

# INTEGRATED SAFEGUARDS DATA SHEET

## IDENTIFICATION / CONCEPT STAGE

Report No.: ISDSC20136

Date ISDS Prepared/Updated: 29-Sep-2016

### I. BASIC INFORMATION

#### A. Basic Project Data

<b>Country:</b>	Serbia	<b>Project ID:</b>	P162032
<b>Project Name:</b>			
<b>Team Leader(s):</b>	Iwona Warzecha,Aleksandar Crnomarkovic		
<b>Estimated Date of Approval:</b>	15-Nov-2016		
<b>Managing Unit:</b>		<b>Lending Instrument:</b>	IPF
<b>Financing (in USD Million)</b>			
Total Project Cost:	1.7513516	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Swiss State Secretariat for Economic Affairs			1.7513516
<b>Environment Category:</b>	C - Not Required		

#### B. Project Development Objective(s)

The Project's development objective is to support strengthening public sector accounting and financial reporting with ultimate aim to improve decision making, management of budget resources, effective use of assets, managing liabilities, managing financial performance, transparency for citizens and sovereign debt investors, measurement of financial performance and its comparability with EU countries, by gradual transition to accrual accounting and financial reporting, by building capacity of the system through training and education, instituting appropriate legislative framework and assisting the government in strategizing needed developments of information systems.

#### C. Project Description

Concept

The project aims to support accounting and financial reporting reform actions presented in the government's PFM Reform Program 2016-2020 through a SECO financed and World Bank administered TF. The project is planned to be hybrid including Recipient-Executed Trust Fund to finance project activities; and Bank Executed Trust Fund to appraise and supervise these project and activities, as well as to finance knowledge work for Report on the Enhancement of Public Financial Reporting. The Treasury Administration will act as overall implementing entity in charge of technical aspects of project implementation for Recipient Executed part through a designated team of staff, while fiduciary support in financial management and procurement will be provided by

Centralized Fiduciary Unit (CFU) within the Ministry of Finance which will be established by October 2016 with the role of providing fiduciary support to all World Bank supported projects in Serbia. Project Steering Committee (PSC) will be established with the role of overall project coordination, review of implementation progress and providing advice with regard to project implementation. The ToR for the PSC will be developed prior to start of the project and the PSC members will include representatives of all key stakeholders in financial reporting reform, such as the Treasury, selected representatives of budget users, the MoF, the SAI and Academia. The Project Concept Note has been prepared in collaboration with SECO.

The scoping mission meetings with relevant institutions revealed that reform will have to address a number of challenges. This includes a lack of capacity in finance departments across central and general government institutions and a lack of integrated IT system of interface, with different IT solutions applied across public sector entities. Finally the legislative framework suffers from weaknesses which created an ambiguous situation with regard to application of financial reporting standards. The project design and objectives target to address those challenges and support implementation of the reform, while mitigating identified risks in the process.

## DESCRIPTION

The TA project will be built on the work done by IMF consultant and provide support to implementation of the Roadmap through three main components: (i) enhancement of the institutional, legal, regulatory, and methodology framework for public sector accounting and financial reporting, (ii) capacity building, professional education and training in public sector accounting, (iii) technical assistance supporting implementation of IT systems needed for proper implementation of accrual based accounting standards.

Component 1. Enhancement of the institutional, legal, regulatory, and methodology framework for public sector accounting and financial reporting.

Aligning legislative, regulatory and methodological framework with accrual financial reporting is a key pillar of financial reporting reform. This component would require changes in the legislation, potentially starting with making current legislative framework consistent and fully aligned with cash basis standards, and continuing with aligning the framework gradually with accrual based financial reporting requirements. This will involve changes to Law on Budget System and accompanying by-laws; and possibly preparing a separate Law of Budget Accounting. In addition the project will support the development of by-laws to reflect the new Chart of Accounts, financial reporting requirements, as well as methodological guidance and manuals for application of the Standards.

### Subcomponent 1: Public Sector Accounting Review

Work in this area should be initiated with an assessment of the current situation on public accounting in practice. This will be done through a gap analysis comparing national accounting standards against IPSAS using the World Bank's standardized toolkit (Report on the Enhancement of Public Financial Reporting REPF). The REPF analysis will rely on findings of the gap analysis conducted by the IMF wherever possible, but will need to extend the scope as for example the IMF's analysis compared national standards against cash-basis IPSAS only. Dedicated sections on institutional and IT capacities will also be incorporated into the REPF as additional outputs, in view of the activities foreseen in this area. The results of the REPF analysis will be incorporated into a roadmap implementation for the further development of national accounting legislation and guidance, taking into account Serbia's needs and capacity constraints. It will also have impact on

determining details of project activities as the ToRs will take into account the REPF findings in determining the exact scope and expected outputs from specific activities. REPF analysis will also provide a general overview in the areas such as professional capacities of accounting staff in public sector entities.

#### Subcomponent 2: Development of public accounting legal and regulatory framework

Under this component, the project will support the enactment of accrual based accounting standards and the development of key principles driving the promulgation of public sector accounting standards. This component encompasses the following activities: i) development and enactment of national accounting legislation to allow phased implementation and ii) national level accounting policy and implementation guidance. The development of practical guidance materials, i.e. a national guide/ handbook has proven to be a key success factor in other countries and contexts and will support gradual Roadmap transition to accrual accounting as defined in the PFM Reform Program and the roadmap developed with support of the IMF.

#### Subcomponent 3: Review and amendment of the national chart of accounts

This component includes (i) the review and (ii) if needed the amendment of the national chart of accounts in order to be fully in line with accrual accounting/ budgeting and statistical needs.

#### Subcomponent 4: Gradual implementation of international accepted accounting standards in line with IPSAS

The project envisages a gradual implementation of the new accounting standards outlined in the Roadmap to Accrual Accounting. A phased approach will focus firstly on key fiscal priorities, implementation of cash flow, basic presentation elements/ requirements. Basic financial presentation would then be amended by more specific standards for financial assets and liabilities, including leasing contracts and service concession arrangements as well as standards for fixed asset accounting. As new IPSAS emerge during the project the Roadmap should be systematically reviewed and revised if necessary. The recently established Accounting Commission is expected provide advice and proposals to the Minister of Finance relating to the implementation of new or amended IPSAS. The Commission was established in late 2015 and includes members of the Treasury, the MoF, the SAI, the NBS and Faculty of Economics. However, the Commission met only on two occasions and it has not yet been fully functional. The project will provide specialist advice to the Commission in order to support it in fulfilling its mandate.

The PFM Reform Program and more detailed Roadmap for transition to accrual accounting envisage as the final objective implementation of IPSAS standards in whole of public sector in 2020 (time table could be moved to a later deadline for a year or two). The project will support implementation of IPSAS standards, but will prioritize to target primarily budget beneficiaries which are most significant in size and budget, or in its relative strategic importance. In this sense, the project will target primarily central government level, with the focus being on direct budget beneficiaries (DBBs - around 200), organizations of mandatory social insurance and selected number of largest indirect budget beneficiaries (IBBs). It should be noted that DBBs consolidate financial statements of its IBBs, and in that sense a mechanism of limited review of adequacy of financial statements of IBBs should be instituted through regulation. This would ensure increased use of applied knowledge gained through the project. The implementation of the new accounting standards comprises both, the technical roll-out as well as training in the use of the new standards, including the preparation and interpretation of financial information produced by the new standards. Specific training needs will be identified at the outset of the component 2.

The readiness of the IT system to allow full achievement of the project results will be set as a disbursement condition for the part of the allocation amounting to CHF 250 thousand in component

#### 1.4: Gradual implementation of international accepted accounting standards in line with IPSAS.

##### Component 2. Capacity building, professional education and training in public sector accounting

Capacity building and training will be one of the main pre-requisites for successful implementation of reform plans and transition to accrual accounting and financial reporting. This area is therefore identified as one of the vital components of the project. It would include training in IPSAS for accounting practitioners in the Treasury and users of public funds prioritized as indicated in above paragraph, as well as the State Audit Institution and other relevant entities. The component would also target training to raise awareness of decision makers on the purpose and importance of financial reporting. One of the first tasks of this component will be training needs analysis as integral part of the REPF assessment, which will include a stock take of public sector accountants, their qualifications, gender, training needs and the development of a training program to enhance skillsets. There should be an option to formalize education for accounting practitioners through instituting formal certification process leading to Certified Accountants in Public Sector. This option will be confirmed during project preparation and after exploring potential modalities with regard to available programs and implementing institutions. The programs such as Chartered Institute of Public Financial Accountants (CIPFA) will be considered. In-country professional bodies which could be considered to implement the certification program include Chamber of Authorized Auditors, Association of Accountants and Auditors, while HR Management Unit of the government has a role in education and training programs in the public sector.

##### Subcomponent 1: Review of the current status and preparation of the training needs analysis

A training needs analysis will make an integral part of the REPF assessment and it is expected to provide description of the current status and qualifications of the accounting professionals in the public sector institutions and in particular in those prioritized by the project as described above. Based on the general findings of the REPF assessment a supplemental closer analysis will be conducted in order to identify training needs based on capacity gaps, define the target audience, and recommendations on the design and implementation of accounting training (e.g. train the trainer approach, or more direct training at the early phase, modality face-to-face vs online etc), together with recommendation on curriculum design and a timetable for implementation. Such assessment is expected to involve experts in the area of accounting education, thus adding value to a more general findings of the REPF assessment.

##### Subcomponent 2: Technical capacity building at the Treasury Administration

Accounting and financial reporting is in the responsibility of the MoF's Treasury Administration. Internal capacity at all units involved needs to be strengthened. The main objective of the subcomponent is development of the sustainable and strong internal capacity including technical and leadership skills amongst selected core staff of the Treasury Administration which would be involved in designing and implementation of the accounting reform and overall public sector accounting framework. The subcomponent is also designed to increase capacity of Serbian policy makers to participate in European and international arenas both to gather international experience and to participate in public consultations or dialogue on public sector accounting matters. The proposed activities will include provision of: (i) tailor made and focused technical assistance on selected expert areas; (ii) support in preparation or review of documents which regulates accounting methodology, monitoring, quality assurance; (iii) advanced and professional level training for policy makers in specific areas including e.g. consolidation, financial instruments (securities, guaranties), valuation of assets; (iv) knowledge sharing events (e.g. in form of community of practice, study visits, regional learning events) to learn from other countries experience in selected areas; (v) on the job training

including hand holding assistance in area of public sector accounting in line with the Roadmap. This activity includes two main parts (i) defining institutional responsibilities for the accounting reform including selection of the reform champions, and (ii) setting up a work plan for the involved institutions and champions including required support together with its delivery framework. Support will also be provided to the Treasury staff in leading the reform and address change management within the Treasury and other budget institutions.

#### Subcomponent 3: Development of professional accounting skills and a sustainable public sector accounting training mechanism

This component aims at the development of professional accounting skills in a sustainable and continuous manner. There is a need to develop the professional accounting skills of finance staff in budget entities, as there is no tradition of modern accounting profession and regular training in the public sector. Certification for public accounting does not exist on regular basis and is not a job requirement.

In order to improve the professional accounting skills and develop local training capacities, the following activities are foreseen under this component: i) training of a selected number of financial officers to obtain an internationally recognized professional qualification certificate, ii) training of a sufficient number of trainers through the train of trainers approach (ToT), and iii) institutionalization of a local training and certification program at a local institution to ensure the sustainability of the development of public accounting skills in the long-run. Cooperation with the professional training centres could be envisaged. A dedicated working group, comprising all relevant stakeholders, can be established to define the content of the training and certification program and prepare the relevant legal framework to regulate training for public accountants. Particular attention will be paid to the fact that Center of Excellence in Finance (CEF) from Slovenia is going to implement a public accounting training program. Under this program 25 people, mainly from the Treasury, will be prepared and trained to receive an internationally recognized certificate for public accountants (CIPFA). Discussions with the CEF and Treasury have taken place to ensure exchange of information and coordination throughout the implementation of this program in order to avoid any potential overlaps.

#### Component 3. Technical assistance supporting implementation of IT systems needed for proper implementation of accrual based accounting standards.

IT infrastructure needs to be further upgraded in order to support implementation of accrual accounting and financial reporting. Existing Treasury General Ledger does not support accrual accounting since the present data flow allow only for recording cash transactions. The Treasury Administration is currently introducing certain upgrades to its FMIS in line with the PFM Reform Program 2016-2020, such as to extend the coverage of the FMIS system to including the IBBs in the accounting and reporting framework. It also plans to develop and fund a roll out plan to ensure that IBBs have sufficient ICT hardware, training and oversight arrangements to ensure that they are able to meet the PFM requirements and gather required information into the system. However, further upgrades targeting specifically accounting and financial reporting modules (SAP) will be needed. Recent Functional Review of the MoF conducted by the World Bank identified ICT enhancements within the core MoF and its Administrations as one of the reform priorities. Follow up activity is being prepared by the World Bank in order to initiate ICT reforms, and it is intended to target integration of IT systems of various parts of the MoF, instituting IT solutions for improved flow of information, but also upgrades of IT systems in certain parts of the MoF and its Administrations. That activity will primarily target the core MoF, Tax, Customs, Treasury and Public Debt Administrations. It is not targeting the accounting and financial reporting, but the component 3 will

draw on the synergies and cost effectiveness derived from links with that activity and other tasks targeting improvements of IT systems in order to coordinate the efforts, avoid duplication, and promote coherent application of IT strategy at the country level.

The accounting reform will necessarily require existing FMIS in Treasury Administration to be upgraded or new system to be purchased to timely support subsequent and gradual implementation of the Roadmap actions. The targeted FMIS capacity should meet requirements for preparation of financial reporting, budgetary and fiscal reporting in line with the relevant standards including IPSAS, GFS, ESA 2010, and also meet managerial accounting and financial management purposes. Prerequisite feature of the updated FMIS shall also include consolidation functionality with ultimate goal to cover whole Public Sector. Investment in IT will include both software and hardware. Since SECO funds are not intended to finance investment in IT infrastructure, and the amount needed for that could surpass the amount of project funds, only technical assistance as the starting point to IT reform is envisaged to be included in IT component of the project. This would comprise of: (i) preparation of IT master plan including stock taking of the current systems in place, detailing gap analysis and IT investment options needed to support the reform and in line with overall IT strategy for public sector, and (ii) preparing technical specifications for required IT systems. The IT master plan and technical specifications should take into account outputs from the other ICT initiatives at the country or sectoral level and the other project components including inter alia chart of accounts, accounting policies, methodologies, internal control and work flow processes, cross cutting reporting requirements flowing from budgetary and statistical reporting to extent possible. To extend possible IT master plan should make relevant links with other existing or planned systems, assessment of the ICT capabilities of the main entities, and preparation of a roadmap and timeline to address issues or gaps including options for solutions together with costing implications. Since adequacy of IT systems is necessary pre-requisite for success of the financial reporting reform, the government will formally commit to funding the IT investment from other sources and confirm such intention in an official manner detailing a plan how those funds will be secured. The confirmation will be in a form a formal letter from the Minister of Finance or Memorandum of Understanding between the MoF, World Bank and SECO. In either case, presentation of available source of funding and financing plan for the IT reform will make an integral part of such document. The formal agreement will be obtained early on, in the next stage of the project preparation and prior to signing Administration Agreement and Grant Agreement. The readiness of the IT system to allow for full achievement of the project results will be set as disbursement condition for the part of the allocation amounting to CHF 250 thousand in component 1.4: Gradual implementation of international accepted accounting standards in line with IPSAS.

**D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

**E. Borrower's Institutional Capacity for Safeguard Policies**

**F. Environmental and Social Safeguards Specialists on the Team**

**II. SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
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Environmental Assessment OP/ BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

### III. SAFEGUARD PREPARATION PLAN

Appraisal stage ISDS required?: No

### IV. APPROVALS

Team Leader(s):	Name: Iwona Warzecha,Aleksandar Crnomarkovic	
<b><i>Approved By:</i></b>		
Safeguards Advisor:	Name: Nina Chee (SA)	Date: 29-Sep-2016
Practice Manager/ Manager:	Name: Soukeyna Kane (PMGR)	Date: 12-Oct-2016

<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.