Quarterly Report
October–December 2013
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The Center of Excellence in Finance (CEF) is a leading regional institution promoting capacity development in public financial management and central banking in South East Europe (SEE). We develop tailor-made training for staff working in the public sector, including central banks. We provide also technical assistance and promote research and policy dialogue on issues of public financial management and central banking.

CEF member countries include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo, Macedonia, Moldova, Montenegro, Romania, Serbia, Slovenia and Turkey. Through our role as secretariat for the World Bank’s PEMPAL program, we are also present in a number of other countries of Eastern Europe and Central Asia.

Online information is available at www.cef-see.org.

Governance

Through our governance structure, the CEF ensures that the interests of all stakeholders are represented.

The highest governance body is the Supervisory Board, through which member countries oversee CEF operations and influence our program. It meets annually to set guidelines for CEF activities, adopt a work plan for the year ahead, and approve the Annual Report and financial statements for the previous year. Members are ministers of finance and governors of central banks or their nominated representatives.

The Management Board represents the founder, the Government of the Republic of Slovenia. It provides supervision of the CEF’s financial and other activities and reports its activities to the Supervisory Board.

The Advisory Board represents the CEF’s donor partners. It advises the Supervisory Board and CEF Management on the guidelines for its training program and prepares periodic assessments of CEF operations, which it presents to the Supervisory Board. The Advisory Board meets annually.

The Director organizes and manages CEF operations in accordance with decisions adopted by the Supervisory and Management Boards and works to ensure efficient and effective management of the CEF.

Member countries’ ministries of finance and central banks nominate CEF Coordinators, who serve as lead contacts to ensure that the CEF maintains a strong understanding and responsive approach to the region’s training needs.

Partnerships

The CEF partners with many institutions that share our commitment to the region’s reform efforts: multilateral and bilateral agencies, knowledge institutions, and peer organizations. These partners draw upon our knowledge of the region’s needs to leverage their resources, and
cooperating with the CEF helps expand the reach and impact of their efforts. Partners, in turn, contribute top-quality expertise to the CEF’s programs.

### Slovenia: A Unique Partnership
- Ministry of Finance
- Bank of Slovenia

### CEF multilateral partners:
- Central European Initiative (CEI)
- European Central Bank
- European Commission
- European Court of Auditors
- International Monetary Fund
- Organization for Economic Cooperation and Development (OECD)
- United Nations Development Programme (UNDP)
- World Bank

### Selection of CEF bilateral partners:
- Magyar Nemzeti Bank
- Ministry of Finance, Netherlands
- Ministry of Finance, Sweden
- Ministry of Foreign Affairs, Germany
- Ministry of Housing, Spatial Planning and the Environment, Netherlands
- National Bank of Belgium
- De Nederlandsche Bank (DNB)
- Office of Management and Executive Budget, Barcelona City Council, Spain
- SAS, Ireland (Business Analytics and Business Intelligence Software)
- Slovak Aid/Ministry of Finance, Slovakia
- U.S. Agency for International Development

### Knowledge institutions:
- Chartered Institute of Public Finance and Accountancy
- U.S.-based Lincoln Institute of Land Policy
- University of Ljubljana
- University of Oxford / European Studies Centre, St. Antony’s College

### Peer organizations:
- International Training Centre of the International Labour Organization
- Regional School of Public Administration (ReSPA)
- Joint Vienna Institute (JVI)

### How Learning Works at the CEF

Capacity development empowers individuals, leaders, institutions, and societies. We see it as a process through which people, organizations, and entire countries build, strengthen, and maintain their capabilities to define and achieve their own development objectives over time. At the CEF, this means sharing knowledge and experience through workshops, seminars, tailored trainings, certification programs, communities of practice, and conferences.

We believe that capacity can only be developed when the effort has strong ownership by the countries themselves. Hence we support the implementation of public financial management reforms in South East Europe through tailor-made activities. We give our members access to cutting-edge knowledge and the latest practical experience, while helping them develop their own solutions. Our long-term goal is to assure sustainable reform throughout the region.
CEF Institutional Capacity Development and Knowledge Sharing

As a development training institution (DTI), the CEF pays a particular attention to capacity development of its own staff and involves in knowledge sharing with similar institutions.

Learning and Regional Cooperation

Learning Activities

Workshops and Seminars

The CEF provides tailor-made training to address immediate training needs and priorities in the region and share experiences in solving specific problems. Training is highly focused to offer guidance for current and future tasks in reforming public financial management, in central banking, and in adopting international standards. The CEF’s offerings cover many key areas:

Public Financial Management

- Tax Policy and Administration
- Budgeting
- Treasury
- Accounting
- Auditing
- General Public Financial Management

Central Banking

People and Process Management

Tailored Trainings

The CEF organizes tailored trainings to facilitate the exchange of experiences and knowhow in areas of particular interest to member countries. These usually include presentations by and on-site visits to ministries of finance, line ministries, central banks, and other institutions involved in public financial management or central banking. Occasionally the CEF also facilitates tailored trainings from non-member countries.

Certification Programs

The Public Accountants Certification Training (PACT) and Training of Internal Auditors in the Public Sector (TIAPS) programs emphasize the importance of establishing and maintaining international standards in public sector accounting and auditing and of raising the status of both professions. They aim to enhance recipient countries’ ability to implement a modern approach to accounting, to ensure an effective internal audit function in the public sector, and to improve the quality of public financial management.

Both programs are offered as two-level, post-graduate professional certifications. TIAPS program consists of three international modules and one national module at the certificate level and three international modules at the diploma level. PACT program consists of three modules at the certificate level and four at the diploma level out of which six have an international focus.
and are developed by the CIPFA while the seventh is a national module developed by local authors.

<table>
<thead>
<tr>
<th>Level</th>
<th>PACT</th>
<th>TIAPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – CIPFA Certificate Stage</td>
<td>Accountant in the Public Sector</td>
<td>State Internal Auditor</td>
</tr>
<tr>
<td>2 – CIPFA Diploma Stage</td>
<td>Verified Accountant in the Public Sector</td>
<td>Verified State Internal Auditor</td>
</tr>
</tbody>
</table>

These programs operate as distance learning and focus on international standards and best European practice in accounting and auditing, emphasizing practical application of standards to the special circumstances of the public sector. Although materials are designed for self-study, participants can upgrade their knowledge at regular meetings with tutors on more demanding topics. Students can also consult with tutors and other students through an internet forum.

After each of the modules, participants sit for a written exam or complete a workplace assignment. Students in the Slovenia’s TIAPS program are also required to complete a written final assignment after passing exams for the first level of qualification.

Both qualifications (certificate and diploma levels) are internationally recognized and are awarded by the United Kingdom Chartered Institute of Public Finance and Accountancy (UK CIPFA). Each participating country may also award a local certification.

Regional Cooperation

Building Capacities for Policy Design and Implementation

BCPDI is a program proposal prepared by the CEF at the initiative of beneficiaries in South East Europe, with input from the European Commission and the involvement of international financial institutions. The aim is to build beneficiary countries’ capacities for medium-term macroeconomic and fiscal policy analysis, design, and implementation and to foster stronger internal and external policy coordination for the medium term. The program entails three delivery components: training activities, communities of practice, and technical assistance. Under the first of these, the CEF has prepared two projects: the Fiscal Impact Assessment of Structural Reforms (FIASR), and Strategic Planning and Budgeting (SPB). For more details, see www.cef-see.org/bcpdi.

EU Strategy for the Danube Region

The EU Strategy for the Danube Region (EUSDR) is a macro-regional strategy adopted by the European Commission in December 2010 and endorsed by the European Council in 2011. It aims to boost development by seeking synergies and coordination among policies and initiatives across the Danube region. The CEF is a coordinator for Priority Area 10 along with the City of Vienna: we are tasked with stepping up institutional capacity and cooperation. The focus is on challenges of institutional capacity and the public service, better coordination of funding, and collaboration among cities and citizens in the region. To date, it is one of the most active priority areas within the strategy.
PEMPAL – the Public Expenditure Management Peer Assisted Learning Network – is a multilateral effort to develop capacity and share reform experiences among countries in Europe and Central Asia. Professionals from these countries can benchmark their systems against each other and pursue opportunities for peer learning. The network is supported financially and in-kind by a number of development organizations, including the World Bank, State Secretariat for Economic Affairs (SECO), the Ministry of Finance of the Russian Federation, OECD Sigma (Organization for Economic Co-operation and Development Support for Improvement in Governance and Management), and others. The CEF serves as its Secretariat.

The network operates in three Communities of Practice (COPs): Budget (BCOP), Internal Audit (IACOP), and Treasury (TCOP). Each drafts an action plan within a budget, allocated by the Steering Committee for the respective fiscal year. In addition, a plenary meeting brings together all three PEMPAL COPs to discuss common public financial management challenges.

Policy Conferences and Research

The CEF promotes effective policy dialogue by bringing together policy-makers, practitioners, academics, and other experts for discussions that balance theory and practice. Many policy events involve research efforts of longer duration and generate knowledge that is published on the CEF web site, in journals, or in book format.

Since 2006, the CEF has, in cooperation with partner institutions, addressed a number of policy topics: taxation, pension systems, tertiary education, turbulence in global financial markets, and European health systems. In 2009 and 2010 the CEF’s focus was on medium-term policy design and implementation, and in 2011 the CEF, in partnership with the World Bank and the IMF, organized a conference on international trends in public sector accounting. In 2013, the CEF held a high-level dialogue to address taxation issues.

Regional IMF Technical Advisors

The International Monetary Fund’s long-term regional advisor positions are part of a Japanese Government-funded program for strengthening fiscal management for SEE. The program has significantly boosted the resources available in the region for technical assistance and has contributed to a more programmatic approach to delivery. It focuses on achieving medium-term capacity building reform objectives in Public Finance Management and Tax Administration.

The partnership between the IMF and the CEF combines technical assistance and training and has proven to be a resource effective and efficient approach. Advisors benefit from using the CEF’s network of experts and training professionals, facilities, and conference and meeting venues. In turn, findings from advisors’ missions help identify needs for additional training at the CEF. The advisors collaborate closely with the CEF in formulating training programs and contribute as lecturers and coordinators to CEF courses.
Governance

CEF to Become an International Organization

The CEF is currently in the process of changing its legal status to an international organization. On September 3, 2013 the Agreement on Establishing the Center of Excellence in Finance as an International Organization was signed in Bled, Slovenia at the annual high-level international Bled Strategic Forum. The first countries to sign included Bulgaria, Croatia, Macedonia, Montenegro and Slovenia.

On November 27, 2013 Bosnia and Herzegovina followed their lead, with Minister of Finance and Treasury Dr. Nikola Špirić signing the Agreement in Sarajevo.

On December 12, 2013 Moldova became the seventh country to join the Agreement, when Moldovan Ambassador Mr. Codreanu signed it at the CEF headquarters in Ljubljana.

Albania will start with the necessary domestic procedures once a new government has been appointed. Kosovo, Romania, Serbia and Turkey decided not to join the Agreement at this moment; however, they may decide to do so later.

Signing of the Agreement is the first step on the road towards becoming an international organization. In the next phase interested member countries will be invited to ratify the signed Agreement. It will enter into force once at least three countries deposit their instruments of ratification, and a Headquarters Agreement between the CEF and the Republic of Slovenia is concluded.

The new legal status will enable easier access to donor funding and hiring of international and regional experts. This will further improve the quality of CEF projects and programs for recipient countries.
How Learning works at the CEF

CEF Institutional Capacity Development and Knowledge Sharing Activities

In the fourth quarter of 2013, to develop our own capacities to develop and maintain our role of a knowledge hub, the CEF organized, shared knowledge, or participated in the following events.

2013 CAPE Conference: Budgeting in the Real World

The 2013 CAPE Conference, hosted by the Overseas Development Institute on November 13-14 in London, looked at how budgets actually work in the real world and explored the latest thinking on how they can deliver better development outcomes. The conference aimed to shed light on two overarching questions: How does budgeting and public financial management really work in practice? and What can reformers do to strengthen budgets to improve development outcomes?

The session: The practice of budgeting – what drives the performance of budget systems? explored the broader factors beyond the narrowly technical public financial management domain that shape the way budgets are made and executed. Jana Repanšek, CEF deputy director, who was one of the panelists at the conference, pointed out that technical knowledge of budgeting (hard knowledge) is extremely important, but it is just a tip of an iceberg. Technical experts are able to perform at their best when they develop—besides technical knowledge— also soft skills, like the ability to present and communicate policies, lead teams and coordinate. With a focus on capacity development of experts working on public financial management issues, the CEF also devotes significant attention to soft skills. In addition, the CEF strives to partner with institutions that concentrate on public administration and governance reforms in South East Europe that help create an enabling environment for effective budgeting and public financial management.

Meeting of Counterpart Learning Professionals through the learn4dev Network

Since June 2013, the CEF together with the UK Department for International Development and the Canadian International Development Agency has been co-chairing the Public Finance Management (PFM) expert group.

The learn4dev network's expert groups met on November 28, 2013 in Brussels to report on their latest activities. Some groups are developing new learning programs, while others focus on sharing knowledge and providing wider access to existing learning opportunities. To this end, training courses and publications in PFM, offered by learn4dev's member organizations, are promoted. These courses give an overview of current thinking and practice regarding PFM and aim to enhance the capacity among donor and partner country staff to participate effectively in development cooperation, especially the new aid modalities.

ECB high-level conference: International Central Bank Cooperation Before, During and After the Crisis

As part of our cooperation with the ECB, the CEF director Mira Dobovišek has been invited to speak at the high-level conference "International central bank cooperation before, during and after the crisis". Marking ten years of ECB-coordinated technical cooperation programs, the conference took place in Frankfurt on December 3-4, 2013.
Together with other panelists from the Austrian Central Bank, the Central Bank of Egypt, Deutsche Bundesbank and the Center for Latin American Monetary Studies, Ms. Dobovišek participated in the discussion “Technical central bank cooperation – lessons from the last 25 years and the way forward”. The panel addressed issues of institutional capacity development through the alignment of rules and standards with international sound practices, the role of governance and project management in steering such changes, as well as previous experience of cooperation programs and areas of cooperation that may be in high demand in the future.
Learning Activities

Workshops and Seminars
The CEF organized ten workshops in the fourth quarter of 2013 with 160 participants from the following countries: Albania, Bulgaria, Croatia, Estonia, Georgia, Germany, Hungary, Kosovo, Latvia, Lithuania, Moldova, Poland, Romania, Serbia, Slovakia, Slovenia, and Turkey.

More detailed information about the workshops is available under the following links:

Risk Management
Policy Coordination in Promoting Financial Stability
2014–2020 Multiannual Financial Framework of the EU
Latest Developments in Prudential Regulation and Supervision (BASEL III and CRD IV)
Project Cycle Management
Preventing and Investigating Fraud
Financial Audit
Powerful Presentations
Transfer Pricing in Business Restructuring
Information Technology Audit

Participation
Participants were financed by their sponsoring institutions, either by an employer or a donor. Member countries' participation is estimated at EUR 5,000 and the participation of other countries at EUR 2,000 (at EUR 200 per participant per day, plus EUR 500 per travel). Participation in distance learning is estimated at nil costs; the same applies for participation from Slovenia (except when courses take place outside of Ljubljana).

<table>
<thead>
<tr>
<th>Country/entity</th>
<th>Participants</th>
<th>Days</th>
<th>Estimated costs in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>4</td>
<td>9.5</td>
<td>3,900</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>11</td>
<td>29.0</td>
<td>11,300</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>12</td>
<td>30.5</td>
<td>12,100</td>
</tr>
<tr>
<td>Croatia</td>
<td>6</td>
<td>12.0</td>
<td>5,400</td>
</tr>
<tr>
<td>Kosovo</td>
<td>18</td>
<td>45.5</td>
<td>18,100</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1</td>
<td>2.5</td>
<td>1,000</td>
</tr>
<tr>
<td>Moldova</td>
<td>2</td>
<td>4.0</td>
<td>1,800</td>
</tr>
<tr>
<td>Montenegro</td>
<td>4</td>
<td>11.5</td>
<td>4,300</td>
</tr>
<tr>
<td>Romania</td>
<td>2</td>
<td>5.0</td>
<td>2,000</td>
</tr>
<tr>
<td>Serbia</td>
<td>17</td>
<td>46.5</td>
<td>17,800</td>
</tr>
<tr>
<td>Slovenia</td>
<td>55</td>
<td>146.0</td>
<td>0</td>
</tr>
<tr>
<td>Turkey</td>
<td>15</td>
<td>38.5</td>
<td>15,200</td>
</tr>
<tr>
<td><strong>Total member countries</strong></td>
<td><strong>147</strong></td>
<td><strong>380.5</strong></td>
<td><strong>92,900</strong></td>
</tr>
<tr>
<td><strong>Other countries</strong></td>
<td><strong>13</strong></td>
<td><strong>33.5</strong></td>
<td><strong>13,200</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>160</strong></td>
<td><strong>414.0</strong></td>
<td><strong>106,100</strong></td>
</tr>
</tbody>
</table>
Donors
Donor partners sponsor lecturers (travel expenses and lecturers’ fees) and materials for the courses. These were estimated at EUR 29,250. For this report, a half-day lecturer session is estimated at EUR 500 and travel expenses at EUR 1,500 per lecturer.

<table>
<thead>
<tr>
<th>Donor</th>
<th>No of sessions</th>
<th>Amount in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance, the Netherlands</td>
<td>14.0</td>
<td>16,000</td>
</tr>
<tr>
<td>National Bank of Belgium</td>
<td>10.0</td>
<td>9,500</td>
</tr>
<tr>
<td>World Bank’s Vienna Financial Sector Advisory Center</td>
<td>0.5</td>
<td>1,750</td>
</tr>
<tr>
<td>European Insurance and Occupational Pensions Authority (EIOPA)</td>
<td>1.0</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total sponsored lecturers</strong></td>
<td><strong>25.5</strong></td>
<td><strong>29,250</strong></td>
</tr>
</tbody>
</table>

Tailored Trainings
On November 11–14, 2013, in cooperation with the UNDP in Serbia, the CEF organized a study visit for a group of members and staff of the Serbian National Assembly to Slovenia. The visit focused on parliamentary oversight and public finance management.

The lecturers from the Slovenian Parliament and the Court of Audit discussed the need for public finance reforms, and the guests learned about the introduction of the internal audit function in the Slovene Parliament and related challenges, the role of the Parliament in follow-up of external audit findings, and cooperation between the Court of Audit, the Parliament and the Commission for the Prevention of Corruption.

The main goal of the group’s visit was to learn about the application developed by the Slovene Commission for the Prevention of Corruption, called the Supervisor, and its functioning. The third part of the visit was held at the Slovene Parliament, where the guests were familiarized with the accounting and budgetary procedures.

Certification Programs

Public Accountants Certification Training (PACT)
PACT Macedonia
The fourth quarter of 2013 saw the successful completion of the first year of the PACT program in Macedonia, launched in March 2012 with funding from the Slovenian Development Cooperation and the CEI. In-kind contributions were provided by the Macedonian Ministry of Finance and the CEF. The first year of PACT Macedonia involved 35 students and resulted in 69% of them passing the exams.

The closing ceremony and delivery of certificates to students took place on October 1, 2013 in Skopje.
PACT Macedonia continued in the fourth quarter of 2013, with funding from the World Bank and the Central European Initiative (CEI).

The localization working group for the localization of PACT and TIAPS in Macedonia started to submit their contributions to the first part of the localization report, which focuses on the current legal and academic framework of internal auditing and accounting in the Macedonian public sector.

Training of Internal Auditors in the Public Sector

**TIAPS in Slovenia**

The seventh generation of TIAPS Slovenia started with training in early October and in December. On December 12, they took their first sitting of the national module on legislation (22 students out of 25 passed).

The training will continue through 2014.

**TIAPS in the Region**

**TIAPS Macedonia**

The second cohort of level 1 students of TIAPS Macedonia took the first sitting of the exam on IM3 “Governance and Control” on October 22 (24 students out of 27 passed); the second sitting of the exam on IM2 “Public Sector Accounting and Financial Reporting” on October 29 (5 students out of 13 passed); and the second sitting of the exam on IM3 “Governance and Control” on December 18 (six students, results are pending).

**TIAPS Montenegro**

On October 29, 2013 the CEF and the German embassy in Slovenia signed the second grant agreement for funding the TIAPS program in Montenegro. This is a follow-up to the successful implementation of the first part of TIAPS Montenegro, and the CEF in cooperation with the UK-based Chartered Institute of Public Finance and Accountancy and the Ministry of Finance of Montenegro continues to deliver the project through 2014.

The project runs under the auspices of the joint initiative of the German and Slovenian government in the framework of the Stability Pact to support the public finance reforms in the Western Balkans region. The German government allocated the new grant of 100,000 euros to offer the professional qualification training program for Montenegrin public sector internal auditors in line with the best international practices and standards.

The fourth-quarter activities included preparations for the start of the new project phase in January 2014. A preparatory workshop and a test were held for the second group of students.
Regional Cooperation

Building Capacities for Policy Design and Implementation

Building Capacities for Policy Design and Implementation (BCPDI) is a program of the CEF launched at the initiative of beneficiaries in South East Europe.¹ Under the BCPDI, the CEF is currently running the Strategic Planning and Budgeting (SBP) project, which started in spring 2013 and will last for two years through March 2015. The SPB is an EU-funded project, designed to serve the needs of beneficiary institutions in SEE countries: EU candidate and potential candidate countries (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia and Turkey) and the recently acceded EU member Croatia; all these being also CEF member countries.

The SPB addresses capacity needs in policy design, implementation and coordination of medium-term macroeconomic and fiscal frameworks, and enclosure of the fiscal impact of structural reforms into these frameworks. The project aims to stimulate governance for growth of SEE countries by strengthening their capacity to design and implement medium-term macrofiscal policies, and thus to achieve the goals of the SEE 2020 strategy as established by the beneficiaries.

In the fourth quarter of 2013, the CEF implemented the “Capital Budgeting” workshop under the SPB. This workshop familiarized participants with the fundamentals of capital planning, capital budget formulation and capital budget execution.

EU Strategy for the Danube Region

Along with the City of Vienna, the CEF is coordinating a priority area of the EU Strategy for the Danube Region (EUSDR)² which deals with institutional capacity and cooperation.

At the second annual forum of the EUSDR that took place in Bucharest on October 28–29, the CEF contributed to a workshop dealing with how to make the Danube region more effective, attractive and safe. Following the annual forum, the CEF moderated the session about financing instruments as part of the third Danube Financing Dialogue at the national bank of Romania, gathering project promoters and financial institutions from the region. In addition, the future orientation of the working group and potential projects that the participants and their institutions could be engaged in were discussed.

On December 11, the Steering Group meeting of the Priority Area 10 took place in Vienna. The Steering Group members reviewed the initiatives undertaken in the second half of 2013 and discussed activities for 2014.

Within the scope of the working group on financing, the representatives of tax agencies from nine Danube countries participated at the High-Level Dialogue on Tax Administration and Tax Compliance that took place on December 13 in Ljubljana. They discussed their current challenges and exchanged experiences on how to move regional tax systems closer to the EU and OECD norms.

¹ Further information about the BCPDI is available on www.cef-see.org/regional-cooperation/bcpdi.
² Further information about the EUSDR is available on www.cef-see.org/eusdr.
In the fourth quarter of 2013, the CEF supported the organization of the following PEMPAL³ events:

- Treasury Community of Practice (TCOP) videoconference on the use of information technologies in treasury operations (October 9 & 23, 2013)
- Budget Community of Practice (BCOP) videoconference on wage bill management (November 5, 2013)
- BCOP study visit "Spending reviews in Ireland" (November 11–14, 2013 in Dublin, Ireland)
- Internal Audit Community of Practice (IACOP) study visit and quality assurance working group meeting (November 12–15, 2013 in Yerevan, Armenia)
- TCOP videoconference on the Russian Federation’s experience in treasury bodies’ performance evaluation (November 14, 2013)
- TCOP study visit to the Ministry of Finance and Treasury of Turkey (November 19–21, 2013 in Ankara, Turkey)
- TCOP videoconference on public assets accounting (December 10, 2013)
- TCOP videoconference on financial reporting consolidation (December 10, 2013)
- BCOP study visit "Program Budgeting at Local Level" (December 9–12, 2013 in Cracow, Poland)

Policy Conferences and Research

High Level Dialogue on Tax Administration and Tax Compliance

In December tax officials from 11 countries participated at the event held in CEF and discussed current challenges for tax administrations along with possible responses to these challenges. They agreed that to make reform and modernization efforts work, a strong commitment to reforms, clear decisions about their direction and provision of necessary resources are essential. Furthermore, all relevant officials need to have a serious buy-in to the reform program. Participants also pointed out that reforming tax administration requires comprehensive human resources and training strategies as people and knowledge are the biggest resource that an institution has.

CEF director Mira Dobovišek thanked the participating delegations for their commitment to the CEF's learning programs on tax administration and tax policy. As the CEF works to accelerate its learning activities in the area of taxation, Ms. Dobovišek stressed the need for strengthening cooperation with regional tax authorities in order to tailor the training program to institution-specific capacity development needs. "Understanding regional challenges and responding to them, while focusing on country specifics in implementation, are the key success factors of CEF operations. This has allowed us to develop high-quality, timely, and relevant learning programs,” she noted.

Roundtable Discussion: Insurance Fraud Detection and Prevention

In October the CEF and the Insurance Supervision Agency of Slovenia (ISA) hosted more than 40 high-level officials of ministries of finance, insurance supervisory authorities, and insurance companies from Western Balkan countries, Moldova and Turkey.

³ Further information about PEMPAL is available on www.pempal.org.
The roundtable focused on sharing views and experiences regarding the deterrence, detection, and prevention of frauds in insurance business. Discussants agreed that insurance frauds should be regarded as socially unacceptable practices and discussed the meaning of international organization in preventing insurance frauds.

Speakers included representatives from the European Insurance and Occupational Pensions Authority, International Association of Insurance Supervisors, Insurance Europe, accounting and consulting firms Deloitte, Ernst & Young, KPMG, and insurance companies from Slovenia, Croatia and Serbia.

Since all countries face similar challenges in identifying and reducing fraud in the insurance sector and strive to ensure safety for the insurance policy holders, participants thought this event was a timely and useful contribution to the discussions on how to successfully combat insurance frauds.

**Presentation of a New Book on Fiscal Rules**

In October, the CEF hosted the launch of a new book on fiscal rules ("Fiskalna pravila", in Slovene) written by Helena Kamnar, Advisor to the President of the Republic of Slovenia on Economic and Social Issues, and Neven Borak, Strategic Analyst and Advisor to the Governor of Bank of Slovenia.

The book examines theoretical and methodological dimensions of fiscal rules and transfer of these rules into legislation. The authors present different methods of setting fiscal rules and provide an extensive analysis of EU requirements on national budgets and budget procedures. In addition, they give an overview of how the thirteen selected countries have introduced fiscal rules in their legislations.

The new book published by the Slovene Association of Economists (Zveza ekonomistov Slovenije) was well received by renowned Slovene experts, academics and public finance practitioners. The book launch was followed by a roundtable discussion on the role of fiscal rules. The authors Helena Kamnar and Neven Borak were joined by other prominent guest speakers, including Tine Stanovnik, Full Professor of Economics from Ljubljana Faculty of Economics, Miro Cerar, Professor of Law from Ljubljana Faculty of Law, and Žarko Lazarević, Historian at the Institute of Contemporary History.

**Regional IMF Technical Advisors**

**Dirk Jan Kraan, Public Financial Management Advisor**

Since May 2010, this position has been funded as part of a Japanese Government sponsored program for strengthening fiscal management for SEE.

**Country Activities**

**Albania**

In November 2013, the regional advisor took part in a two-week headquarters mission to Albania, led by Brian Olden. As a result, a report was produced, entitled "Tackling Payment Arrears".

The report concluded that payment arrears are not a new phenomenon in Albania, but the scale of the problem has increased significantly in recent years. The government’s recently commissioned stocktaking exercise has identified significant arrears, predominantly relating to road construction projects and pharmaceutical supplies. This provisional figure of approximately LEK 27 billion does not, however, reflect the true extent of outstanding payment arrears throughout the public sector. Rough estimates compiled by the mission suggest that the
absolute stock could exceed 11 percent of GDP, if all categories of expenditure and public sector institutions were included. This estimate needs to be further verified and will require that the coverage and comprehensiveness of the current stocktaking exercise be expanded and all outstanding balances independently verified.

While the legal and regulatory framework appears relatively sound, in practice there is scope for improvement. Areas for improvement include: alignment of the institutional coverage of laws to enable fiscal oversight of the entire public sector by the Ministry of Finance (MoF); clarifying the institutional roles for oversight of state-owned enterprises; and strengthening requirements for commitment control, particularly for multi-year contracts and cash forecasting.

Overly optimistic bias in the macro aggregates, including GDP growth forecasts and revenue assumptions, has led to the adoption of unrealistic budgets in recent years. The response to this has been to use mid-year budget revision and cash rationing to achieve the target deficit position. This has contributed to the accumulation of a large stock of arrears, since control over commitments is ineffective. A more prudent approach to macroeconomic forecasts by alignment of estimates with those of international organizations is recommended.

Existing contracts and entitlement programs should be reviewed to identify the scale of gaps between available resources and actual costs. In the short term, existing contractual commitments should be reviewed, and non-priority projects either cancelled or postponed. In order to support budget planning and budgetary discipline, baseline estimates reflecting the future costs of current policies should be presented in the annual budget law. Baseline estimates should be updated at least quarterly by the ministries and approved by the minister of finance. This will require systems’ reconfiguration during 2014.

The development and publication of an agreed clearance strategy for the stock should be approved by the Council of Ministers in early 2014. The strategy should be supported by an agreed and independently verified stock of payments outstanding. The inter-company debts in the energy sector must be addressed as soon as possible in 2014. Once the stock is verified, payments can commence, based on the agreed priorities, starting with the oldest debts. The planned clearance should be fully incorporated into the revised medium-term fiscal framework for 2014–2017. The stocktaking, verification and clearances processes should be overseen by a committee within the MoF with the involvement of the High State Audit to further enhance the integrity of the process. Regular reports against the opening stock should be produced, and the emergence of new arrears closely monitored.

**Bosnia and Herzegovina**

In October 2013, the regional advisor, together with a short-term expert Coskun Cangoz, carried out a two-week mission to the Federation of Bosnia and Herzegovina (FBiH). The main objective of the mission was to advise the government on the improvement of cash management.

The mission found that the budget execution process in FBiH has three special features that affect cash management: (1) steering on the deficit; (2) steering by cash rationing; and (3) incomplete financing of the deficit. Most European countries try to avoid these practices since they have distorting effects on cash management and on the budget process in general.

Furthermore, the mission found that cash management practices are currently limited to the forecasting of cash flows to assist budget execution. Budget users do not have any incentive to provide accurate expenditure plans. As a result, monthly operational plans usually come down to the splitting of the annual appropriations into twelve equal parts for most of the spending items. The Treasury should support budget users to increase technical capacity and provide timely and reliable projections to budget users about their expenditures.

The cash management functions are not fully developed and the current functions are fragmented and divided over different sectors of the Ministry of Finance. The mission has recommended that a dedicated Cash Management Unit should be established. Considering the
relations between cash and debt management, the mission proposed to establish this unit as a part of Debt Management Sector.

In addition, the regional advisor visited the Ministry of Finance of the Republika Srpska in Banja Luka. The advisor agreed to send concrete proposals for technical assistance on macroeconomic forecasting and medium-term budgeting. He also indicated that he would try to find an expert on forecasting from the Slovene Institute of Macroeconomic Analysis and Development (IMAD).

**Serbia**

In December 2013, the regional advisor took part in a two-week headquarters mission to Belgrade, led by Torben Hanssen.

The mission found that, against a background of uncertain macroeconomic and fiscal conditions, the government of Serbia has taken significant steps in recent years to improve their public financial management (PFM). These include strengthening the macrofiscal framework through the introduction of numerical fiscal rules and adoption of an annual Fiscal Strategy Paper; establishment of an independent Fiscal Council; strengthening of the State Audit Institution; and reduction of the number of earmarked revenues in the republican budget.

However, fiscal developments in Serbia display some worrying features, indicating a need for further improvements in PFM. The general government deficit has increased significantly in recent years and remains high, and the debt-to-GDP ratio has doubled from 2008 to 2012 to well over 60 percent of GDP. These developments largely reflect an expenditure drift during different stages of the budgeting process.

The mission found a number of deficiencies in the Serbian PFM system. The definition of the general government is still not clear despite previous FAD recommendations and provisions in the Budget System Law (BSL); the coverage of the republican budget is incomprehensive; the lack of commitment controls continue to create arrears with no systemic solution in place; and fiscal reporting lacks transparency and comprehensiveness.

In addition, the multi-year expenditure ceilings included in the annual Fiscal Strategy Paper lack credibility and fail to provide effective guidance to fiscal planning. Practice in macrofiscal forecasting suffers from capacity constraints, and accountability mechanisms envisaged in the BSL are not followed in practice. Spending limits are neither comprehensive nor maintained throughout the budgeting process.

The report provides recommendations in four priority areas:

- Increasing transparency by clearly defining the general government and the entities to be included or excluded from the republican budget;
- Strengthening medium-term budget planning to achieve better control over the evolvement of public revenue and expenditure, and to enable fiscal sustainability in the longer term;
- Strengthening annual budget planning to support the credibility of the medium-term budgetary framework and to better enable ongoing prioritization and reallocation of appropriations;
- Strengthening budget execution through better monitoring and control of commitments, payment arrears, and better fiscal reporting.

**CEF Courses**

In October 2013, the regional advisor lectured at the CEF courses “Capital Budgeting, Introduction and Key Concepts” and “Investment in the Budget Process”. The course was
attended by 16 participants from Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Moldova, Montenegro, and Turkey.

In November 2013, the advisor delivered a lecture to the delegation of parliament members from Serbia on good practices that contribute to effective financial management.

Norman Gillanders, Tax Administration Reform Advisor for SEE

This position was created in January 2011 and it is funded by the Japanese Government as part of a program for strengthening fiscal management in SEE.

Country Activities

Croatia

In the final three months of 2013 Mr. Gillanders visited Croatia on three occasions during October working with the tax authorities on plans to improve compliance and to reduce tax arrears.

Romania

The regional advisor also worked in Romania for a week in mid-November in support of the strategic plans of the National Agency for Tax Administration.

Albania

Also in November Mr. Gillanders participated in a headquarters-led IMF mission as part of the Fund's long-term support for tax administration reform in the General Directorate for Taxation.

Moldova

As part of his role as long-term advisor to regional tax administrations, he also visited Moldova in late November/early December. This work was part of a continuing support program covering all aspects of tax administration reform. The visit also included advance preparation for a planned headquarters-led mission due to take place in early 2014.

CEF Cooperation

On 13 December a High Level Dialogue on Tax Administration and Tax Compliance was hosted by the CEF in Ljubljana. The Regional Advisor worked closely with his CEF counterparts on the agenda for the event. Senior managers from 11 countries attended together with guest speakers from the IMF, the EU Commission and academia. For the Fund, Mr. Stanley Shrosbree (regional advisor based in Belgrade) pointed to the progress made in tax administrations across Southeast Europe while Mr. Gillanders looked at the essential preconditions for further reform. Mr. Luis Parreira outlined research undertaken by the EU on the scale of VAT evasion within the Union and the new measures being adopted to combat fraud. Professor Lisette van der Hel of Nyenrode Business University took up the theme of current directions in compliance management and the need to think about preventing tax evasion as opposed to traditional concepts of detection and punishment. Professor Luigi Mittone of the University of Trento took this further by presenting evidence from his research suggesting that traditional compliance programs based largely on audit, even when successful in conventional terms, could have surprising and counter-productive longer term effects. The meeting identified a range of issues where further capacity development was essential to strengthen tax administrations in the region for the fuller operation of the EU Fiscal Blueprints and the associated compliance risk management model. However, it was noted that success was also contingent on solving more difficult internal governance problems and on finding the right balance between the role of the Finance Ministry and that of the tax administration.
Resources

The CEF received a donation from the Slovenian Government in the amount of EUR 750,000 and by granting free-of-charge premises for CEF activities, which is estimated at EUR 12 per sq.m + VAT per month, in total EUR 218,066.30 in 12 months.

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<th>Revenues from Projects</th>
<th>in EUR</th>
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<td>Project PEM PAL</td>
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<td>TIAPS MAC</td>
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<td>SPB</td>
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<td>TIAPS Slovenia</td>
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<td>Study visits</td>
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<td>Other</td>
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<td><strong>Total</strong></td>
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Expenses

Total expenses for CEF activities in January-December 2013:

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<th>Expenses</th>
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<tr>
<td>Materials and energy</td>
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<td>Running expenses and other services</td>
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<td>Labor</td>
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<td>Authors, tutors and interpreters</td>
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<td>Costs of events</td>
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<td>Amortization</td>
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<td>Other costs</td>
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<tr>
<td><strong>Total</strong></td>
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