a lower value is desirable		
Data source for monitoring performance indicators	Annual Activity Report of the Public Debt Administration				
Name of the data collection entity	Ministry of Finance - Public Debt Administration				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the Percent of annual costs for public debt servicing through interest payments, as a Percent of GDP. Taking into account the effects of the Covid-19 pandemic on the public debt trajectory in the Republic of Serbia, it is expected that the lower value of public debt service costs will follow the overall reduction of public debt as a Percent of GDP, which contributes to the stability of public finance system since the sustainability of public debt is one of its key elements				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2018	2020	
	-	-	-	1.9 percent	
Target value data	2021	2022	2023	2024	2025
	1.9 percent	1.9 percent	-	-	1.7 percent
Performance assessment	Reduction of annual public debt service costs as a Percent of GDP, deviation of 0.1 percent points is acceptable				

Name of the indicator	Average duration of open proceedings				
Appropriate general objective, specific objective or measure	Specific Objective 2: EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS				
Indicator type	Quantitative			PFRRP specific objective level, a lower value is better	
Unit of measure and nature	Day				
Data source	Annual report on public procurements				
Name of the data collection entity	Public Procurement Office				
Frequency	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator represents the average length of the open procedure, i.e. it shows how much the duration of the open procedure is reduced from year to year.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2017		2019	2020
					52
Target value data	2021	2022	2023	2024	2025
	50	48	46	45	44
Performance assessment:	A deviation of 1 day is acceptable				

Indicator at the level of Specific Objective 3.

Name of the indicator	The average number of illegalities and irregularities per control against the total number of performed controls (The indicator at the general level measures the efficiency of the budget inspection, it is necessary to keep it since the number of illegalities depends exclusively on the budget inspection, while the implementation of measures depends on other regulatory bodies).
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Appropriate general objective, specific objective or measure	Specific Objective 3: BUDGET DISCIPLINE AND TRANSPARENT USE OF PUBLIC FUNDS IMPROVED				
Indicator type	Quantitative		PFMRP specific objective level		
Unit of measure and nature	Number		A lower value is better		
Data source	Annual Operating Report of the Budget Inspection				
Name of the data collection entity	MoF - Sector for Budget Inspection				
Frequency	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	Average number of illegalities and irregularities per control against the total number of performed controls is calculated in the following manner: The total number of illegalities and irregularities at an annual level is divided by the number of conducted controls at an annual level.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2017	2018	2019	2020	
	6	6	3	2	
Target value data	2021	2022	2023	2024	2025
	2	2	2	1	1
Performance assessment:	Reduced number of detected irregularities, deviation of 10 percent is acceptable				

Name of the indicator	Percent of adopted and implemented recommendations given to the entities with indirect management of EU funds by the audit body			
Appropriate general objective, specific objective or measure	Specific Objective 3: BUDGET DISCIPLINE AND TRANSPARENT USE OF PUBLIC FUNDS IMPROVED			
Indicator type	Quantitative		PFMRP specific objective level	
Unit of measure and nature	Percent		A higher value is better	

Data source	Annual Audit Report				
Name of the data collection entity	Governmental Audit Office of EU Funds MoF, Sector for EU Funds Management				
Frequency	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	<p>The indicator shows the efficiency of the overall European Union funds management system, since it shows simultaneously the efficiency of the audit body and all entities subject to the indirect management of EU funds. Audit recommendations are aimed at improving the overall system.</p> <p>The indicator is measured on an annual basis, taking into account the recommendations given in the current year and closed in n + 2 (Adoption of recommendations given in 2018 is measured in 2020)</p>				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2017	2018	2020	
				0	
Target value data	2021	2022	2023	2024	2025
	50 percent	55 percent	60 percent	65 percent	70 percent
Performance assessment:	Increase and maintenance of accepted and implemented recommendations, deviation of 10 percent is acceptable				

Indicator at the level of Specific Objective 4.

Name of the indicator	Identified progress related to PIFC within the EC Progress Report for the Republic of Serbia for a specific year	
Appropriate general objective, specific objective or measure	Specific objective 4: APPLICATION OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN THE PUBLIC SECTOR IMPROVED	
Indicator type	Qualitative	Indicator at the PFMRP specific objective level
Unit of measure and nature	European Commission Assessment	NA - descriptive indicator
Data source	EC report on Serbia for a specific year (Chapter 32)	

Name of the data collection entity	MF - CHU									
Frequency	Once a year									
Brief description of indicators and calculation methodology (formulas/equations)	The selected indicator is of external type and descriptive character, and is based on the assessment of the European Commission with the value scale of the General assessment of preparedness: - Early stage of preparedness - Certain level of preparedness - Moderate preparedness - Good level of preparedness									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend							Initial value		
	2017			2018		2019		2020		
						Moderate preparedness		Moderate preparedness		
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Moderate prep.	Moderate prep.	Moderate prep.	Moderate prep.	Good level of prep.					
Performance assessment:	The ultimate objective for 2025 would be that under the assessment of the EC a good level of preparedness has been achieved for the Chapter 32 Financial Control and that the criteria for closing the negotiations have been met. Deviation is not acceptable.									

Indicator at the level of specific objective 5.

Name of the indicator	Financial statement prepared and presented to the Ministry of Finance of the Republic of Serbia in accordance with IPSAS requirements for cash basis	
Appropriate general objective, specific objective or measure	Specific Objective 5: PUBLIC ACCOUNTING WITH THE APPLICATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) IMPROVED	
Indicator type	Quantitative	Indicator at the PFM RP specific objective level
Unit of measure and nature	Number	0-there is no Report 1-there is a Report
Data source	MoF Treasury Administration website	

Name of the data collection entity	MoF Treasury Administration				
Frequency	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	<p>The publication of Cash-based Financial Statements in accordance with IPSAS increases the quality of statements due to the introduction of the standards. Information on cash inflows, cash outflows and cash balances of entities allows for the determination of liabilities and provides data useful for assessing the entity's ability to generate sufficient cash in the future, as well as probable sources and uses of cash.</p> <p>The Government regulates in more detail the budget accounting and the manner of keeping the consolidated treasury account (Article 75. of the Budget System Law).</p> <p>The Government, at the proposal of the Ministry, forms a Commission for Application of International Public Sector Accounting Standards (Article 75a of the Budget System Law).</p> <p>The Commission gives an opinion on the draft enactments of the Ministry, which refer to the application of International Public Sector Accounting Standards.</p> <p>Compliance with IPSAS requirements and recommendations will improve comprehensive and transparent financial reporting on cash inflows, cash outflows and cash balances of the entities.</p> <p>Comparability with entity's financial statements from previous periods will also be improved, as well as with the financial statements of other entities that have adopted cash-based accounting standards.</p>				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	–	–	–	0	
Target value data	2021	2022	2023	2024	2025
	0	0	0	1	1
Performance assessment:	<p>The success of achieving the OBJECTIVE largely depends on the establishment of the Commission for Application of International Public Sector Accounting Standards.</p> <p>(Article 75a of the Budget System Law).</p>				

Indicator at the level of Specific Objective 6.

Name of the indicator	Number of reviewed audit reports
Appropriate general objective, specific objective or measure	Specific Objective 6: EXTERNAL OVERSIGHT OF PUBLIC FINANCES ENHANCED

Indicator type	Quantitative	Indicator at the PFMRP specific objective level			
Unit of measure and nature	Number	Improving the monitoring of compliance with the recommendations and measures set out in the conclusions of the National Parliament A higher value is better.			
Data source	Steering Committee Reports/ Minutes from the Steering Committee Meeting				
Name of the data collection entity	National Parliament Committee on Finance, State Budget and Control of Public Spending				
Frequency	Data are collected on an annual basis.				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the monitoring of the actions of the Government/ Ministry of Finance in line with the recommendations and measures stated in the conclusions of the National Parliament regarding the review and adoption of the SAI report.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
		9	115	194	
Target value data	2021	2022	2023	2024	2025
	205	215	225	235	245
Performance assessment:	A deviation up to 5 is acceptable				

MEASURE LEVEL INDICATORS

Measure level indicator 1.1

Name of the indicator	Analysis of the programme budget implementation performed
Appropriate general objective, specific objective or measure	Measure 1.1: Programme budget improvement

Type and level of indicator	Quantitative	Measure level indicator			
Unit of measure and nature	Number	Programme budget improvement 0-no 1-yes			
Data source for monitoring performance indicators	Ministry of Finance				
Name of the data collection entity	Ministry of Finance - Budget Sector				
Frequency of data collection	Once during the Programme				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator aims to provide insight into the implementation of programme budgeting at all levels of government, and thus help eliminate all identified weaknesses and shortcomings in the development and implementation of programme budgeting.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	-	1	-	-	-
Performance assessment	Deviations are not allowed				

Measure level indicator 1.1

Name of the indicator	Analysis of the uniform structure of the programme budget of local self-government units performed				
Appropriate general objective, specific objective or measure	Measure 1.1: Programme budget improvement				
Type and level of indicator	Quantitative	Measure level indicator			
Unit of measure and nature	Number	Improving the programme budgeting at the level of local self-government units 0-no 1-yes			
Data source for monitoring performance indicators	Ministry of Finance				

Name of the data collection entity	Ministry of Finance - Budget Department				
Frequency of data collection	Once during the Programme				
Brief description of indicators and calculation methodology (formulas/equations)	This indicator shows the uniqueness of the programme budget structure and possible deviations and differences in the preparation of the budget of local self-government units. The indicator aims to determine whether the budgets of local self-government units are prepared in a uniform way in order to ensure efficient planning and budgeting of public funds.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2017	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	-	1	-	-	-
Performance assessment	Analysis of the uniform structure of the programme budget of local self-government units successfully performed. Deviations are not allowed.				

Measure level indicator 1.1

Name of the indicator	A uniform programme structure for mandatory social welfare organizations and their beneficiaries established				
Appropriate general objective, specific objective or measure	Measure 1.1: Programme budget improvement				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			Improving programme budgeting at the level of mandatory social insurance organizations and their beneficiaries 0-no 1-yes	
Data source for monitoring performance indicators	Ministry of Finance				
Name of the data collection entity	Ministry of Finance - Budget Department				
Frequency of data collection	Once during the Programme				
Brief description of indicators and	The indicator aims to determine the structure of the programme budget for mandatory social insurance organizations and their beneficiaries, which would				

calculation methodology (formulas/equations)	contribute to the improvement of the overall system of planning and budgeting of public expenditures.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	-	1	-	-	-
Performance assessment	A uniform programme structure for mandatory social welfare organisations and their beneficiaries ensured. Deviations are not allowed.				

Measure level indicator 1.2

Name of the indicator	An analysis of the budget preparation process of EU member states performed				
Appropriate general objective, specific objective or measure	Measure 1.2: Improving the capacity related to the preparation and obligations of the EU member states during the budget preparation process				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		Improving the budget preparation process through analysis		
Data source for monitoring performance indicators	Ministry of Finance				
Name of the data collection entity	Ministry of Finance - Budget Department				
Frequency of data collection	Once during the Programme				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies an analysis of the process of preparation of the budgets of the EU member states, which describes in detail the obligations of the Republic of Serbia during the preparation. The indicator will contribute to improving budget preparation capacity when Serbia joins the European Union				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025

	-	-	1	-	-
Performance assessment	Deviation is not acceptable.				

Measure level indicator 1.2

Name of the indicator	Number of study visits				
Appropriate general objective, specific objective or measure	Measure 1.2: Improving the capacity related to the preparation and obligations of the EU member states during the budget preparation process				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		Improving the budget preparation process with regard to the obligations of the EU member states. A higher value is better.		
Data source for monitoring performance indicators	Ministry of Finance				
Name of the data collection entity	Ministry of Finance - Budget Department				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies a study visit for the Ministry of Finance staff in order to exchange experiences in the process of preparing the budgets of the EU member states, which will introduce the obligations of the Republic of Serbia during the preparation. The indicator will contribute to improving budget preparation capacity when Serbia joins the European Union				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	-	-	1	-	1
Performance assessment	Holding a study visit. Deviation is not acceptable.				

Measure level indicator 1.3

Name of the indicator	Number of adopted medium-term plans of the mid-term planning institutions at the national level				
Appropriate general objective, specific objective or measure	Measure 1.3: Improvement of medium-term planning				
Type and level of indicator	Quantitative		Measure level indicator		

Unit of measure and nature	Number	Improving medium-term planning at the national level, a higher value is desirable.			
Data source for monitoring performance indicators	Websites of mid-term planning institutions				
Name of the data collection entity	Public Policy Secretariat (PPS)				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies monitoring the number of adopted medium-term plans of medium-term planning institutions at the national level in order to contribute to the appropriate planning of budget funds at the level of the medium-term planning institutions.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
	-	-	-	3	
Target value data	2021	2022	2023	2024	2025
	6	22	40	40	40
Performance assessment	Medium - term plans of the medium - term planning institutions adopted, acceptable deviation up to 1.				

Measure level indicator 1.4

Name of the indicator	Capital projects that have not passed the pre-implementation phase according to the methodology, and are included in the budget of the Republic of Serbia, but have not been declared projects of special importance for the Republic of Serbia (with line ministries as authorised proposers)				
Appropriate general objective, specific objective or measure	Measure 1.4: Improvement of the system for efficient management of capital projects and monitoring of fiscal risks				
Type and level of indicator	Quantitative	Measure level indicator			
Unit of measure and nature	Number	Improving the management of capital projects, a lower value is desirable			
Data source for monitoring performance indicators	Budget System Law / Report for Capital Investments Commission (RCIC)				
Name of the data collection entity	Ministry of Finance - Department for Fiscal Risks Monitoring				
Frequency of data collection	Annual				

Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to capital projects that have not passed the pre-implementation phase according to the methodology, and are included in the budget of the Republic of Serbia, but have not been declared projects of special importance for the Republic of Serbia (with line ministries as authorised proposers)				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	61	
Target value data	2021	2022	2023	2024	2025
	50	20	10	5	0
Performance assessment	A deviation up to 2 is acceptable.				

Name of the indicator	Trained civil servants from project management units at the level of line ministries and other institutions				
Appropriate general objective, specific objective or measure	Measure 1.4: Improvement of the system for efficient management of capital projects and monitoring of fiscal risks				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Percent		Improving the management of capital projects, a higher value is desirable		
Data source for monitoring performance indicators	Budget System Law / Report for Capital Investments Commission (RCIC)				
Name of the data collection entity	Report on workshops held - NAPA				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to capital projects that have not passed the pre-implementation phase according to the methodology, and are included in the budget of the Republic of Serbia, but have not been declared projects of special importance for the Republic of Serbia (with line ministries as authorised proposers)				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	0	
Target value data	2021	2022	2023	2024	2025
	0	20	50	70	80

Performance assessment	A deviation of up to 5 percent is acceptable.
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Measure level indicator 1.5

Name of the indicator	Systematized positions in the Sector for Fiscal Risks Monitoring filled				
Appropriate general Objective, specific objective or measure	Measure 1.5: Strengthening the capacities of the Department for Fiscal Risks Monitoring				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent			Improving the monitoring of fiscal risks, a higher value is desirable	
Data source for monitoring performance indicators	Ministry of Finance Fact Sheet				
Name of the data collection entity	Ministry of Finance - Department for Fiscal Risks Monitoring				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies monitoring the filling of systematised positions in the Ministry of Finance Sector for Fiscal Risks Monitoring, thus contributing to strengthening of the administrative capacity of the unit responsible for monitoring fiscal risks to the budget of the Republic of Serbia.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	33 percent	
Target value data	2021	2022	2023	2024	2025
	60 percent	80 percent	90 percent	90 percent	90 percent
Performance assessment	Acceptable deviation up to 10 percent.				

Measure level indicator 1.5

Name of the indicator	Trained employees in the Sector for Fiscal Risks Monitoring				
Appropriate general objective, specific objective or measure	Measure 1.5: Strengthening the capacities of the Department for Fiscal Risks Monitoring				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (%)			Improving the management of capital projects and fiscal risks monitoring, a higher value is desirable	
Data source for monitoring performance indicators	Report on conducted trainings.				

Name of the data collection entity	Ministry of Finance - Department for Fiscal Risks Monitoring				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the Percent of employees in the Ministry who have participated in the planned professional training in order to acquire necessary knowledge regarding the management of capital projects, in order to strengthen administrative capacities.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	0 percent	
Target value data	2021	2022	2023	2024	2025
	0 percent	80 percent	90 percent		
Performance assessment	Acceptable deviation up to 10 percent.				

Measure level indicator 2.1

Name of the indicator	Percent of realized collection in relation to the approved budget estimate (income tax, profit tax, gross domestic VAT, gross excise duties)				
Appropriate general objective, specific objective or measure	Measure 2.1: Efficient collection of budget revenues				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Percent (percent)		Improving the collection of budget revenues, a higher value is desirable		
Data source for monitoring performance indicators	Budget System Law, Tax Administration Report				
Name of the data collection entity	Ministry of Finance-Tax Administration				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the Percent of tax collection in relation to the approved budget estimate, which includes income tax, profit tax, gross domestic value added tax and excises. Achieved collection that corresponds to the projected one indicates an efficient system of collecting budget revenues and thus contributes to the efficiency of the overall public finance system				
	Preceding trend				Initial value

Data on the initial value and the year when it was measured, as well as on the preceding trend	2016	2018	2019	2020	
	-	-	-	110.9 percent	
Target value data	2021	2022	2023	2024	2025
	100 percent	100 percent	100 percent	100 percent	100 percent
Performance assessment	Successfully achieved collection in relation to the budget estimate, acceptable deviation up to 5 percent				

Measure level indicator 2.2

Name of the indicator	A uniform registry system established				
Appropriate general objective, specific objective or measure	Measure 2.2: Modernisation of business processes at the Tobacco Administration				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		Improving the collection of budget revenues 0-no 1-yes		
Data source for monitoring performance indicators	Minutes on handover of the public procurement subjects				
Name of the data collection entity	Ministry of Finance - Tobacco Administration				
Frequency of data collection	Once during the Programme				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the establishment of a uniform registry system, which aims to consolidate all registers and records with which the Tobacco Administration operates in order to increase the efficiency of the services it provides, thus contributing to more efficient collection of budget funds.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	0	
Target value data	2021	2022	2023	2024	2025
	1	-	-	-	-
Performance assessment	Successful establishment of a uniform registry system, deviation is not acceptable				

Measure level indicator 2.2

Name of the indicator	All employees of the Tobacco Administration have been trained to work in a uniform registry system
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Appropriate general objective, specific objective or measure	Measure 2.2: Modernisation of business processes at the Tobacco Administration				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (%)			Improving the collection of budget revenues, a higher value is desirable	
Data source for monitoring performance indicators	List of participants who attended specialised trainings				
Name of the data collection entity	Ministry of Finance - Tobacco Administration				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator demonstrates the training of Tobacco Administration staff members for using a uniform registry system that aims to increase the efficiency of services provided by the Tobacco Administration, thus contributing to more efficient collection of budget funds.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	0	
Target value data	2021	2022	2023	2024	2025
	100 percent	-	-	-	-
Performance assessment	Successful training of Tobacco Administration staff who use a uniform registry system, a deviation of 10 percent is acceptable.				

Measure level indicator 2.2

Name of the indicator	Percent of economic entities operating in the tobacco and tobacco products market and using the electronic services of the Tobacco Administration				
Appropriate general objective, specific objective or measure	Measure 2.2: Modernisation of business processes at the Tobacco Administration				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (percent)			Improving the collection of budget revenues through the improvement of services, a higher value is desirable	
Data source for monitoring performance indicators	A uniform registry system Case registry				

Name of the data collection entity	Ministry of Finance - Tobacco Administration				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows an increase in digital awareness and in the use of electronic services of the Tobacco Administration by economic entities operating in the tobacco market. It is expected that the increase in the use of electronic services in a broader sense will contribute to increasing the quality of services provided by the Tobacco Administration, thus ensuring more efficient collection of budget funds.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	-	-	-	0 percent	
Target value data	2021	2022	2023	2024	2025
	20 percent	40 percent	60 percent	60 percent	60 percent
Performance assessment	Increased use of electronic services provided by the Tobacco Administration by economic entities operating in the tobacco market, a deviation of up to 5 percent is acceptable.				

Measure level indicator 2.3

Name of the indicator	Percent of realized collection of customs duties and VAT from imports in relation to the approved budget estimate	
Appropriate general objective, specific objective or measure	Measure 2.3: Strengthening administrative capacities of the Customs Administration	
Type and level of indicator	Quantitative	Measure level indicator
Unit of measure and nature	Percent (%)	Improving the collection of budget revenues, a higher value is desirable
Data source for monitoring performance indicators	Budget System Law and Customs Administration Fact Sheet (MoF website and Customs Administration website)	
Name of the data collection entity	Ministry of Finance - Customs Administration	
Frequency of data collection	Annual	
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the Percent of collected customs duties and VAT on imports in relation to the approved budget estimate. Higher collection as a result of improved efficiency of the Customs Administration will contribute to the collection of budget revenues, which is one of the most important of the entire system of public finances.	
	Preceding trend	Initial value

Data on the initial value and the year when it was measured, as well as on the preceding trend	2016	2017	2018	2020	
	-	-	-	Customs 102.29 percent VAT 101.15 percent	
Target value data	2021	2022	2023	2024	2025
	100 percent 100 percent	100 percent 100 percent	100 percent 100 percent	100 percent 100 percent	100 percent 100 percent
Performance assessment	Increased collection of revenues generated by the Customs Administration as a Percent of GDP, a deviation of up to 5 percent is acceptable.				

Measure level indicator 2.4

Name of the indicator	The share of domestic currency debt in total public debt - the central level of government				
Appropriate general objective, specific objective or measure	Measure 2.4: Efficient public debt management				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Percent (%)		Improving public debt management, a higher value is desirable		
Data source for monitoring performance indicators	Quarterly report on the status and structure of public debt				
Name of the data collection entity	Ministry of Finance - Public Debt Administration				
Frequency of data collection	quarterly				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the Percent of the share of domestic currency debt in total public debt of the central level of government. The increase in this indicator reduces the risks of costs of public debt servicing and increasing the status of public debt.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2019	2020	
	-	-	27.7 percent	30.5 percent	
Target value data	2021	2022	2023	2024	2025
	31 percent	32 percent	33 percent	34 percent	35 percent
Performance assessment	Deviation is acceptable up to the amount of 0,5 percent				

Measure level indicator 2.5

Name of the indicator	Number of bids per public procurement procedure
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Appropriate general objective, specific objective or measure	Measure 2.5: Improvement of the online public procurement system				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			Improving public procurement system, a higher value is desirable	
Data source for monitoring performance indicators	Annual Report on Public Procurement Procedures (Public Procurement Portal)				
Name of the data collection entity	Public Procurement Office				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the number of bids per public procurement procedure, implying greater competitiveness in the tendering procedure, which is one of the key elements of the public procurement system.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2018	2019	
	-	-	-	2.5 percent	
Target value data	2021	2022	2023	2024	2025
	2.7	2.8	2.9	3	3.1
Performance assessment	Increase in the number of bids per public procurement procedure, deviation of 0.1 percent points is acceptable				

Measure level indicator 3.1

Name of the indicator	Number of EC audit findings against the number of implemented audit recommendations				
Appropriate general objective, specific objective or measure	Measure 3.1: Establishing a base for strengthening the institutional and administrative capacities of the Governmental Audit Office of EU Funds, which enable effective audit of the EU control system				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			A lower value is better	
Data source for monitoring performance indicators	European Commission Audit Report				

Name of the data collection entity	Governmental Audit Office of EU Funds				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the number of audit findings of the EC, in relation to the number of implemented audit recommendations, in order to conduct an effective audit of the EU control system.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	16	
Target value data	2021	2022	2023	2024	2025
	10	8	6	4	3
Performance assessment	The smallest possible number of EC audit findings is considered successful, compared to the number of implemented audit recommendations. Deviations of up to 2 are acceptable.				

Measure level indicator 3.2

Name of the indicator	Adopted enactments aimed at staff retention policy	
Appropriate general objective, specific objective or measure	Measure 3.2: Strengthening the system for more efficient and effective management of EU funds	
Type and level of indicator	Quantitative	Measure level indicator
Unit of measure and nature	Number	A higher value is better
Data source for monitoring performance indicators	Official Gazette of the Republic of Serbia	
Name of the data collection entity	Ministry of Finance - Department for EU Funds Management	
Frequency of data collection	Frequency in line with the dynamics of adoption of enactments	

Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the number of adopted enactments, aimed at the staff retention policy. The indicator is of key importance for the implementation of this measure, taking into account that staff dealing with these issues are rare at the level of the Republic of Serbia. There is no formal education for these jobs that are specific, highly technical, conducted in English at a high level of responsibility that requires years of training. Given the high susceptibility to the outflow of these employees, one of the main objectives of the EU funds management system is to retain them.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	1	1	-	-	1
Performance assessment	The adoption of enactments that will contribute to the development of the staff retention policy is considered successful Deviation is not acceptable.				

Measure level indicator 3.2

Name of the indicator	Percent of trained officers in terms of managing the control of the funds utilisation, risk and irregularity management	
Appropriate general objective, specific objective or measure	Measure 3.2: Strengthening the system for more efficient and effective management of EU funds	
Type and level of indicator	Quantitative	Measure level indicator
Unit of measure and nature	Percent (%)	A higher value is better
Data source for monitoring performance indicators	Reports on conducted trainings	
Name of the data collection entity	Ministry of Finance - Sector for EU Funds Management	
Frequency of data collection	On an annual basis	
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the Percent of officials who have undergone the training organized by NAPA and other accredited organizations, in terms of management, control of the use of funds, management of risks and irregularities, in order to more efficiently and effectively use EU funds.	

Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value	
	2016		2018		2019	
	0		0		0	
Target value data	2021		2022		2023	
	20 percent		30 percent		40 percent	
Performance assessment	2024		2025		9.5 percent	
	20 percent		30 percent		50 percent	
<p>The highest possible Percent of employees who have undergone training on management, control of the use of funds, management of risks and irregularities successfully achieved</p> <p>Deviations of up to 20 percent are acceptable</p>						

Measure level indicator 3.2

Name of the indicator	Number of on-site inspections carried out at the public funds beneficiaries				
Appropriate general objective, specific objective or measure	Measure 3.2: Strengthening the system for more efficient and effective management of EU funds				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			A higher value is better	
Data source for monitoring performance indicators	Reports on performed on-site inspections at the public funds beneficiaries				
Name of the data collection entity	Ministry of Finance - Department for EU Funds Management				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The National Approval Officer (NAO) Support Unit is obliged to carry out annual on-site inspections of indirect IPA funds beneficiaries. The indicator refers to on-site inspections performed at the public funds beneficiaries, in order to manage EU funds as efficiently and effectively as possible.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016		2018		2019
	0		0		0
Target value data	2021		2022		2023
	2024		2025		9

	10	12	12	12	12
Performance assessment	Successful on-site inspections at the public funds beneficiaries Deviations of up to 2 are acceptable				

Measure level indicator 3.2

Name of the indicator	Percent of identified irregularities during the first/first instance control in relation to the total number of irregularities				
Appropriate general objective, specific objective or measure	Measure 3.2: Strengthening the system for more efficient and effective management of EU funds				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Percent (%)		A lower value is better		
Data source for monitoring performance indicators	Reports on identified irregularities during the first instance control				
Name of the data collection entity	Ministry of Finance - Department for EU Funds Management				
Frequency of data collection	On an annual basis				
Brief description of indicators and calculation methodology (formulas/equations)	Detection of irregularities during the first control is one of the key indicators of an efficient system of EU funds management. Accordingly, the indicator refers to the percent of identified irregularities during the first-instance control, in relation to the total number of identified irregularities in order to eliminate irregularities that the system detects by itself.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
	0	0	0	75 percent	
Target value data	2021	2022	2023	2024	2025
	50	55	60	65	70
Performance assessment	Successful identification of irregularities during the first-instance control in relation to the total number of identified irregularities, so that they can be eliminated within the system and thus ensure the most efficient management of EU funds. Deviations of up to 10 percent are acceptable				

Measure level indicator 3.2

Name of the indicator	Percent of business processes supported by the IT system				
Appropriate general objective, specific objective or measure	Measure 3.2: Strengthening the system for more efficient and effective management of EU funds				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent ()			A higher value is better	
Data source for monitoring performance indicators	Report on the functioning of the electronic workflow management system (MIS)				
Name of the data collection entity	Ministry of Finance - Department for EU Funds Management				
Frequency of data collection	Once a year, from the moment the system is established				
Brief description of indicators and calculation methodology (formulas/equations)	Electronic Workflow Management System (MIS) will increase the efficiency of business processes by simplifying and speeding up business processes. The indicator refers to the Percent of business processes that are carried out through the MIS system, in order to enhance the reporting system on the use of EU funds.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	0	
Target value data	2021	2022	2023	2024	2025
	-	-	-	50	60
Performance assessment	Successful introduction of IT systems in business processes, in order to enhance the reporting system on the use of EU funds Deviations of up to 10 percent are acceptable				

Measure level indicator 3.3

Name of the indicator	Total number of inspection controls conducted on annual basis				
Appropriate general objective, specific objective or measure	Measure 3.3: Increasing the efficiency and effectiveness of inspection control				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			A higher value is better	

Data source for monitoring performance indicators	Annual Activity Report of the budget inspection (website of the Ministry of Finance)				
Name of the data collection entity	Ministry of Finance - Department for Budget Inspection				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the total number of conducted inspections.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	29	
Target value data	2021	2022	2023	2024	2025
	50	52	54	56	58
Performance assessment	Successful execution of the planned number of inspections. Deviations are acceptable up to 5 (10 percent).				

Measure level indicator 3.3

Name of the indicator	Percent of planned controls in relation to the number of complaints, applications and control requests received				
Appropriate general objective, specific objective or measure	Measure 3.3: Increasing the efficiency and effectiveness of inspection control				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (%)			A higher value is better	
Data source for monitoring performance indicators	Annual Activity Report of the budget inspection (website of the Ministry of Finance)				
Name of the data collection entity	Ministry of Finance - Department for Budget Inspection				
Frequency of data collection	Once a year				

Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the Percent of planned controls in the current year that are included in the work plan, in relation to the number of received complaints, applications and control requests in the previous year.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2017	2018	2019	2020	
	4 percent	5 percent	18 percent	12 percent	
Target value data	2021	2022	2023	2024	2025
	15 percent	17 percent	20 percent	25 percent	30 percent
Performance assessment	Successful execution of the planned percent of inspection controls that were included in the work plan, in relation to the number of received complaints, applications and control requests in the previous year. Deviations are acceptable up to 20 percent in relation to the projected percent.				

Measure level indicator 4.1

Name of the indicator	Percent of priority PFBS¹⁷⁶ reporting on the FMC system status	
Appropriate general objective, specific objective or measure	Measure 4.1: Improved FMC system in public sector institutions	
Type and level of indicator	Quantitative	Measure level indicator
Unit of measure and nature	Percent (percent)	Improving the system of financial management and control in the public sector, a higher value is desirable
Data source for monitoring performance indicators	Consolidated annual report on the status of internal financial control in the Republic of Serbia	
Name of the data collection entity	Ministry of Finance - Sector - Central Harmonization Unit	
Frequency of data collection	Annual	
Brief description of indicators and	The indicator shows the number of public funds beneficiaries (Ministries, MSIO, public enterprises that perform activities of public interest and operate in accordance	

¹⁷⁶Ministries, MSIO (Mandatory Social Insurance Organizations), PEs performing activities of public interest and operating in accordance with the Law on PEs, cities. Note: the composition of the category of ministries and PEs varies

calculation methodology (formulas/equations)	with the Law on Public Enterprises, as well as cities that submit a report to the MoF on the state of the FMC system, in order to contribute to general improvement of the public sector financial management and control system). It is calculated as the Percent/share of the mentioned beneficiaries of/in the total number of those who submitted the report to the MoF-CHU through the reporting application.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			91.49 percent
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	92 percent	92 percent	93 percent	94 percent	95 percent	-	-	-	-	-
Performance assessment	Increase in the number of PFBs that submit reports on the status of the FMC system, the deviation of up to 1 percent is acceptable									

Measure level indicator 4.1

Name of the indicator	Percent of priority PFBs¹⁷⁷ that compiled the Risk Register									
Appropriate general objective, specific objective or measure	Measure 4.1: Improved FMC system in public sector institutions									
Type and level of indicator	Quantitative					Measure level indicator				
Unit of measure and nature	Percent (percent)					Improving the system of financial management and control in the public sector, a higher value is desirable				
Data source for monitoring performance indicators	Consolidated annual report on the status of internal financial control in the Republic of Serbia									
Name of the data collection entity	Ministry of Finance - Sector - Central Harmonization Unit									
Frequency of data collection	Annual									

¹⁷⁷ *ibid*

Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the number of public funds beneficiaries (Ministries, MSIO, public enterprises that perform activities of public interest and operate in accordance with the Law on Public Enterprises, as well as cities that have created a risk register to contribute to improving financial management and control system). It is calculated as the Percent/share of the mentioned beneficiaries of/in the total number of those who submitted the report through the reporting application.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			63.95 percent
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	65 percent	68 percent	71 percent	74 percent	80 percent	-	-	-	-	-
Performance assessment	Increased number of PFBs that compiled the risk register, the deviation of up to 3 percent is acceptable due to the variability of the composition of the observed PFBs categories.									
Measure level indicator 4.1										
Name of the indicator	Average rating of the PFBs priority group updating the Risk Register (perform risk assessment and review the adequacy of measures at least once a year)									
Appropriate general objective, specific objective or measure	Measure 4.1: Improved FMC system in public sector institutions									
Type and level of indicator	Quantitative					Measure level indicator				
Unit of measure and nature	Arithmetic mean of self-assessment on a scale of 1-5					a higher value is preferable				
Data source for monitoring performance indicators	Consolidated annual report on the status of internal financial control in the Republic of Serbia									
Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit									
Frequency of data collection	Annual									
Brief description of indicators and	The indicator shows one of the aspects of the functional application of risk management in the observed categories of PFBs.									

calculation methodology (formulas/equations)	The indicator represents the arithmetic mean of self-assessments regarding the updating of the risk register of the priority category of PFBs, which submitted a report on the FMC system to the Central Harmonization Unit, consisting of ministries, MSIO, public enterprises performing activities of public interest and operating in accordance with the Law on Public Enterprises, and cities). Individual grades range from 1 to 5, where grade 1 means - No, i.e. that the activity is not implemented, and grade 5 means YES - the activity is implemented throughout the organisation, and the indicator represents their arithmetic mean.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			3.91
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	3.95	4.2	4.5	4.8	5	-	-	-	-	-
Performance assessment	Deviation of up to 0.2 is acceptable									

Measure level indicator 4.1

Name of the indicator	Average rating of the PFBs priority group in which managers make decisions for managing identified risks (regarding the risk response: acceptance, avoidance, mitigation or risk sharing)									
Appropriate general objective, specific objective or measure	Measure 4.1: Improved FMC system in public sector institutions									
Type and level of indicator	Quantitative					Measure level indicator				
Unit of measure and nature	Arithmetic mean of self-assessment on a scale of 1-5					a higher value is preferable				
Data source for monitoring performance indicators	Consolidated annual report on the status of internal financial control in the Republic of Serbia									
Name of the data collection entity	Ministry of Finance - Department- Central Harmonization Unit									
Frequency of data collection	Annual									
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows one of the key aspects of the functional application of risk management in the observed categories of PFBs. It represents the arithmetic mean of self-assessments regarding the management decisions about risks (acceptance, avoidance, mitigation or risk sharing) within the priority category of PFBs that submitted a report on the FMC system to the Central Harmonization Unit, consisting of ministries, MSIO, public enterprises performing activities of public interest and									

	operating in accordance with the Law on Public Enterprises, and towns. Individual grades range from 1 to 5, where grade 1 means - No, i.e. that the activity is not implemented, and grade 5 means YES - the activity is implemented throughout the organization, and the indicator represents their arithmetic mean.										
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value	
	2017			2018			2019			2020	
	-			-			-			3.68	
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
	3.81	4.00	4.15	4.3	4.5	-	-	-	-	-	
Performance assessment	Increased number of PFBs that submit reports on the status of the FMC system, the deviation of up to 0.2 is acceptable due to the variable composition of the observed categories.										

Measure level indicator 4.1

Name of the indicator	Average rating of the PFBs priority group reporting risks to management										
Appropriate general objective, specific objective or measure	Measure 4.1: Improved FMC system in public sector institutions										
Type and level of indicator	Quantitative					Measure level indicator					
Unit of measure and nature	Arithmetic mean of self-assessment on a scale of 1-5					a higher value is preferable					
Data source for monitoring performance indicators	Consolidated annual report on the status of internal financial control in the Republic of Serbia										
Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit										
Frequency of data collection	Annual										
Brief description of indicators and calculation methodology (formulas/equations)	<p>The indicator shows one of the key aspects of the functional application of risk management in the observed categories of PFBs.</p> <p>It represents the arithmetic mean of self-assessments regarding the existence of risk management reporting within the priority category of PFBs that submitted a report on the FMC system to the Central Harmonization Unit, consisting of ministries, MSIO, public enterprises performing activities of public interest and operating in accordance with the Law on Public Enterprises, and towns. Individual grades range from 1 to 5, where grade 1 means - No, i.e. that the activity is not implemented, and grade 5 means YES - the activity is implemented throughout the organisation, and the indicator represents their arithmetic mean.</p>										

Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			3.68
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	3.81	4.00	4.15	4.3	4.5	-	-	-	-	-
Performance assessment	Increased number of PFBs that submit reports on the status of the FMC system, the deviation of up to 0.2 is acceptable due to the variable composition of the observed categories.									

Measure level indicator 4.2

Name of the indicator	SIGMA adequacy indicator of the operational framework for internal audit									
Appropriate general objective, specific objective or measure	Measure 4.2. Improved internal audit function in the public sector in accordance with international standards and principles									
Type and level of indicator	Qualitative					Measure level indicator				
Unit of measure and nature	Points					Improving internal audit system, a higher value is desirable				
Data source for monitoring performance indicators	SIGMA Monitoring Report									
Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit									
Frequency of data collection	During the SIGMA assessment for 2025 for the Republic of Serbia									
Brief description of indicators and calculation methodology (formulas/equations)	The indicator is taken from the SIGMA analysis for the Republic of Serbia and is set on the basis of the methodology used by SIGMA in the assessment of the operational framework for the internal audit system.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2014			2015			2016			2017
	-			-			-			3/ 5
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					4/5	-	-	-	-	-
Performance assessment	Higher grade by SIGMA during the next assessment, which indicates greater adequacy of the operational framework, the deviation is acceptable due to the possibility of modification in SIGMA methodology.									

Measure level indicator 4.2

Name of the indicator	SIGMA indicator of internal audit functioning										
Appropriate general objective, specific objective or measure	Measure 4.2. Improved internal audit function in the public sector in accordance with international standards and principles										
Type and level of indicator	Qualitative					Measure level indicator					
Unit of measure and nature	Points					Improving internal audit system, a higher value is desirable					
Data source for monitoring performance indicators	SIGMA Monitoring Report										
Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit										
Frequency of data collection	During the SIGMA assessment for 2025 for the Republic of Serbia										
Brief description of indicators and calculation methodology (formulas/equations)	The indicator is taken from the SIGMA analysis for the Republic of Serbia and is set on the basis of the methodology used by SIGMA in the assessment of the the general functioning of the internal audit system.										
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value	
	2016			2017			2018			2019	
	-			-			-			1/5	
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
					3/5	-	-	-	-	-	
Performance assessment	Higher grade by SIGMA during the next assessment, which indicates greater adequacy of the operational framework, the deviation is acceptable due to the possibility of modification in SIGMA methodology.										

Measure level indicator 4.3

Name of the indicator	Functional IT system for internal control										
Appropriate general objective, specific objective or measure	Measure 4.3: Strengthened monitoring of internal control in the public sector (PIFC)										
Type and level of indicator	Quantitative					Measure level indicator					
Unit of measure and nature	Number					Improving the internal control system 0-no 1-yes					
Data source for monitoring performance indicators	Consolidated annual report										

Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit										
Frequency of data collection	At the end of the Action Plan validity										
Brief description of indicators and calculation methodology (formulas/equations)	The indicator demonstrates the establishment of an information system for internal control in the public sector (Procurement and implementation of software for managing and documenting internal audit engagement and recording and monitoring the status of internal audit findings and recommendations, recommendations from external quality assessment of internal audit, recommendations from FMC system quality review at PFBs and recommendations from Consolidated Annual Report, database of internal auditors, automation of CHU work, links to the registers of other institutions, database of trainees, database of Analytical Units and contact persons for FMC, etc., with the possibility of defining additional modules after the system analysis). The establishment of the system will contribute to the improvement of the internal control system in the public sector through a strengthened monitoring function.										
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value	
	2017			2018			2019			2020	
	-			-			-			No	
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
					Yes	-	-	-	-	-	
Performance assessment	IT system is established, deviation is not acceptable										

Measure level indicator 4.4

Name of the indicator	Number of participants in trainings in the field of internal controls, organized by NAPA										
Appropriate general objective, specific objective or measure	Measure 4.4: Modernisation of the training system in the PIFC field										
Type and level of indicator	Quantitative					Measure level indicator					
Unit of measure and nature	Number					Improving the internal control system, a higher number is desirable					
Data source for monitoring performance indicators	NAPA Report on conducted trainings										
Name of the data collection entity	Ministry of Finance - Department - Central Harmonization Unit										
Frequency of data collection	Annual										
Brief description of indicators and calculation methodology	The indicator indicates capacity building in the field of internal controls through attending trainings organized by NAPA.										

(formulas/equations)										
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			0
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	50	200	200	200	200	-	-	-	-	-
Performance assessment	Increased number of participants in the field of internal controls organized by NAPA, deviation is acceptable up to 20 percent									

Measure level indicator 4.4

Name of the indicator	Percent of certified internal auditors who collected the required number of points during the continuous professional development									
Appropriate general OBJECTIVE, specific objective or measure	Measure 4.4: Modernisation of the training system in the PIFC field									
Type and level of indicator	Quantitative					Measure level indicator				
Unit of measure and nature	Percent (percent)					Improving the internal control system, a higher number is desirable				
Data source for monitoring performance indicators	Consolidated annual report									
Name of the data collection entity	Ministry of Finance - Sector - Central Harmonization Unit									
Frequency of data collection	Annual									
Brief description of indicators and calculation methodology (formulas/equations)	The indicator demonstrates capacity building in the field of internal controls through continuous professional development of internal auditors in the public sector. An increase in the percent of certified auditors who collected the prescribed number of points indicates an increase in their knowledge and professional competence to perform internal audit work, which contributes to strengthening of the internal audit system.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017			2018			2019			2020
	-			-			-			58.1 percent
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					85 percent	-	-	-	-	-

Performance assessment	Increased number of participants in the field of internal controls organized by NAPA, deviation is acceptable up to 3 percent. During 2020, the value of the indicator is lower compared to the previous year due to the pandemic.
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Measure level indicator 4.4

Name of the indicator	Percent of certified internal auditors in priority PFBs ¹⁷⁸									
Appropriate general objective, specific objective or measure	Measure 4.4: Modernisation of the training system in the PIFC field									
Type and level of indicator	Quantitative					Measure level indicator				
Unit of measure and nature	Percent (%)					Improving the internal control system, a higher number is desirable				
Data source for monitoring performance indicators	Consolidated annual report									
Name of the data collection entity	Ministry of Finance - Sector - Central Harmonization Unit									
Frequency of data collection	Annual									
Brief description of indicators and calculation methodology (formulas/equations)	The indicator demonstrates capacity building in the field of internal controls through the acquisition of a certified internal auditor certificate by priority public funds beneficiaries. The increase in the Percent of certified internal auditors implies the improvement of professional capacities for performing internal audit activities, which contributes to the strengthening of the internal audit system.									
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend									Initial value
	2017		2018		2019		2020			
	-		-		-		80 percent			
Target value data	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					85 percent	-	-	-	-	-
Performance assessment	A higher Percent of internal auditors in priority PFBs who have acquired the title of certified internal auditor, the deviation of up to 10 percent is acceptable. A significant outflow of certified IAs is expected in the coming years due to their retirement, so that the relative movement of the Percent of certified IAs around the baseline value would actually be a success.									

¹⁷⁸Ministries, MSIO, PEs at central level performing activities of public interest and operating in accordance with the Law on PEs with more than the prescribed number of employees to form a unit for IA, AP and cities

Measure level indicator 5.1

Name of the indicator	Public Sector Accounting Improvement Plan adopted				
Appropriate general objective, specific objective or measure	Measure 5.1: Analysis of the current situation in public sector accounting and development and implementation of a Public Sector Accounting Improvement Plan				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			Enhancing accounting in the public sector 0-no 1-yes	
Data source for monitoring performance indicators	Treasury Administration website				
Name of the data collection entity	Ministry of Finance - Treasury Administration				
Frequency of data collection	Once during the PFMRP				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies the development of a Public Sector Accounting Improvement Plan, which should be implemented in stages. The adoption of the Accounting Improvement Plan aims to strengthen the overall accounting system through the application of international public sector accounting standards.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2018	2020	
	-	-	-	0	
Target value data	2021	2022	2023	2024	2025
	0	1	-	-	-
Performance assessment	Public Sector Accounting Improvement Plan adopted, deviation is not acceptable.				

Measure level indicator 5.2

Name of the indicator	Share of employed public sector accountants trained in “Improving public sector accounting”				
Appropriate general objective, specific objective or measure	Measure 5.2: Improvement of professional competence of accountants in the public sector through adequate training				
Type and level of indicator	Qualitative			Measure level indicator	

Unit of measure and nature	Percent (%)	Improving accounting in the public sector, a higher value is desirable			
Data source for monitoring performance indicators	Report on the implementation of the training programme				
Name of the data collection entity	Ministry of Finance - Treasury Administration				
Frequency of data collection	Annual				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator shows the share of public sector accountants who have undergone the planned training in order to strengthen accounting capacities in the public sector. Strengthening administrative capacity through employee training will contribute to the certification process for the public sector accounting profession and their professional competence.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2018	2020	
	-	-	-	69 percent	
Target value data	2021	2022	2023	2024	2025
	80 percent	100 percent	-	-	-
Performance assessment	Successful attendance of training by all employees in the public sector, deviation of up to 10 percent is acceptable				

Measure level indicator 5.3

Name of the indicator	Draft cash-based Financial statement prepared in accordance with IPSAS submitted to the Government				
Appropriate general objective, specific objective or measure	Measure 5.3: Enhanced coverage of accounting data through the implementation of international public sector accounting standards				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			Enhancing accounting in the public sector 0-no 1-yes	
Data source for monitoring performance indicators	Financial statement				
Name of the data collection entity	Ministry of Finance - Treasury Administration				
Frequency of data collection	Once during the PFM RP				
Brief description of indicators and calculation methodology	The indicator implies the strengthening of the accounting system through the application of cash-based public sector accounting standards. The preparation of the Financial statement in line with <i>IPSAS</i> for cash basis will strengthen				

(formulas/equations)	the cash-based accounting applied in the Republic of Serbia, and thus contribute to the overall strengthening of the public sector accounting system.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2017	2018	2020	
	-	-	-	0	
Target value data	2021	2022	2023	2024	2025
	-	-	-	1	-
Performance assessment	Financial statement prepared in accordance with IPSAS for cash basis, deviation is not acceptable.				

Measure level indicator 6.1

Name of the indicator	Number of audit reports			
Appropriate general objective, specific objective or measure	Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)			
Type and level of indicator	Quantitative		Measure level indicator	
Unit of measure and nature	Number		Increasing the number of audit reports, in order to strengthen external oversight of public finances A higher value is better	
Data source for monitoring performance indicators	SAI Activity Report (SAI website)			
Name of the data collection entity	State Audit Institution			
Frequency of data collection	Once a year			
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the number of audit reports, in accordance with the SAI Annual Audit Programme and the SAI Strategic Plan.			
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value
	2016	2018	2019	2020
	0	0	0	254

Target value data	2021	2022	2023	2024	2025
	260	270	280	290	300
Performance assessment	Successful preparation of the planned number of audit reports. A deviation up to 5 is acceptable.				

Measure level indicator 6.1

Name of the indicator	Number of employees				
Appropriate general objective, specific objective or measure	Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		Increasing the number of SAI employees, in order to strengthen external oversight over public finances A higher value is better		
Data source for monitoring performance indicators	SAI Activity Report (SAI website)				
Name of the data collection entity	State Audit Institution				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the number of SAI employees in accordance with the HR Plan and the Strategic Plan of the SAI.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	331	
Target value data	2021	2022	2023	2024	2025
	360	374	388	402	416
Performance assessment	Employment of the planned number of staff. A deviation up to 5 is acceptable.				

Measure level indicator 6.1

Name of the indicator	The number of areas covered by performance audits: social welfare, general public services, defence, public law and order, economic affairs, environmental protection, housing and community affairs, health care, recreation, sports, culture and religion, education.				
Appropriate general objective, specific objective or measure	Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		Increasing the number of areas covered by performance audits, in order to strengthen external oversight of public finances. A higher value is better.		
Data source for monitoring performance indicators	SAI Operating Report (SAI website)				
Name of the data collection entity	State Audit Institution				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the number of areas covered by business performance audits.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
	0	0	0	7	
Target value data	2021	2022	2023	2024	2025
	7	8	8	9	9
Performance assessment	Coverage of the planned number of areas in performance audits. A deviation up to 1 is acceptable.				

Measure level indicator 6.1

Name of the indicator	Number of quality control and quality assurance reviews				
Appropriate general objective, specific objective or measure	Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Number			Increasing the number of reviews for quality control and quality assurance in line with improving the scope and impact of external audits. A higher value is better.	
Data source for monitoring performance indicators	SAI Operating Report (SAI website)				
Name of the data collection entity	State Audit Institution				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator refers to the number of quality control and assurance reviews, in order to improve the scope, quality and impact of external audits, in accordance with the Strategic Plan of the State Audit Institution.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	20	
Target value data	2021	2022	2023	2024	2025
	24	28	32	36	40
Performance assessment	Conducting the planned number of review for the purpose of quality control and quality assurance, in accordance with the improvement of the scope, quality and impact of state audits. A deviation up to 2 is acceptable.				

Measure level indicator 6.1

Name of the indicator	Share of operational audits (compliance and performance) in the annual SAI Audit Programme				
Appropriate general objective, specific objective or measure	Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (%)			Increasing the share of business audits (compliance and performance) in the SAI Annual Audit Programme, in accordance with the SAI Strategic Plan, A higher value is better	
Data source for monitoring performance indicators	SAI Operating Report (SAI website)				
Name of the data collection entity	State Audit Institution				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies the Percent of business audit (compliance and performance) in the SAI Annual Audit Programme.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	0	0	40 percent	
Target value data	2021	2022	2023	2024	2025
	43 percent	46 percent	49 percent	52 percent	55 percent
Performance assessment	Successfully implemented share of business audits (compliance and performance) from the SAI Annual Audit Programme. Deviations are acceptable up to 1 percent.				

Measure level indicator 6.2

Name of the indicator	Review of the SAI Annual Operating Report with the adoption of the proposed conclusion				
Appropriate general objective, specific objective or measure	Measure 6.2: Ensuring efficient Parliamentary oversight of public finances				
Type and level of indicator	Quantitative		Measure level indicator		
Unit of measure and nature	Number		A higher value is better		
Data source for monitoring performance indicators	Steering Committee Reports/ Minutes from the Steering Committee Meeting.				
Name of the data collection entity	National Parliament Committee on Finance, State Budget and Control of Public Spending				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies the review of the SAI Annual Operating Report, with the adoption of the proposed conclusion.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend			Initial value	
	2016	2018	2019	2020	
	0	1	1	1	
Target value data	2021	2022	2023	2024	2025
	1	1	1	1	1
Performance assessment	Deviation is not acceptable				

Measure level indicator 6.2

Name of the indicator	Holding a session/meeting of the Committee for Review of Recommendations for Amendments to the Law in the presence of the SAI and the Ministry of Finance				
Appropriate general objective, specific objective or measure	Measure 6.2: Ensuring efficient Parliamentary oversight of public finances				
Type and level of indicator	Quantitative			Measure level indicator	
Unit of measure and nature	Percent (%)			A higher value is better	
Data source for monitoring performance indicators	Minutes of the session/meeting				
Name of the data collection entity	National Parliament Committee on Finance, State Budget and Control of Public Spending				
Frequency of data collection	Once a year				
Brief description of indicators and calculation methodology (formulas/equations)	The indicator implies the review of recommendations for amending the law in the presence of the SAI and the Ministry of Finance.				
Data on the initial value and the year when it was measured, as well as on the preceding trend	Preceding trend				Initial value
	2016	2018	2019	2020	
	0	1	1	1	
Target value data	2021	2022	2023	2024	2025
	1	1	1	1	1
Performance assessment	Deviations are not acceptable				

ANNEX 4 - LOGICAL MATRIX

GENERAL OBJECTIVE:	GENERAL OBJECTIVE LEVEL INDICATOR	SOURCE OF VERIFICATION
TO ACHIEVE A SUSTAINABLE BUDGET WITH A STABLE RATIO OF PUBLIC DEBT TO GDP THROUGH BETTER FINANCIAL MANAGEMENT AND CONTROL, AUDITING AND INTEGRATION OF BUDGET PLANNING WITH GOVERNMENT POLICIES	1 Realistic GDP growth 2 General government debt level in GDP 3 Percent of allocations for capital investments in relation to GDP.	Fiscal Strategy, Economic Reform Programme
SPECIFIC OBJECTIVES	SPECIFIC OBJECTIVE LEVEL INDICATOR	SOURCE OF VERIFICATION
SPECIFIC OBJECTIVE I : CAPACITY FOR BUDGET PLANNING AND PUBLIC INVESTMENT MANAGEMENT AND FISCAL RISK MONITORING IMPROVED	Performance information for the provision of public services	PEFA Assessment for the Republic of Serbia
SPECIFIC OBJECTIVE II : EFFICIENT COLLECTION AND MANAGEMENT OF BUDGET FUNDS	1 Actual revenues and expenditures of the general government budget on an annual basis are within the 5 percent rate of the fiscal strategy projections. 2 Annual costs of public debt servicing (interest payments - net amount) as percent of GDP 3 Average duration of open proceedings	1 Fiscal Strategy 2 Annual Operating Report of the Public Debt Administration 3 Annual report on public procurements
SPECIFIC OBJECTIVE III : BUDGET DISCIPLINE AND TRANSPARENT USE OF PUBLIC FUNDS IMPROVED	1 Average number of illegalities and irregularities per control against the total number of performed controls 2 Percent of adopted and implemented recommendations given to the entities with indirect management of EU funds by the audit body	1 Annual Operating Report of the Budget Inspection 2 Annual Audit Report
SPECIFIC OBJECTIVE IV: APPLICATION OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN THE PUBLIC SECTOR IMPROVED	Identified progress related to PIFC within the EC Progress Report for the Republic of Serbia for a specific year	EC report on Serbia for a specific year (Chapter 32)

SPECIFIC OBJECTIVE V: PUBLIC ACCOUNTING WITH THE APPLICATION OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) IMPROVED	Financial statement prepared and presented to the Ministry of Finance of the Republic of Serbia in accordance with IPSAS requirements for cash basis	Treasury Administration website
SPECIFIC OBJECTIVE VI: EXTERNAL OVERSIGHT OF PUBLIC FINANCES ENHANCED	Number of reviewed audit reports	Steering Committee Reports/ Minutes from the Steering Committee Meeting
NAME OF THE MEASURE	MEASURE LEVEL INDICATORS	SOURCE OF VERIFICATION
Measure 1.1 : Programme budget improvement	1 Analysis of the programme budget implementation performed 2 Analysis of the uniform structure of the programme budget of local self-government units performed 3 A uniform programme structure for mandatory social welfare organizations and their beneficiaries established	1 Analysis performed 2 Analysis performed 3 Budget System Law
Measure 1.2 : Improving the capacity related to the preparation and obligations of the EU member states during the budget preparation process	1 An analysis of the budget preparation process of EU member states performed 2 Number of study visits	Analysis performed Report from study visits
Measure 1.3 : Improvement of medium-term planning	Number of adopted and medium-term plans of the mid-term planning institutions at the national level	Websites of mid-term planning institutions
Measure 1.4 : Improvement of the system for efficient management of capital projects and monitoring of fiscal risks	1 Capital projects that have not passed the pre-implementation phase according to the methodology, and are included in the budget of the Republic of Serbia, but have not been declared projects of special importance for the Republic of Serbia (with line ministries as authorized proposers) 2 Trained civil servants from project management units at the level of line ministries and other institutions	1 Budget System Law / Report for Capital Investment Commission 2 Report on workshops held - NAPA
Measure 1.5: Strengthening the capacities of the Department for Fiscal Risks Monitoring	1 Systematised positions in the Sector for Fiscal Risks Monitoring filled	1 Ministry of Finance Fact Sheet 2 Report on conducted trainings

	2 Trained employees in the Department for Fiscal Risks Monitoring	
Measure 2.1: Efficient collection of budget revenues under the competence of the Tax Administration	Percent of realized collection in relation to the approved budget estimate (income tax, profit tax, gross domestic VAT, gross excise duties)	Budget System Law and Tax Administration Report
Measure 2.2: Modernisation of business processes at the Tobacco Administration	1 A uniform registry system established 2 All employees of the Tobacco Administration have been trained to work in a uniform registry system 3 Percent of economic entities operating in the tobacco and tobacco products market and using the electronic services of the Tobacco Administration	1 Minutes on handover of the public procurement subjects 2 Lists of participants in trainings 3 A uniform registry system Case registry
Measure 2.3: Strengthening administrative capacities of the Customs Administration	Percent of realized collection of customs duties and VAT from imports in relation to the approved budget estimate	Budget System Law and Customs Administration Fact Sheet
Measure 2.4: Efficient public debt management	The share of domestic currency debt in total public debt - the central level of government	Quarterly reports of the Public Debt Administration
Measure 2.5: Improvement of the online public procurement system	Number of bids per public procurement procedure	Annual report on public procurements
Measure 3.1: Establishing a base for strengthening the institutional and administrative capacities of the Governmental Audit Office of EU Funds, which enable effective audit of the EU control system	Number of EC audit findings against the number of implemented audit recommendations	EC report
Measure 3.2: Strengthening the system for more efficient and effective management of EU funds	1 Adopted enactments aimed at staff retention policy 2 Percent of trained officers in terms of managing the control of the funds utilisation, risk and irregularity management 3 On-site inspections carried out at the public funds beneficiaries 4 Percent of irregularities identified during the first/first instance control 5 Percent of business processes supported by the IT system	1 Official Gazette 2 Reports on conducted trainings 3 Annual plans for on-site inspections of relevant IPA bodies 4 AFIS-IMS reporting system, Annual progress reports submitted to NAO (National Authorising Officer), Management declarations 5 Reports on the IT system functioning

Measure 3.3: Increasing the efficiency and effectiveness of inspection control	<p>1 Total number of inspections performed</p> <p>2 Percent of planned controls in relation to the number of petitions, applications and control requests received</p>	Annual Operating Report of the Budget Inspection
Measure 4.1: Improved FMC system in public sector institutions	<p>1 Percent of priority PFBs reporting on the FMC system status</p> <p>2 Percent of priority PFBs¹⁷⁹ that compiled the Risk Register</p> <p>3 Average rating of the PFBs priority group¹⁸⁰ updating the Risk Register (perform risk assessment and review the adequacy of measures at least once a year)</p> <p>4 Average rating of the PFBs priority group¹⁸¹ in which managers make decisions for managing identified risks (regarding the risk response: acceptance, avoidance, mitigation or risk sharing)</p> <p>5 Average rating of the PFBs priority group¹⁸² reporting risks to management</p>	Consolidated annual report
Measure 4.2: Improved internal audit function in the public sector in accordance with international standards and principles	<p>1 SIGMA adequacy indicator of the operational framework for internal audit</p> <p>2 SIGMA indicator of internal audit functioning</p>	SIGMA Monitoring Report
Measure 4.3: Strengthened monitoring of internal control in the public sector (PIFC)	Functional IT system for IC	Consolidated annual report
Measure 4.4: Modernisation of the training system in the PIFC field	<p>1 Number of participants in trainings in the field of internal controls, organized by NAPA</p> <p>2 Percent of certified internal auditors who collected the required number of points during the continuous professional development</p> <p>3 Percent of certified internal auditors in priority PFBs</p>	<p>1 NAPA Report on conducted trainings</p> <p>2 Consolidated annual report</p> <p>3 Consolidated annual report</p>

¹⁷⁹Ministries, MSIO (Mandatory Social Insurance Organizations), PEs performing activities of public interest and operating in accordance with the Law on PEs, cities

¹⁸⁰ *ibid*

¹⁸¹ *ibid*

¹⁸² *ibid*

Measure 5.1: Analysis of the current situation in public sector accounting and development and implementation of a Public Sector Accounting Improvement Plan	Public Sector Accounting Improvement Plan adopted	Treasury Administration website
Measure 5.2: Improvement of professional competence of accountants in the public sector through adequate training	Share of employed public sector accountants trained in “Improving public sector accounting”	Report on the implementation of the training programme
Measure 5.3: Enhanced coverage of accounting data through the implementation of international public sector accounting standards	Draft cash-based Financial statement prepared in accordance with <i>IPSAS</i> submitted to the Government	Ministry of Finance
Measure 6.1: Improving the scope, quality and impact of external audits (in accordance with the State Audit Institution (SAI) Strategic Plan)	<ol style="list-style-type: none"> 1 Number of audit reports 2 Number of employees 3 The number of areas covered by performance audits: social welfare, general public services, defence, public law and order, economic affairs, environmental protection, housing and community affairs, health care, recreation, sports, culture and religion, education. 4 Number of reviews for quality control and quality assurance 5 Share of operational audits (compliance and performance) in the annual SAI Audit Programme 	SAI Operating Report
Measure 6.2: Ensuring efficient Parliamentary oversight of public finances	<ol style="list-style-type: none"> 1 Review of the SAI Annual Operating Report with the adoption of the proposed conclusion 2 Holding a session/meeting of the Committee for Review of Recommendations for Amendments to the Law in the presence of the SAI and the Ministry of Finance 	<ol style="list-style-type: none"> 1 Steering Committee Reports/ Minutes from the Steering Committee Meeting 2 Minutes of the session/meeting