

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC91987

|                                        |                                                      |
|----------------------------------------|------------------------------------------------------|
| <b>Project Name</b>                    |                                                      |
| <b>Region</b>                          | EUROPE AND CENTRAL ASIA                              |
| <b>Country</b>                         | Serbia                                               |
| <b>Lending Instrument</b>              | IPF                                                  |
| <b>Project ID</b>                      | P162032                                              |
| <b>Borrower Name</b>                   | Ministry of Finance - Treasury                       |
| <b>Implementing Agency</b>             | Ministry of Finance - Treasury                       |
| <b>Environment Category</b>            | C - Not Required                                     |
| <b>Date PID Prepared</b>               | 29-Sep-2016                                          |
| <b>Estimated Date of Approval</b>      | 15-Nov-2016                                          |
| <b>Initiation Note Review Decision</b> | The review did authorize the preparation to continue |

## I. Introduction and Context

### Country Context

Serbia is currently classified as an upper middle-income country, but it faces significant challenges to maintain and improve competitiveness and living standards. As of 2015, Serbia has a GDP of US \$49.65 after registering 0.8% growth for the year. Public debt in the same year is at 69.5% of GDP, while with state guaranteed debt it arrives at 76.8. The ratio of formally employed workers to retirees is about one to one. Unemployment is estimated to have fallen from 17.9% in 2015 from 19.4% in 2014. Almost 20% of the working age population, and as much as third of those actively employed, work in the public sector, including in the large sector of State-Owned Enterprises (SOEs), many of which are bloated with excess workers and uncompetitive.

Serbia was later than other post-socialist countries in launching serious efforts to create a market economy, beginning only in 2001, after a decade of conflict and international isolation. From 2001 through 2008, Serbia experienced continual annual growth in its GDP, ranging from about 2.5% to about 9.3%, for an average of about 5%. The country was then hard hit by the financial crisis, suffering four years of contraction or anemic growth before recovering to a 2.5% growth rate in 2013. Then, in 2014, the country experienced devastating floods and is expected to register a decline in GDP for the year. Growth in 2015 turned out to be much better than had been earlier projected. Growth for 2015 as a whole was an estimated 0.8 percent, considerably above the contraction of 0.5 percent expected earlier in the year.

According to the CPF, to achieve broad based and sustainable growth, Serbia will need to promote higher investment, increase productivity, and improve external competitiveness. It especially needs to improve its governance and institutional capacity to implement reforms; tackle the large and unfinished agenda of restructuring and privatization of SOEs; make its regulatory and business environment more predictable and friendly; ensure that fiscal policy is sustainable;

improve access to finance; and invest in infrastructure and trade and logistics.

The recent economic crisis experienced in the region has significantly impacted Serbia by limiting growth and increasing pressure on its macroeconomic situation and fiscal stability. The February 2015 Standby Agreement between Serbia and the International Monetary Fund (IMF) emphasizes the need for, among other measures, PFM structural reforms in order for sustainable development to be achieved. There is a clear need for the Serbian Government to undertake those reforms in order to effectively implement policy priorities and achieve sustainable development

Recent diagnostic work, such as PEFA 2015 and Functional Review of the MoF 2016, assessed that public financial management in Serbia needs further improvements although reform efforts over the past several years yielded certain results. The previous period was dominated by the challenges posed by the aftermath of the global economic recession which affected macro-fiscal performances. Notwithstanding these challenges PFM improvements can be observed in strengthening legislative framework, and budget classification, multi-year fiscal planning, procurement and external audit. In other areas such as the composition of expenditure out-turn compared with originally approved budget, expenditures arrears, oversight of fiscal risk, and effectiveness of tax collection, predictability in the availability of funds, application of public sector accounting standards and legislative scrutiny of annual budget law and final accounts, further work is needed to improve PFM performance.

### **Sectoral and Institutional Context**

**Institutional framework.** The Ministry of Finance coordinates the overall public financial management reform elaborated in the PFM Reform Program 2016-2020 in December 2015. The Program is a subset of the overarching reform document Public Administration Reform Strategy, and includes reform plans and associated actions in all public financial management areas, including accounting and financial reporting. Table of reform actions in the area of accounting and financial reporting is attached in Annex 1.

The institutional framework is such that the Ministry of Finance formulates and implements the fiscal policy, prepares the Fiscal Strategy, manages the annual budget preparation process (which includes determining the macro framework), and through the Treasury Administration coordinates execution of the budget, accounting and financial reporting.

**Legislative framework.** The primary organic PFM law in Serbia is the Budget System Law. The annual budget is presented in the Law on Budget of the RoS. On the budget preparation and execution side, the Budget System Law regulates preparation and review of fiscal strategy, fiscal rules, planning, preparation, adoption, and execution of the Budget of the RoS; planning, preparation, adoption, and execution of the budget of autonomous provinces and local self-government units (local government budget); preparation and adoption of financial plans of the organizations for mandatory social insurance ; budget accounting and reporting, financial management, control and internal audit of public funds beneficiaries, beneficiaries of the budget of the Republic of Serbia, beneficiaries of the local government budget, and financial plans of organizations for mandatory social insurance; scope of work and organization of the Treasury Administration, as an authority within the Ministry of Finance, and local government treasury, and other issues relevant for the functioning of the budget system. The Budget System Law (BSL) provides for a calendar for budget formulation, accounting, and reporting.

Accounting and financial reporting are further defined in accompanying by-laws and other regulatory acts. The Decree on Budget Accounting specifies the cash basis as the foundation of budget accounting and requires the preparation of financial statements following the cash-basis principles of the International Public Sector Accounting Standards (IPSAS) (supported by additional Decree on Application of cash basis IPSAS). Rulebook on Standard Classification Framework and Chart of Accounts for the Budget System prescribe a unified classification of budget information, including organizational, economic, functional, and programmatic classification and classification of expenditures and expenses per source of funding. The Rulebook on the Manner of Preparation, Composition, and Submission of Financial Statements of Budget Beneficiaries and Beneficiaries of Funds of Mandatory Social Insurance Institutions prescribes types and format of financial statements.

Sectoral State of Play. Accounting and financial reporting are key elements for any PFM system to provide accurate and complete information on Government financial position for the decision-making process and to increase transparency and accountability. Treasury Administration is the key actor in this area in Serbia and it maintains Treasury Main Ledger which includes all budget expenditures executed through Consolidated Treasury Account. Budget beneficiaries maintain auxiliary records and prepare interim and annual budgetary and financial statements based on such records and after reconciling the financial information with the TML. Financial information remains deficient with regard to assets and liabilities due to information systems and accounting records providing primarily cash basis financial information, with additional data on assets and liabilities being compiled manually for preparation of the Balance Sheet.

At the time being, accounting and financial reporting in Serbia is maintained on cash basis. Cash basis accounting has been traditionally recognized for its emphasis on compliance with the annual budget law. Likewise, cash-based accounting has long been preferred for its simplicity and greater degree of objectivity. Several measures have been introduced to complement the accounting data with non-cash information. These can be considered as useful, albeit only transitional, arrangements to supply the information gap.

In terms of the accounting standards used in Serbia, conclusions from the PEFA 2014 indicate that while the application of Internal Public Sector Accounting standards (IPSAS) is made mandatory under the proclaimed regulations, in effect, it is the national accounting framework that is implemented in practice. It appears that different pieces of legislation are not consistent with each other, i.e. required financial statements to be prepared include full Balance Sheet, preparation of which is aggravated by the lack of appropriate accounting information and ability of accounting system to respond to such requirement. There are a number of repeated SAI recommendations in this regard that should be addressed, in particular in relation to non-financial assets.

The PFM Reform Program 2016-2020 which the government adopted in December 2015 includes reform of financial reporting in the public sector. Under the Program the main medium term goal is the gradual transition from cash to accrual basis of accounting and financial reporting and application of International Public Sector Accounting Standards (IPSAS). It is important to recognize that any accounting reform and transition to accrual accounting is a long term effort for the Government and would be implemented in an incremental way. The Program envisages gradual adoption of IPSAS standards with the full adoption planned for 2020. The IMF's roadmap (reportedly intended to be adopted by the government) prepared under technical assistance for the

Treasury Administration further details such reform path and is aligned with it. Under the ToR for the task, the IMF provided assistance in formalizing the public sector accounting standard setting process by establishing an Accounting Commission and provided advice for working procedures and decision making process for the Commission. Also, gap analysis against cash basis IPSAS was performed under the task and assistance was also provided with producing trial 2013 financial statements in line with cash basis IPSAS based on identified gaps. Finally, a roadmap for transition to full IPSAS was prepared as indicated above and in an adjusted but consistent format included in the government's PFM Reform Program.

The actions presented in the PFM Reform Program and accompanying roadmap are assessed to provide solid starting point for financial reporting reform. They are properly sequenced and include all building blocks for a successful reform, i.e.: technical roll-out, education and training of practitioners and IT infrastructure development. It should be monitored though whether deadlines and time table remain realistic, since full implementation of IPSAS across the public sector is envisaged for 2020. Transition to accrual accounting and financial reporting will improve quality of financial information and enable informed decision making, consequently ensuring more efficient use of public funds and improved fiscal performance through expenditures savings and maximizing revenue. The reforms will also result in important improvements in data on assets and liabilities which will enable better management of public resources.

### **Relationship to CAS/CPS/CPF**

The Country Partnership Framework (CPF) for Serbia for 2016-2020 is structured to target two focus areas, one of which being economic governance and the role of state. This focus area specifically addresses constraints to the effectiveness of economic governance: the size and management of the budget, the scope and capacity of the administration to implement reform and deliver services, the footprint of the government in the economy, and the performance of public utilities. This Project will help address some of the growth constraints and institutional deficiencies identified in the CPF and supports one of the objectives in this focus area which corresponds to the foundational priorities identified in the SCD - the objective of sustainable public expenditure management.

Enhanced quality of financial information creates preconditions and has a direct impact on management and rationalization of expenditures, maximizing revenue and improved management of public resources. A number of recent studies and analysis have shown how weaknesses in quality of financial information in different areas led to sub-optimal use of public funds, negatively affected credibility of the budget process, deprived the government of optimizing revenues and prevented informed and quality decision making. Some examples relate to deficient information on non-financial assets which resulted in poor management of assets and not seizing all revenue opportunities through either disposal of non-core assets, collecting rent on assets not used etc. Similarly, lack of reliable information on accumulated liabilities and arrears of budget beneficiaries undermined both (i) credibility and purpose of the current budgets through keeping only executed expenditures and payments within levels of appropriations without clear idea on assumed commitments by budget beneficiaries and (ii) subsequent budgets through being unable to accurately determine level of already existing commitments, hence which portion of the budget in preparation has been already spent.

Gradual transition to accrual accounting and financial reporting will result in enhanced quality of

financial information, and in particular in relation to assets and liabilities. This is expected to consequently enable more efficient management of public resources.

## **II. Project Development Objective(s)**

### **Proposed 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.

### **Key Results**

The Project's expected key results are:

1. Development of the legislative and methodological framework which provides clear guidance for implementation of accounting standards and solid basis for preparing financial information of appropriate quality;
2. Strengthened capacity of the Treasury Administration as the governing agency of the government's accounting and financial reporting;
3. Strengthened capacity for accounting and financial reporting of other relevant stakeholders, such as users of public funds and the State Audit Institution;
4. Actionable time based sequence plan for development of information systems based on assessed capacity gaps, to support government in building adequate IT infrastructure for implementation of financial reporting reform;
5. Presentation of financial statements initially in accordance with cash based IPSAS and subsequently in accordance with gradually added accrual IPSAS standards
6. Improved quality of accounting, statistical and financial reporting indicators evidenced by PEFA assessment,
7. Greater awareness of the benefits of improved public sector accounting and financial reporting by broad group of stakeholders including high level officials, politicians, media, civil society groups.

Sustainability of the proposed project results will be achieved through: (i) increased institutional capacities which will ensure a sustainable and continued training replication; (ii) increased institutional capacities which will ensure adequate application of legislative requirements, accounting standards and preparation of financial statements, and (iii) government's commitment to finance and implement information systems upgrades and developments as per the needs assessment under the project. With regard to strengthening institutional capacity, it should be noted that recent Functional Review of the MoF conducted by the World Bank assessed personnel base within the Treasury Administration as relatively stable with no significant turnover of staff. The Ministry of Finance identifies developments of IT systems within the core Ministry and its Administrations including the Treasury, as one of the reform priorities. Corresponding actions in this regard are included in the PFM Reform Program. Implementation of the reform plans with regard to IT developments will be ensured by a formal written commitment by the Ministry of Finance for financing IT developments needed for reform and presenting available sources of financing. In addition readiness of the IT system to allow for timely implementation of the project component will be set as disbursement condition for part of the allocation amounting to CHF 250 thousand in component 1.4: Gradual implementation of international accepted accounting standards in line with IPSAS. Should the IT system be not ready the project key results 5 and 6 will not be fully achieved, still the delivery of other project activities will provide necessary steps and solid foundation for gradual implementation of accrual accounting and enhancement of public sector accounting in Serbia which are project development objectives.

### III. Preliminary Description

#### Concept 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.

#### IV. Safeguard Policies that Might Apply

| Safeguard Policies Triggered by the Project | Yes | No | TBD |
|---------------------------------------------|-----|----|-----|
|---------------------------------------------|-----|----|-----|

|                                                |  |   |  |
|------------------------------------------------|--|---|--|
| Environmental Assessment OP/BP 4.01            |  | x |  |
| Natural Habitats OP/BP 4.04                    |  | x |  |
| Forests OP/BP 4.36                             |  | x |  |
| Pest Management OP 4.09                        |  | x |  |
| Physical Cultural Resources OP/BP 4.11         |  | x |  |
| Indigenous Peoples OP/BP 4.10                  |  | x |  |
| Involuntary Resettlement OP/BP 4.12            |  | x |  |
| Safety of Dams OP/BP 4.37                      |  | x |  |
| Projects on International Waterways OP/BP 7.50 |  | x |  |
| Projects in Disputed Areas OP/BP 7.60          |  | x |  |

#### V. Financing (in USD Million)

|                                              |           |                       |               |
|----------------------------------------------|-----------|-----------------------|---------------|
| 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     |

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Name: Ministry of Finance - Treasury  
 Contact:  
 Title:  
 Tel:  
 Email:

##### Implementing Agencies

Name: Ministry of Finance - Treasury  
 Contact:  
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