Project Fiche No. 2

Improving Public Financial Management in the Western Balkans

1. Basic information

1.1 CRIS Number: 2010/022-028

1.2 Title: Improving Public Financial Management in the Western Balkans

1.3 ELARG Statistical code: 01.32 – Financial Control

1.4 Location / Beneficiaries: Western Balkans: Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Serbia as well as Kosovo under UNSCR 1244/99

Implementing arrangements

1.5 Contracting Authority (EU): European Union represented by the European Commission on behalf of the Beneficiaries.

1.6 Implementing Agency: Not applicable

1.7 Beneficiary: Public administration bodies in the Western Balkans

Financing

1.8 Overall cost (VAT excluded)\(^1\): EUR 1 000 000

1.9 EU contribution: EUR 1 000 000

1.10 Final date for contracting: 30 November 2011

1.11 Final date for execution of contracts: 30 November 2014

1.12 Final date for disbursements: 30 November 2015

\(^1\) The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated.
2. Overall Objective and Project Purpose

2.1 Overall Objective

To achieve better use of resources within countries and improve accountability and transparency of public funds by improving public financial management in Western Balkans economies.

2.2 Project purpose

To provide a platform for systematic improvement of public financial management across the Western Balkans through coordinated action by donors, using a common diagnostic and analytical framework (PEFA methodology)² to guide intervention and encourage cooperation and dialogue between Beneficiaries.

2.3 Link with AP / NPAA / EP / SAA³

Communication from the Commission on the “Enlargement Strategy and Main Challenges 2008-2009” mentions the importance of administrative capacity and good governance as being a crucial aspect in fulfilling the Copenhagen membership criterion on the ability to take on the obligations of membership.

2.4 Link with MIPD

The Multi-beneficiary MIPD 2009-2011 (Section 2.3.1.1.1)⁴ foresees support for the strengthening of public administrations' capacities to implement efficient and effective reforms and foster democratic accountability (including public finance management), professionalism and integrity within the Beneficiaries’ institutions.

2.5 Link with National Development Plans

Albania

Albania has established an integrated planning system to draw together planning arrangements within the country. Aligned to this, the government has made significant progress in public financial management reform. Important amongst recent developments has been the introduction of a revised Budget System Law in 2008. This law updated the 2002 Law. A new Medium Term Budget Programme has been introduced and submitted to Parliament. Other enhancements of the legal framework for public financial management include public debt and procurement.

Gaps remain despite the improvements made and capacity is low in many areas of recent legislative and institutional change. The areas that appear to be most in need of further attention include internal financial control and audit, treasury system, financial

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² PEFA (Public Expenditure and Financial Accountability) is a partnership between the European Commission, the World Bank and other donors aiming to support integrated and harmonised approaches to assessment and reform in the field of public expenditure, procurement and financial accountability.
³ AP = Accession Partnership; NPAA = National Programme for the Adoption of the Acquis (for Candidates), National Action Plan (for Potential Candidates); EP= European Partnership; SAA = Stabilisation and Association Agreement
⁴ Com (2009) 4518
reporting, procurement, external audit, involvement of parliament and comprehensiveness of the budget.

**Bosnia and Herzegovina**

Public financial management has been important to the government, with the passage of essential legislation (e.g. procurement and audit), particularly adoption of the law on the Fiscal Council which provides a basis for a coordinated approach across entities on fiscal policy but otherwise practical improvements have been limited. There remain substantial weaknesses in the area of auditing and financial reporting and capability for budget planning and analysis are quite low and limit the scope for rapid improvement in public financial management.

**Croatia**

Croatia has made considerable progress on public financial management across a wide range of areas of budget preparation and execution, treasury systems and reporting, internal controls and audit. The recent changes to budget legislation and the adoption of a Treasury reform strategy will lead to further strengthening. In addition, a new PIFC Strategy has been recently elaborated.

Important areas still needing attention include improving the integration of extra-budgetary funds into budgeting and reporting, strengthening the medium term fiscal framework and improvements to parliamentary oversight arrangements.

Croatia has never been subject to a PEFA review. The last major diagnostic assessment of public financial management status was in 2004 using the Country Financial Accountability Assessment framework (which preceded the PEFA approach).

**The former Yugoslav Republic of Macedonia**

The government has placed considerable emphasis on improving public financial management, for example, audit, financial system, budgeting, Public Internal Financial Control (PIFC) and internal audit, and procurement.

There remains scope for further improvement across the spectrum of indicators, particularly in relation to procurement, internal and external audit, internal financial control and accounting and reporting. Improvements could also be achieved in oversight and scrutiny of budget and financial information by the parliament.

**Montenegro**

Montenegro has made it a priority of the government to improve public financial management, and has made considerable progress on improving the taxation framework, the Treasury system and external audit.

A PEFA review recently completed identifies areas for further improvement include budget preparation and medium term planning, internal audit and control, comprehensiveness of reporting, budget execution and commitment controls.
**Serbia**

Serbia has introduced some significant reform initiatives in recent years, particularly the establishment of a State Audit Institution (SAI) in 2007 and introduction of a new central Treasury system that is integrated with the central payments system. The introduction of a new Budget System Law in July 2009 incorporates improvements in expanded requirements for transparency of budget policy and reports, medium term expenditure plans, internal audit and internal financial control, accounting and fiscal reporting harmonisation with international standards, debt management and programme based budgeting.

The improvements, even when fully implemented, will not address all of the weaknesses of the financial management system; in particular the SAI has not completed any audits since it was established and the Treasury system only applies to direct budget Beneficiaries, so a large proportion of spending continues to be executed outside the Treasury system.

In September 2009, Serbia and the EU signed the Financial Agreement on Direct Budget Support (DBS). The overall amount of 100 000 000 EUR for the DBS is extracted from the IPA 2009 allocation for Serbia. This Financial Agreement sets a number of measures to be undertaken by the Serbian side as preconditions for the disbursement of the DBS, some of which are very relevant in the context of this project. More precisely, a general condition outlined in the Financial Agreement refers to the assurances of the existence of sustainable macroeconomic and fiscal framework as well as of administrative and financial circuits establishing sound fiduciary environment in Serbia. Consequently, one of the specific conditions for Serbia under this FA is to “launch a PEFA update with the aim of preparing a Public Finance Management Roadmap”.

**Kosovo**

The government of Kosovo has placed considerable emphasis on public financial management through preparations for the 2008 donor conference with the preparation of a medium term expenditure strategy. A range of other important donor-led initiatives have resulted in establishing a highly effective central Treasury system, a public investment planning framework, significant steps in the establishment of internal audit arrangements and improved public procurement arrangements.

The government recognises that there remain considerable challenges in the area of public financial management reform and have instigated their own PEFA review, completed in mid-2009, which will form the basis for developing a public financial management reform action plan. The action plan is expected to be completed by September 2009.

The PEFA assessment has identified several key areas where progress is needed on public financial management reform including budget preparation in line ministries, capital expenditure management, implementation of improvements in auditing and internal control, taxation revenue management and procurement.

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5 Under UNSCR 1244/99
2.6 Link with other donor's contribution

Development support in the area of public financial management has been provided by many donors and international financial institutions in all Beneficiaries.

Albania

The European Commission, USAID, Germany’s GTZ, DFID, UNDP and the World Bank have all provided support in various aspects of public financial management in the last five years. World Bank support has focused on strengthening the Treasury system and USAID has supported debt management and resident advice to the Treasury. DFID has assisted in revising the organic budget law and development of the medium term budget framework. A multi-donor trust fund has been established to provide support to planning, budgeting and monitoring reforms.

Bosnia and Herzegovina

A group of donors including DFID, Sweden, Netherlands and the EU has established a joint fund for public administration reform intended to provide support as needed over three years. The World Bank has undertaken an assessment of public financial management at municipal level and found considerable scope for improvement across all sections of the PEFA framework. USAID financed a public accounting project and OSCE provided training at the canton level on public financial management, including internal audit and financial control.

Croatia

Croatia is benefiting from candidate status and support associated with possible accession to the European Union. In respect to public financial management, this has been particularly important in the area of procurement and public internal financial control. Support from other sources has been limited to minor inputs from bilateral relationships or international financial institutions (World Bank and IMF) as well as some bi-lateral programmes (Dutch bi-lateral programme MATRA), mainly in the form of technical assistance for specific areas of treasury, debt management, classification and reporting or capacity building and training on various aspects of public financial management.

Croatia is currently benefitting from a Phare 2006 project "Improving budget process" which aims at the establishment of an efficient and sustainable financial management system based on modern instruments and mechanisms, designed and operating according to European standards. In addition, an IPA 2007 TWL project "Further Strengthening and Enhancement of Croatian Public Internal Financial Control". The project purpose is to develop further PIFC system through improvement of methodology tools in financial management and control as well as internal audit.

The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia has received a loan from the World Bank to support public expenditure management reform. Support has also been provided by the IMF on a range of technical financial management reforms. The Netherlands has provided support through a trust fund for public sector management reforms, administered by the World Bank, which closes at the end of 2009.
Montenegro

Other than EU assistance, donor support to Montenegro has been relatively modest in the area of public financial management assistance. The World Bank financed the PEFA review in 2008-09. USAID, Netherlands and GTZ have provided selective support in the areas of taxation and legislation reform, debt and cash management and programme budgeting.

Serbia

Serbia has received support over several years from USAID, EU, DFID, UNDP, Norway, IMF and the World Bank. This has focused on improving planning and budgeting arrangements, treasury system, establishment of the State Audit Institution, internal audit, public internal financial control, programme budgeting and capacity building in various areas of financial management. Serbia is also expected to be the beneficiary of substantial direct budget support in return for requirements to achieve significant improvements in several areas of public financial management including budgeting, capital expenditure management, internal control and audit, accounting and reporting and external audit.

Kosovo

International support has been a major reason for progress on public financial management since it was established. The EU and USAID have been particularly active in supporting central financial management improvements in the Ministry of Economy and Finance and the Taxation Office, investing in strengthening information technology as well as capacity building for expenditure and revenue management. DFID, GTZ and the World Bank have also been active in support of public financial management but on a much smaller scale than the EU and USAID.

3. Description of the project

3.1 Background and justification

There is increasing emphasis in all countries on the achievement of more efficient, effective and accountable public finances through improved budget planning, allocation, implementation and review. The emphasis comes from within and outside countries. Pressures from within countries arise from the demands of citizens for governments to be more prudent and accountable for management of scarce revenues. Pressures come from outside the countries from international donors and investors who seek assurance that the government is managing the economy efficiently, managing support funds prudently, and have a strong commitment to long term economic sustainability. All stakeholders are interested in strengthening accountability for the use of public resources, increasing transparency and improving the quality of reporting.

The emphasis on better stewardship of public funds is particularly relevant to countries relying on international support, as they need both to ensure that they achieve the best possible results from the support and to demonstrate that funds are managed in accordance with agreements and with a focus on achieving the most cost effective
results. The contraction of revenue and increasing demand for expenditure as a consequence of current international economic stress calls for urgent change.

Governments are also showing a greater willingness to seek improvements in public financial management (PFM). Recent examples from the Western Balkans of government willingness to analyse public financial management and introduce change include an external PEFA review in Montenegro in 2007-2008, an external review of the former Yugoslav Republic of Macedonia’s country procurement arrangements in 2009 using OECD methodology, a self-initiated PEFA review in Kosovo in 2009, and an IMF review of Serbia’s public financial management arrangements in 2008. These activities are also associated with government policy initiatives to implement improvements in response to identified needs.

All Beneficiaries face similar challenges when designing and implementing financial regimes. This creates an environment in which information sharing can save time and expense for cooperating countries. In addition, the use of common diagnostics and quantitative assessment methods provides a unique basis for comparison and peer pressure.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The project seeks to improve the status of public financial management in participating jurisdictions in a holistic way through: (i) improving understanding of PFM status in target jurisdictions, (ii) improving coordination between donors and their relationships with governments; towards limiting overlaps, and concentrating declining donor support in the region; (iii) developing shared knowledge and experience on PFM reform to strengthen reform effectiveness and focus development partner support; (iv) supporting design, implementation and management of the PFM reform agenda by governments, particularly on reform activities that are being undertaken simultaneously across the region.

The project provides a systematic focus for reform through the PEFA framework, which incorporates 31 linked indicators covering core dimensions of public financial management. It builds on knowledge and actions already established in most participating jurisdictions but which require stronger motivation and momentum to build fully effective financial management systems without critical weaknesses.

Table 1 below shows the progress that has already been achieved in the region to establish baseline PEFA or related diagnostic assessments. It shows that a majority of Beneficiaries have undertaken at least one PEFA assessment, and all have completed an assessment involving the use of some PEFA indicators. This demonstrates the general interest in the framework. However, the table also reveals that many of the assessments are incomplete and/or more than two years old. It is recommended that three years between PEFA assessments is optimal in view of the pace of financial management reform. On that basis, all countries would need to consider a PEFA assessment within the timeframe of this project.

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>PEFA</th>
<th>Other PFM Diagnostics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
The PEFA framework allows countries to identify the strengths and weaknesses of their expenditure management and accountability arrangements within an internationally-accepted, quantitative framework. This has the added benefit that qualified comparisons can be made over time within one Beneficiary, and between them. Table 2 provides an illustration of the results demonstrated from published PEFA reports for countries within the scope of this project. The Table shows that the performance of individual countries varies considerably across the entire PEFA framework. Strengths and weaknesses differ between countries but there are clearly areas where all countries within scope have similar challenges.

The illustration provided by Table 2 demonstrates the potential value of the project in providing a more strategic and systematic approach to public financial management reform. It shows the areas where individual countries need to strengthen their systems, and it also shows where there is potential for countries to work together more closely to address common areas of concern (for example, expenditure control, scrutiny and oversight). Moreover, it shows where there is potential for countries to learn from each other where weaknesses in some countries are revealed as strengths in others (for example, expenditure composition, arrears management, classification and financial reporting), offering the possibility for the countries with weaker systems to consider practical examples of better practices within their region.

**TABLE 2: PUBLISHED PEFA SCORES IN THE WESTERN BALKANS (Final, published reports only)**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Albania</th>
<th>Kosovo</th>
<th>The former Yugoslav Republic of Macedonia</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Jul. 06</td>
<td>Mar. 07</td>
<td>Aug. 07</td>
<td>Feb. 07</td>
</tr>
<tr>
<td>A. PFM-OUT-TURNS: Credibility of the budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI-1</td>
<td>Aggregate expenditure out-turn compared to approved budget</td>
<td>B</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>PI-2</td>
<td>Composition of expenditure out-turn compared to original approved budget</td>
<td>D</td>
<td>D</td>
<td>A</td>
</tr>
</tbody>
</table>

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6 In addition there have been PEFA reviews in Kosovo (draft June 2009) and Montenegro (draft June 2009).
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Albania</th>
<th>Kosovo</th>
<th>The former Yugoslav Republic of Macedonia</th>
<th>Serbia</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI-3 Aggregate revenue out-turn compared to approved budget</td>
<td>B</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>PI-4 Stock and monitoring of expenditure payment arrears</td>
<td>D</td>
<td>D+</td>
<td>A</td>
<td>C+</td>
</tr>
<tr>
<td>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI-5 Classification of the budget</td>
<td>A</td>
<td>D+</td>
<td>A</td>
<td>C</td>
</tr>
<tr>
<td>PI-6 Comprehensiveness of information included in budget documentation</td>
<td>C</td>
<td>C</td>
<td>NA(^7)</td>
<td>B</td>
</tr>
<tr>
<td>PI-7 Extent of unreported government operations</td>
<td>D+</td>
<td>C+</td>
<td>NA</td>
<td>B+</td>
</tr>
<tr>
<td>PI-8 Transparency of inter-governmental fiscal relations</td>
<td>C+</td>
<td>A</td>
<td>NA</td>
<td>B+</td>
</tr>
<tr>
<td>PI-9 Oversight of aggregate fiscal risk from other public sector entities.</td>
<td>C+</td>
<td>C+</td>
<td>NA</td>
<td>C</td>
</tr>
<tr>
<td>PI-10 Public access to key fiscal information</td>
<td>B</td>
<td>A</td>
<td>NA</td>
<td>B</td>
</tr>
<tr>
<td>C. BUDGET CYCLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C(i) Policy based Budgeting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI-11 Orderliness and participation in the annual budget process</td>
<td>A</td>
<td>B+</td>
<td>NA</td>
<td>A</td>
</tr>
<tr>
<td>PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
<td>C</td>
<td>D+</td>
<td>NA</td>
<td>C</td>
</tr>
<tr>
<td>C(ii) Predictability and control in budget execution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI-13 Transparency of taxpayer obligations and liabilities</td>
<td>NA</td>
<td>B+</td>
<td>NA</td>
<td>B</td>
</tr>
<tr>
<td>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</td>
<td>NA</td>
<td>C</td>
<td>NA</td>
<td>B</td>
</tr>
<tr>
<td>PI-15 Effectiveness in collection of tax payments</td>
<td>NA</td>
<td>B</td>
<td>NA</td>
<td>D+</td>
</tr>
<tr>
<td>PI-16 Predictability in the availability of funds for commitment of expenditures</td>
<td>C+</td>
<td>B+</td>
<td>B+</td>
<td>C+</td>
</tr>
<tr>
<td>PI-17 Recording and management of cash balances, debt and guarantees</td>
<td>B</td>
<td>A</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>PI-18 Effectiveness of payroll controls</td>
<td>B+</td>
<td>D</td>
<td>C+</td>
<td>C+</td>
</tr>
<tr>
<td>PI-19 Competition, value for money and controls in procurement</td>
<td>D+</td>
<td>D+</td>
<td>D+</td>
<td>C+</td>
</tr>
<tr>
<td>PI-20 Effectiveness of internal controls for non-salary expenditure</td>
<td>B</td>
<td>C+</td>
<td>B</td>
<td>C</td>
</tr>
<tr>
<td>PI-21 Effectiveness of internal audit</td>
<td>C+</td>
<td>C</td>
<td>C</td>
<td>C+</td>
</tr>
<tr>
<td>C(iii) Accounting, recording and reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI-22 Timeliness and regularity of accounts reconciliation</td>
<td>B</td>
<td>B</td>
<td>A</td>
<td>B+</td>
</tr>
<tr>
<td>PI-23 Availability of information on resources received by service delivery units</td>
<td>D</td>
<td>D</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>PI-24 Quality and timeliness of in-year budget reports</td>
<td>C+</td>
<td>B+</td>
<td>C</td>
<td>B+</td>
</tr>
<tr>
<td>PI-25 Quality and timeliness of annual financial statements</td>
<td>B+</td>
<td>A</td>
<td>C+</td>
<td>D</td>
</tr>
</tbody>
</table>

\(^7\) NA means not assessed.
In addition to the commonality between areas requiring development across countries, it is apparent from the initiatives being taken by each beneficiary that many of the same reform initiatives are being undertaken, or planned around the same time. Beneficiaries are facing similar challenges in designing reform actions, monitoring progress and implementing refinements and adjustments to achieve improvements. This project offers a valuable opportunity for identifying areas of common interest and concern across more than one Beneficiary and financing work that would be of benefit to many recipients at once. For example, most Beneficiaries are seeking mechanisms to improve the quality and usefulness of medium term budgeting, debt management practices, strengthening internal and external audit, improving the comprehensiveness of financial management systems and supervision. This project would provide a resource for targeted activities to examine and offer solutions to common challenges. It would have the added benefit of greater efficiency and economies of scale than would be possible through multiple similar actions undertaken separately in individual Beneficiaries.

The expected long term impact of this project would be to provide a clear path for systematic improvement in the quality and capacity for better public financial management. The PEFA framework provides a broad perspective of the major standards required for effective financial management and highlights the interconnections between the various elements. By using the framework individually and across borders to guide policy and analysis, Beneficiaries will be able to improve their financial management across the spectrum in a systematic and more effective way than the selective or piecemeal approaches often used in the past, guided by donors with particular strengths or thematic priorities for support.

The comparative dimension of the PEFA framework would allow Beneficiaries to monitor their performance with other comparable situations within neighbouring countries/entities and analysing results emerging in similar circumstances. This would help each beneficiary to identify where lessons may be learned to assist them in their own development objectives. It would help to establish habits of seeking common information and solutions to related problems where mutual benefits are foreseen. It would also be expected to develop a better appreciation amongst policy makers of the systems and processes driving financial management through their increasing familiarity with cross-border comparative analysis and joint activities.
3.3 Results and measurable indicators

*Results:*

Specifically, the project has three components: (i) assessment of PFM status using PEFA or related tools (ii) support for PFM reform management; (iii) support for expanding PFM reform knowledge and capability. Within and across those components the following results are expected to be achieved:

- Improved public financial management in each of the Beneficiaries as measured by the (PEFA) analytical framework covering budget credibility, comprehensiveness and transparency, policy-based budgeting, predictability and control of budget execution, accounting recording and reporting and external scrutiny and audit.

- More comprehensive and comparable information within and between Beneficiaries on the status of public financial management to guide reform priorities, policy development, internal and external dialogue and exchange of knowledge.

- Improved skills of recipient jurisdiction officials in analysis, interpretation and policy response on areas reform initiatives in financial management and accountability.

- High levels of cooperation and exchange of information on public financial management within and between donors and recipient jurisdictions resulting in better targeting of support and more effective interactions.

*Measurable Indicators*

- Number of PEFA and related diagnostic assessments completed under the project;

- Improvement in PEFA indicator scores, both as a consequence of project-funded activities and activities initiated in response to issues identified through programme activities;

- Number of regional activities and events facilitated by the project (and number of participants in activities / events);

- Number of reform initiatives developed with support from the project;

- Number of research papers, publications and other original material (such as data bases and internet resources) produced with project funds;

- New or stronger relationships between counterpart organisations in countries with the region (as measured by baseline and subsequent surveys of key personnel).

3.4 Activities

The project will involve three main components:

(i) *Performing/updating PEFA assessments*, including -
• Support to government-led reviews of public financial management arrangements using the standard international measurement framework or related diagnostic and analytical tools;

• Analysis of PFM status by skilled professionals using PEFA or related methodology;

• Preparation and publication of reports on financial management performance.

(ii) Preparatory research, analysis and design of public financial management reform initiatives relating to one or more aspects of the PEFA framework, including -

• Research, analysis and design of PFM reform action plan by government, in consultation with other development partners;

• Developing networks within governments to implement reforms relating to one or more aspects of the PEFA framework;

• Support for research to obtain deeper understanding of the results of diagnostic assessments, as well as identification and design of actions required to address weaknesses;

• Detailed analysis of specific areas of importance or concern and development of action plan to address concerns or build on achievements.

(iii) Development of regional networks and bilateral/multi-lateral knowledge exchange on public financial management matters. This will include -

• Analysis of progress and outcomes in specific jurisdictions as well as cross-cutting perspectives;

• Benchmarking and comparative analysis, involving studies of progress against specific indicators or groups of indicators or facilitation of working groups across jurisdictions to explore differences and identify practical actions to address weaknesses in one or more jurisdictions;

• Wider experience and knowledge sharing, including provision of forums for exchange of information and experience and joint activities to address common development priorities in public financial management across jurisdictions.

Specific activities could include funding of specific research, workshops or seminars of common interest, benchmarking of policies and practices, regional dialogue on techniques and lessons learned from reform experiences, staff exchange and mentoring/coaching on implementation of specific reform initiatives.

An important cross-cutting element of the project would be to ensure that information on activities and developments in public financial management is shared across neighbouring jurisdictions through regular communication amongst senior officials.

Any activities funded under the project - as part of the dissemination of results from comparison of PEFA scores - must clearly explain the aggregation method and
assumptions applied in each case, and the reasons for the choice. It would also be advisable that those users of PEFA results undertake sensitivity analysis to highlight the extent to which their findings are robust under alternative aggregation assumptions.

3.5 Conditionality and sequencing

The project will be implemented through a multi-donor Trust Fund administered by the World Bank. Therefore, establishment of an administration agreement in line with the Trust Funds and Co-financing Framework Agreement between the European Union and the World Bank Group will be the first step. Coordination of the Trust Fund will be provided by a Project Steering Committee (PSC) with membership nominated by trust fund participants, chaired by the World Bank. The PSC would be responsible for:

- Approving trust fund strategic directions, priorities and administration arrangements;
- Attracting and mobilising resources for the trust fund;
- Agreeing on funded activities, including regional or Beneficiary-specific initiatives;
- Reviewing progress every six months, including financial and non-financial reports.

It is not expected that all possible activities within the scope of the project will be financed. Selection will depend on demand by governments and agreed priorities.

Within the scope of that Agreement, the programme will require:

- Effective cooperation between Trust Fund donors and the World Bank;
- Satisfactory reporting and review arrangements built into the Agreement;
- Active participation by governments covered by the programme, particularly Ministries of Finance, procurement authorities and State Audit Institutions;
- Cooperation with other donors, including national IPA programmes, outside the Trust Fund which are involved in public sector reform; and
- Availability of a sufficient, balanced and robust set of initiatives which are implementation-ready and appropriate to the programme.

3.6 Linked activities

Support from national IPA programmes is essential for the successful upgrading of the national public administration. In all countries there are active IPA programmes which are the primary vehicles for country specific activities. This project would supplement IPA activities to address needs that are linked to the PEFA framework and where improvements have significant cross-border or transnational dimensions.

The SIGMA programme provides a complementary, though different, perspective on aspects of public sector management in the participating countries. SIGMA’s role in monitoring priority activities, identifying needs and facilitating access to assistance make it a key ally in this project. SIGMA monitoring activities would provide a broad overview of relevant aspects of public sector management which would complement the more specific, technical focus of the PEFA framework. They would also provide
regular updates on progress of PFM reform in between other diagnostic assessments funded by this project. Government-led diagnostic and reform activities under this project would be important inputs to SIGMA reviews and would provide a means to address issues of transnational significance as well as country specific concerns identified by SIGMA that are not effectively dealt with from other sources. SIGMA may be able to assist in development and delivery of some initiatives financed by this project.

3.7 Lessons learned

Lessons learned from previous capacity-building initiatives in the region indicate that it is important that initiatives are tied closely to government public sector reform programmes and priorities. Awareness of other donor activities and development projects in and across countries is also crucial to ensure that activities complement the broad reform agenda and do not result in bottlenecks within key ministries and are appropriately sequenced with other initiatives. The advantage of the three component approach in this project allows considerable flexibility to support a variety of activities depending on the needs of participating countries: from preliminary diagnostics and research; through design, implementation and capacity building; to evaluation and review stages of reform.

Financial management reform is a continuous process and can be subject to episodic progress, based on the readiness of governments to take action, the timeframe for new legislation, implementation of new information technology systems and capacity building for staff. The advantage of using a broad perspective of financial management, as provided by the PEFA framework, is that action can be taken in more than one area when the opportunities arise, and emphasis can be shifted when delays or impediments slow the progress on a specific initiative.

There are clear benefits from approaching the challenge of financial management reform from a variety of perspectives: within organisations; national and sub-national approaches; and cross-national or international approaches. Some issues, such as implementation of new financial management systems, are clearly organisation- or Beneficiary-specific. Others, such as accounting and auditing standards or budget classification, have an international dimension. Still other issues have common characteristics across countries with a similar institutional or political heritage, such as central cash and debt management, budget inspection and audit, transparency of reporting and internal control arrangements. The majority of support to Beneficiaries to date has been provided at the organisation and country levels. This project provides the opportunity for supporting development from several perspectives, but most notably the regional and cross-border perspective which is an area where little emphasis has been focused in the past.
4. **Indicative Budget (amounts in EUR)**

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>TOTAL EXP.RE</th>
<th>EU CONTRIBUTION</th>
<th>NATIONAL CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL IB</td>
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<tr>
<td>Administration</td>
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<tr>
<td>agreement</td>
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<tr>
<td>World Bank</td>
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<td></td>
<td>TOTAL INV</td>
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<tr>
<td></td>
<td>TOTAL Project</td>
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</table>

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<thead>
<tr>
<th>ACTIVITIES</th>
<th>TOTAL EXP.RE</th>
<th>EU CONTRIBUTION</th>
<th>NATIONAL CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR (a)</td>
<td>EUR (b)</td>
<td>EUR (c)</td>
<td>EUR (d)</td>
</tr>
<tr>
<td>Administration</td>
<td>EUR (x)</td>
<td></td>
<td>Central EUR (x)</td>
<td>IFIs EUR (z)</td>
</tr>
<tr>
<td>agreement</td>
<td>EUR (y)</td>
<td>Regional/Local</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank</td>
<td>EUR (z)</td>
<td>EUR (c)</td>
<td></td>
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</tbody>
</table>

**Amounts net of VAT**

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the Total Expenditure (column (a))
5. **Indicative Implementation Schedule (periods broken down per quarter)**

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Agreement</td>
<td>N/A</td>
<td>Q2 2010</td>
<td>Q4 2013</td>
</tr>
</tbody>
</table>

6. **Cross cutting issues**

6.1 **Equal Opportunity**

The principles and practice of equal opportunity will be guaranteed so as to ensure equitable gender participation in the project. The principle of equal opportunity shall apply also in relation to the participants of the different national administrations.

6.2 **Environment**

Not applicable

6.3 **Minorities**

Not applicable

**ANNEXES**

1. Log frame in Standard Format
2. Amounts contracted and Disbursed per Quarter over the full duration of Programme
3. Description of Institutional Framework
4. Reference to laws, regulations and strategic documents:
5. Details per EU funded contract
## ANNEX 1: Logical framework matrix in standard format

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project Fiche</th>
<th>Improving Public Financial Management in the Western Balkans</th>
<th>CRIS Nr: 2010/022-028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracting period expires: 30 November 2011</td>
<td>Disbursement period expires : 30 November 2015</td>
<td></td>
</tr>
<tr>
<td>Total budget : EUR 1 000 000</td>
<td>IPA budget: EUR 1 000 000</td>
<td></td>
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</tbody>
</table>

### Overall objective
To achieve better use of resources within countries and improve accountability and transparency of public funds by improving public financial management in Western Balkans economies.

### Objectively verifiable indicators
- Improvement in PEFA indicator scores in participating jurisdictions.
- Increased awareness of the current status of public financial management in participating Beneficiaries
- Increased number and frequency of contacts between officials in neighbouring Beneficiaries

### Sources of Verification
- PEFA assessment reports and related diagnostic research.
- Survey of key officials for each participating beneficiary
- Survey of key officials in each beneficiary
<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To provide a platform for systematic improvement of public financial management across the Western Balkans through coordinated action by donors, using a common diagnostic and analytical framework (PEFA methodology) to guide intervention and encourage cooperation and dialogue between Beneficiaries.</td>
<td>Number of PEFA and related diagnostic assessments completed under the project Improvement in PEFA indicator scores, both as a consequence of project-funded activities and activities initiated in response to issues identified through programme activities Number of regional activities and events facilitated by the project Number of reform initiatives developed with support from the project Number of research papers, publications and other original material (such as data bases and internet resources) produced with project funds Increase in awareness of current public financial management status and progress within policy areas of participating Ministries of Finance: both in relation to their own country/entity and neighbouring ones. New or stronger relationships between counterpart organisations in countries with the region (as measured by baseline and subsequent surveys of key personnel).</td>
<td>Published and unpublished PEFA and related diagnostic reports PEFA indicators (in PEFA reports or separate, specific indicator diagnostics using the PEFA methodology) Records of activities and events identified within the programme activity reports and monitoring reports – produced as part of Trust Fund administration Acknowledgements of support from the project within papers, publications and other material Survey of key government officials in participating jurisdictions at commencement and review at closing of the project</td>
<td>Effective cooperation between Trust Fund donors and the World Bank Satisfactory reporting and review arrangements built into the Agreement Active participation by governments covered by the programme, particularly Ministries of Finance, procurement authorities and State Audit Institutions Cooperation with other donors, including national IPA programmes, outside the Trust Fund which are involved in public sector reform Availability of a sufficient, balanced and robust set of initiatives which are implementation-ready and appropriate to the programme</td>
</tr>
<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions</td>
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<tr>
<td>Improved public financial management in each of the Beneficiaries as measured by the (PEFA) analytical framework covering budget credibility, comprehensiveness and transparency, policy-based budgeting, predictability and control of budget execution, accounting recording and reporting and external scrutiny and audit.</td>
<td>Number of PEFA and related diagnostic assessments completed under the project Improvement in PEFA indicator scores, both as a consequence of project-funded activities and activities initiated in response to issues identified through programme activities</td>
<td>Published and unpublished PEFA and related diagnostic reports PEFA indicators (in PEFA reports or separate, specific indicator diagnostics using the PEFA methodology)</td>
<td>Active participation by governments covered by the programme, particularly Ministries of Finance, procurement authorities and State Audit Institutions Availability of a sufficient, balanced and robust set of initiatives which are implementation-ready and appropriate to the programme</td>
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<tr>
<td>More comprehensive and comparable information within and between Beneficiaries on the status of public financial management to guide reform priorities, policy development, internal and external dialogue and exchange of knowledge.</td>
<td>Number of PEFA and related diagnostic assessments completed under the project Improvement in PEFA indicator scores, both as a consequence of project-funded activities and activities initiated in response to issues identified through programme activities Number of reform initiatives developed with support from the project Number of research papers, publications and other original material (such as data bases and internet resources) produced with project funds</td>
<td>Published and unpublished PEFA and related diagnostic reports PEFA indicators (in PEFA reports or separate, specific indicator diagnostics using the PEFA methodology) Records of activities and events identified within the programme activity reports and monitoring reports – produced as part of Trust Fund administration Acknowledgements of support from the project within papers, publications and other material</td>
<td>Active participation by governments covered by the programme, particularly Ministries of Finance, procurement authorities and State Audit Institutions Satisfactory reporting and review arrangements built into the Agreement Cooperation with other donors, including national IPA programmes, outside the Trust Fund which are involved in public sector reform</td>
</tr>
<tr>
<td>Improved skills of recipient jurisdiction officials in analysis, interpretation and policy response on areas reform initiatives</td>
<td>Number of research papers, publications and other original material (such as data bases and internet resources) produced</td>
<td>Acknowledgements of support from the project within papers, publications</td>
<td>Active participation by governments covered by the programme, particularly</td>
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</table>
in financial management and accountability.

with project funds and other material

Survey of key government officials in participating jurisdictions at commencement and review at closing of the project

Ministries of Finance, procurement authorities and State Audit Institutions

Satisfactory reporting and review arrangements built into the Agreement

High levels of cooperation and exchange of information on public financial management within and between donors and recipient jurisdictions resulting in better targeting of support and more effective interactions.

Number of regional activities and events facilitated by the project (and number of participants in activities / events)

New or stronger relationships between counterpart organisations in countries with the region (as measured by baseline and subsequent surveys of key personnel).

Survey of key government officials in participating jurisdictions at commencement and review at closing of the project

Active participation by governments covered by the programme, particularly Ministries of Finance, procurement authorities and State Audit Institutions

Satisfactory reporting and review arrangements built into the Agreement

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Costs</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) <strong>Performing/updating PEFA assessments.</strong></td>
<td>Administration agreement between the European Commission and the World Bank under joint management. Agreement with World Bank on Multi-donor Trust Fund.</td>
<td>EUR 1 000 000</td>
<td>Project stakeholders are responsive enough and willing to take part in proposed activities and provide access to their own data</td>
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<tr>
<td>This will involve:</td>
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<tr>
<td>(a) Support government-led reviews of public financial management arrangements using the standard international measurement framework or related diagnostic and analytical tools</td>
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<tr>
<td>(b) Analysis of PFM status by skilled professionals using PEFA or related methodology</td>
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<tr>
<td>(c) Preparation and publication of reports</td>
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</table>
on financial management performance

(ii) Preparatory research, analysis and design

This would include:

(a) Research, analysis and design of PFM reform action plan by government, in consultation with other development partners

(b) Developing networks within governments to implement reforms relating to one or more aspects of the PEFA framework.

(c) Support for research to obtain deeper understanding of the results of diagnostic assessments, as well as identification and design of actions required to address weaknesses.

(d) Detailed analysis of specific areas of importance or concern and development of action plan to address concerns or build on achievements

(iii) Development of regional networks and bilateral/multi-lateral knowledge exchange

(a) Analysis of progress and outcomes in specific jurisdictions as well as cross-cutting perspectives

(b) Benchmarking and comparative analysis, involving studies of progress
against specific indicators or groups of indicators or facilitation of working groups across jurisdictions to explore differences and identify practical actions to address weaknesses in one or more jurisdictions

(c) Wider experience and knowledge sharing, including provision of forums for exchange of information and experience and joint activities to address common development priorities in public financial management across jurisdictions

Specific activities include funding of specific research, workshops or seminars of common interest, benchmarking of policies and practices, regional dialogue on techniques and lessons learned from reform experiences, staff exchange and mentoring/coaching on implementation of specific reform initiatives.

An important cross-cutting element of the project would be to ensure that information on activities and developments in public financial management is shared across neighbouring jurisdictions through regular communication amongst senior officials.
ANNEX 2:  Amounts (in EUR) contracted and disbursed by quarter for the project

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<tr>
<td>Cumulated</td>
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<tr>
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<td>50 000</td>
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<tr>
<td>Cumulated</td>
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<td>950 000</td>
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<td>1 000 000</td>
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</table>
ANNEX 3. Description of Institutional Framework

In all Beneficiaries the principal institutions that would be associated with the project would include the Ministries of Finance, State Audit Institutions, public procurement authorities, parliamentary committees responsible for budget and financial matters, taxation and treasury administrations at the central government level.

Each beneficiary has a legislative framework underpinning the institutional framework consisting of organic budget laws, laws on external audit, procurement, taxation and often internal audit and financial control. In some instances, the constitutions include provisions for the establishment of key institutions such as the state audit institution.
ANNEX 4: Reference to laws, regulations and strategic documents

- Council Decision of 18 February 2008 (2008/210/EC) on the principles, priorities and conditions contained in the European Partnership with Albania and repealing Decision 2006/54/EC

- Council Decision of 18 February 2008 (2008/211/EC) on the principles, priorities and conditions contained in the European Partnership with Bosnia and Herzegovina and repealing Decision 2006/55/EC

- Council Decision of 12 February 2008 on the principles, priorities and conditions contained in the Accession Partnership with Croatia and repealing Decision 2006/145/EC

- Council Decision of 18 February 2008 (2008/212/EC) on the principles, priorities and conditions contained in the Accession Partnership with the former Yugoslav Republic of Macedonia and repealing Decision 2006/57/EC


ANNEX 5: Details per EU funded contract

The European Commission and the World Bank will conclude an Administration Agreement for the implementation of this project under Joint Management, as per the Trust Funds and Co-financing Framework Agreement between the European Union and the World Bank Group.