

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

Report No.: PIDC71499

<b>Project Name</b>	Strengthening Financial Management Functions of Line Ministries in South East Europe
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Europe and Central Asia
<b>Sector(s)</b>	Central government administration (50%), General public administration sector (50%)
<b>Theme(s)</b>	Public expenditure, financial management and procurement (100%)
<b>Lending Instrument</b>	IPF
<b>Project ID</b>	P160499
<b>Borrower Name</b>	Center of Excellence in Fiannce
<b>Implementing Agency</b>	Center of Excellence in Finance
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	29-Jun-2016
<b>Estimated Date of Approval</b>	31-Aug-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

## **I. Introduction and Context**

### **Country Context**

Countries in South East Europe region - Albania, Bosnia and Herzegovina, Kosovo, Macedonia and Montenegro are not only growing but also rebalancing to more durable sources of growth. Like many other countries, the tightening in external financing conditions during the global financial crisis led to a significant economic adjustment in the region. In Serbia, Kosovo, Montenegro, and Albania, investment, both domestic and foreign, are the main source of growth with a main focus on manufacturing for export. Across the region, wages in manufacturing have also started moving in line with productivity, a process that is vital for sustaining growth through exports. In Albania, FYR Macedonia, Montenegro, and Serbia, the average estimated poverty rate declined by 2 percent between 2013 and 2015. That means that some 140,000 people in those four countries (or 1 percent of their combined population) have escaped poverty, measured against the regional standardized benchmark of US\$5 a day (in 2005 PPP). Despite an expanding economy and employment that is finally responsive to economic growth, however, on average unemployment in the region is still 21.5 percent. In 2015, fiscal deficits continued to narrow in all SEE countries except Montenegro. Expenditure consolidation was most effective in Albania and Serbia, but revenue gains were supportive across the region. Fiscal consolidation efforts in the region are focused on reforming entitlement programs, reducing the public sector footprint, and improving public sector performance.

Turkey is the 17th largest economy in the world. In less than a decade, per capita income in the country has nearly tripled and now exceeds \$10, 500. Since the global financial crisis, Turkey has

created some 6.3 million jobs, although increases in the labor force, including through a rise in the participation of women, has kept unemployment at around 10 percent. The EU accession process has been a significant anchor for reforms. Turkey has benefited significantly from deepening integration with the EU through the growing sophistication of both exports and imports and access to financing. To realize its underlying growth potential, Turkey needs to accelerate structural reforms and improve trust in its institutions. Turkey's main assets include a young, dynamic population, a large domestic market, and a strategic location, combined with strong infrastructure and much improved public services. An increase in business investment and innovation as well as in education and skills is needed to boost productivity growth and create enough high-productivity jobs to accommodate Turkey's rapidly growing labor force. The recently unveiled action plans for the 25 priority transformation projects of the 10th National Development Plan provide for an ambitious reform agenda, but the gap between policy announcements and implementation has widened in recent years and needs to be closed to regain investor confidence.

### **Sectoral and Institutional Context**

Sound public financial management (PFM) and financial accountability are prerequisites of good governance. Their adequate consideration in legislation and practice ensures efficient and prudent allocation of resources and delivery of public goods and services, and upholds sustainability in overall fiscal outcomes. In a bid to enhance their economic growth potential, SEE countries agreed to strengthen their economic governance by 2020, and supplement their efforts with successfully implementing structural reforms. These are laid out in domestic plans and embedded in programs and strategies elaborated with international partners, i.e. in economic reform programs (ERPs ERP) and PFM reform strategies. The criterion of good governance is the alignment of strategic policymaking with fiscal programming.

While appreciating the coordinating role of Ministries of Finance in achieving sound PFM and fiscal programming, it is recognized that successful implementation depends on the contribution of line ministries. Despite the significant interest and challenges faced by finance officials in line ministries, in most SEE countries, there is no shared platform that promotes peer learning both within and across ministries, sectors and that engages relevant international partners and networks. Joint learning and networking of finance officials of different ministries has been highly appreciated, as it provides, often for the first time, opportunities for knowledge and experience exchange across different government actors and sectors. The lessons learned from the structural reforms processes carried over during the SEE countries transition and economic slowdown indicate that there is a need for a systemic and coordinated approach to promote collaborative learning across the region.

Since 2012, the Center of Excellence in Finance (CEF) has been extending its learning program to finance officials in line ministries to strengthen fiscal coordination and capacities. The CEF cooperation with the International Monetary Fund (IMF), in particular through the two CEF-based IMF Regional Advisors in support of PFM and Tax Administration reform, helps reassure that this work reflects the assessment and recommendations of international financial institutions. Experts from international financial institutions and the CEF represent an extensive network of leading experts are engaged to share their knowledge and experience, and to ensure that the project content is aligned with their institutional findings and standards.

This project will support CEF's efforts towards efficiently responding to line ministries' collaborative learning needs. The initial focus of this effort has been on line ministries' inputs to ERPs, in particular with respect to fiscal implications of structural reforms. CEF has tailored this collaborative learning package to the specific request of beneficiaries to assist line ministries in

implementation of their ERPs and PFM reform strategies. Its rationale is to support beneficiaries in their European Union pre-accession efforts. The package has been designed to overcome the unmerited gap between efforts invested in PFM capacity development of the Ministries of Finance as compared to the one of line ministries. It dedicates the deserved learning support to the line ministries. The learning package is designed to also actively engage Ministries of Finance in promoting capacity development of finance officials of line ministries.

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

All beneficiary countries' Country Partnership Frameworks' (CPF) support capacity building in PFM. Furthermore when considering the strategic context of the project the following important aspects are to be taken into account:

- Efficient coordination of PFM knowledge and practice between Ministries of Finance and line ministries are a core underpinning of SEE countries' implementation of recently adopted PFM and Public Administration reform strategies.
- Strengthened fiscal programming capacity supports the sound implementation of ERPs, as well as the fulfillment of prerequisites for absorbing the EU's Instrument for Pre-accession Assistance (IPA) sector-budget support.
- The regional capacity development support will complement related activities of the OECD Sigma and the Regional School of Public Administration (ReSPA) in strengthening beneficiaries' public governance systems and public administration capacities.
- Countries engaged in structural reforms, transition, EU pre-accession, change of the economic growth model (from capital intensive to export-centered) would value this set of learning initiatives as a proper response to multifaceted goals.
- The project will promote regional cooperation, as an EU accession objective recognized by all beneficiaries.
- Line ministries will attain higher level visibility of good practice and learning priorities, and thus be able to reach out to donors and international partners in support of PFM reforms and capacity development.
- The PEFA framework will be referred to where possible, engaging line ministry officials in a discussion on reform areas that recent assessments may have identified.

The project will be coordinated with the IMF Fiscal Affairs Department (FAD), especially through its regional advisors who are based at the CEF. The project will help multiply FADs EU funded technical assistance that aim at Strengthening Economic Governance and Public Financial Management in the beneficiary countries.

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

### **Proposed Development Objective(s)**

To assist line ministries strengthen capacities for effective delivery of their financial management functions.

### **Key Results**

The following are the key results expected:

- support line ministries in strengthening their internal coordination in the financial management area;
- - strengthen capacities of line ministries for effective cooperation with their respective Ministry of Finance (MoF) on financial programming and implementation issues; and
- promote regional collaborative learning among line ministries on financial management issues.

### III. Preliminary Description

#### Concept Description

The 2-year project provides a comprehensive learning package for finance officials in line ministries, promoting their capacity development in PFM. The important role of PFM in the economic governance of project beneficiaries is increasingly recognized. PFM continues to receive significant attention in SEE countries' dialogue with the EU, in particular in the context of their annual ERP, as well as in the management of sector budget support under the EUs second IPA. Through the project, line ministries' finance officials will strengthen their proactive role in knowledge exchange and shaping their own learning priorities. In addition, senior officials of line ministries will be encouraged to reflect on their role in effective financial management.

### 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:	0.263232	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
Strengthening Accountability and the Fiduciary Environment			0.263232

### VI. Contact point

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