1. BASIC INFORMATION

1.1 CRIS Number: HR2006/018-113/3/1
1.2 Title: Improving Budget Processes for Effective Financial Management
1.3 Sector: 15110
1.4 Location: Croatia
1.5 Duration: 36 months

2. OBJECTIVES

2.1 Overall Objective(s):
More efficient, accountable and better-functioning public service in Croatia, in line with the standards of EU Member States.

2.2 Project purpose:
Efficient and sustainable financial management system based on modern instruments and mechanisms, designed and operating according to European standards.

2.3 Accession Partnership and NPIEU priority

Accession Partnership – Short-term priorities – Economic criteria
Continue structural reforms in public finance, particularly in the area of expenditure management. Establish a transparent and efficient debt management capacity.

Accession Partnership – Medium-term priorities – Economic criteria
Implement a sustainable medium term fiscal framework through a continuous reduction of overall public spending, general government deficits and debt as a share of GDP.

National Plan for the Integration in the European Union (NPIEU)
The National Plan for the Integration in the European Union (NPIEU) for 2005 indicates in its chapter Financial and Budgetary Provisions as a medium-term priority complete harmonisation of the legislation with the acquis communautaire in the area of own resources system.

2.4 Coherence with National Development Plan (NDP)
Not applicable

2.5 Cross Border Impact
Not applicable
3. DESCRIPTION

3.1 Background and justification

Legal framework and budget coverage

The revised Budget Act of July 2003 provides a sound basis for budget management, but the secondary legislation has not yet been completed, which reflects the partial implementation of some measures.

Since 2001, the government has brought three extra budgetary funds (EBF) onto the budget. However, a number of EBFs remain still outside the budget-decision making process and are operated outside the Treasury Single Account (TSA)\(^1\), although their financial projections are included for information in the budgetary documents.

Budget preparation

"Program-budgeting". Outlays are presented in the budget by ministry, second level budget user, programme, activity and line-item (economic classification). The aim of introducing a programme classification was to develop a programme-budgeting approach. In fact, the current approach in budgeting is solely input oriented. The State budget is approved and its execution tightly controlled at the fourth level of the economic classification, which corresponds to 7000 items in the budget. Program objectives and expected results are not reviewed during budget preparation. Some performance indicators are being prepared for pilot programmes, with the support of an IDF grant. It is premature, however, to assess whether these ongoing works will have a positive impact on budgeting methods.

Multi-year budgeting. The Ministry of Finance (MoF) has started developing a multi-year approach in budgeting. It prepares, during the second quarter, a Fiscal Policy Principles paper, which presents a three-year medium-term macroeconomic framework and fiscal objectives for the forecasting period. This paper is submitted to the Cabinet. This activity is a good starting point for sound budget policy formulation.

In addition, line ministries are requested to include forward expenditure estimates in their budget requests. These estimates are prepared for the two years following the budget year, with the same degree of detail than the budget. For the moment, this multi-year expenditure programming exercise is purely formal. The forward expenditure estimates are not reviewed during budget preparation, but are included in the budgetary documents presented to Parliament.

Budget execution

Treasury Single Account. A Treasury single account (TSA) has been implemented in 1996, but it does not yet encompass all central government payment transactions. Some EBFs are managed outside the TSA and budget users are authorised to keep bank accounts outside the TSA, with the postal bank. There are around 400 government bank accounts, when we talk

\(^1\) They include the Croatian Motorways, Croatian Roads, Croatian Privatisation Fund, the Deposit Insurance Agency, and the Croatian Water and Environmental Fund.
about Central Government, and 294 of them operate outside the TSA (petty cash payment, special purposes accounts). In principle, petty cash payments accounts in Croatian Postal Bank are set up for budget users own revenues and petty expenditures. In fact, 11 percent of total payment transactions are allocated to Croatian Postal Bank, there out 6 percent are direct payments to pensioners to their current account at the same day.

There are also foreign currency accounts opened in commercial banks and the Croatian National Bank (CNB). Such banking arrangements lead to cash management inefficiencies and increase fiduciary risks.

The government is planning to extend the coverage of the TSA.

If some cumbersome appropriation management rules are not relaxed, extending the TSA risks face resistance. Also, according to the paper on "the development of the Treasury"\(^2\), a decision to include in the TSA earmarked revenues "can cause more harm than good", without adequate banking and accountancy infrastructure having been established. These concerns must be taken into account. Nevertheless, they should not lead to maintain expenditure transactions financed from own revenues outside the TSA. Special rules to manage certain categories of expenditures and revenues within the TSA can be set up for efficient budget management. Expenditures financed from earmarked revenues and user charges can be identified through introducing a financing source code in the budget classification system (as it is currently planned).

**Cash management.** With a view to creating cash flow forecast (sizes and dynamics), monitoring analysed budgetary categories such as budget expenditure and expenses, budget revenues and receipts, statements of accounts and finally taking right decisions in a case of budget deficit or surplus MOF prepares and updates liquidity plans on monthly, weekly and daily level. These cash plans are prepared by economics classification (in some cases by organisational classification) depending on defined requirement.

The significant essence what we want to stress is existence a few sources of information (data bases) used to produce liquidity forecast reports. There is no unique informational system even present informational systems are not integrated.

The main problem at the moment is what this exercise is carried out manually from various sources of information and demands significant efforts. Therefore, MOF makes an effort to solve integration problems and automatise forecasting processes.

**Appropriation management rules.** As noted, the budget includes thousands of items. Transfers between these items should be authorised by the Minister of Finance, but only up to 5 per cent of the item. Beyond this limit a supplementary budget must be submitted to the Parliament. Such lack of flexibility in budget management has perverse effects. It encourages budget users to by-pass the TSA procedure through using bank accounts outside the TSA.

**Commitment control.** Expenditure commitments are only partly monitored, because future payment obligations can only be recorded in the financial management information system one month in advance.

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\(^2\) Paper on the development of the Treasury is done by the MoF staff as a basic document for the preparation of the “Strategy of the State Treasury development 2006-2010”.
Accounting and reporting. Budgeting and Treasury accounting is made on a cash basis, while budget users keep their accounts on a modified accrual basis, expenditure being recognized as soon as invoices are received. Keeping accounts on the modified accrual basis allows liabilities to be accounted for. However, currently, difference in the bases of accounting makes difficult to compare the different reports.

Information system

A financial management information system (FMIS) is in place. Currently, SAP R/3 system is deployed and operational at the MoF. Budget users, depending on the IT support of their accounting and financial management processes, can be broadly categorised into two groups:

- Budget users with their own, stand alone, proprietary FMIS systems. These users are typically larger budget users, with annual amount of invoices exceeding thousands. Only two of these budget users, namely Ministry of Health and Social Care and Ministry of Science, Education and Sports, have reached some level of integration between their FMIS’ and FMIS in operation in MoF (i.e. State Treasury). Every other budget user uses the SAP Console for interaction with State Treasury FMIS, i.e. reporting received invoices and changes made on the accounts payable balance, with inevitable temporal delay due to the manual nature of data entering.

- Budget users, which do not have operational FMIS. Their budget funds needs are considered to be modest, and therefore no investments were made into IT support for accounting processes. SAP Console is provided for interaction with the FIMS in State Treasury.

As stated above, various budget users have various types of IT support for purposes of accounting and financial management, and the degree of overall achieved state of integration with State Treasury can be considered poor. One of the main functions of the integration is the avoidance of double entering of the accounting data; currently the accounting data is entered both in FMIS (where such system is deployed) and SAP Console in order for the invoices to be paid by the State Treasury through the TSA.

In integrated systems, document processing is made in the FMIS of the budget user who has received the invoice; necessary data is automatically extracted from the FMIS and exchanged with the FMIS of the State Treasury, in order for the payment to be made through the TSA. This integration must also provide for all inflow transactions to be made through the TSA.

Given the number of deployed FMIS, their manufacturers and leveraged technological bases, each FMIS typically uses it’s own database for storage of core business entities and other data. Currently only the change management process for budget users’ organisational structure (hierarchy) and definitions of programmes and activities is somewhat automatic; however the outdated technological base, need for manual intervention and approval, lack of technical and any other form of documentation and support, along with the delays in the process are unacceptable.

Budget preparation and planning process is currently supported by SAP SEM-BW system. Budget users use the system to enter their plans for the following fiscal year, and to perform various simulations and other tasks important for planning next year’s budget. Although
SEM-BW system is used, there is still much work in budget preparation that is done through other non-structured stand-alone documents, and then entered in the SEM-BW system, either manually or through some automated batch procedure. Also, there are some areas that do not meet budget users requirements, mostly concerning un-friendliness of the user interface.

Problems in implementing the reforms

Results in modernising budget preparation are partly disappointing, notably in implementing multi-year programme budgeting. Actually developing programme budgeting and multi-year expenditure estimates needs time and, as discussed below, call for developing a "building blocks" approach, which should involve closely line ministries.

Important reforms in budget execution have been implemented but they are still uncompleted. This can be explained by several factors, including questionable procedures, problems met in computerising some procedures, resistances to extending the TSA, and insufficient coordination between the different actions.

According to the paper on "the development of the Treasury", lack of specialised staffs, such as for example budget analysts able to review properly requests and reports, training programmes not designed so as to improve performance of a given job, and unclear definition of missions and strategies, explain, among other factors, difficulties met in performing Treasury's functions.

3.2. Sectoral Rationale: not applicable

3.3. Results

The project should enable the Government to build an efficient and sustainable budget management system designed and operating to European standards, through the modernization of budget processes and increasing capacity for budget management. Within this project it is expected to introduce budget preparation and execution procedures that will strengthen the public expenditure management system at different levels:

- *At the aggregate level*, it is necessary to ensure overall fiscal discipline. This task requires, among other activities, developing capacity in macro-economic and fiscal analysis.
- *At the intersectoral/interministerial level*, it is necessary to ensure efficient intersectoral resource allocation. This will require strengthening strategic resource allocation through developing a “top-down” approach in budgeting and preparing multi-year budget/expenditure framework (MTBF/MTEF).
- *At the programme management level*, it is necessary to ensure compliance with the budget authorizations and efficiency and effectiveness in public service delivery (operational performance). Achieving these different objectives will require balancing restraint and flexibility properly. Therefore, reform measures will include measures aimed at strengthening financial control (to an extent already ongoing with the current PIFC project), improving intrasectoral resource allocation, providing managers with
the required flexibility for efficient management, and developing accountability on results.

It would be illusory to develop modern budgeting tools without significant strengthening of human resources and organisations involved in budgeting activities. Building adequate capacities to manage the budget system could be regarded as in fact the most crucial aspect of the Treasury reform. This will involved both training staff and recruiting skilled persons, on one hand, and institutional strengthening, on the other hand.

The expected project results are the following:
- Result 1. Modernised budget processes
- Result 2. Streamlined budget execution systems
- Result 3. FMIS of State Treasury and budget users integrated
- Result 4. Master Data Management solution established
- Result 5. Training of relevant staff of the MoF and line ministries in budget management areas (macroeconomic and fiscal forecasting, preparation of MTBF, definition and monitoring of performance indicators, program and project analysis, cash management and forecast and public awareness actions) carried out.

Progress in achieving these results will be monitored through indicators aimed at assessing to which extent the modernized budget procedures are implemented and at assessing to which extent the training programme has been implemented. These indicators will include: (i) preparation and publication of a MTBF; (ii) development and monitoring of performance indicators, within "pilot" ministries, and performance reports prepared; (iii) percentage of central government payment transactions channelled through the TSA; and (iv) production and publication of comprehensive financial reports (including commitments, expenditure at the verification stage and payments).

3.4. Activities

**Result 1. Modernised budget processes**

To achieve aggregate fiscal discipline and efficient intersectoral resource allocation, the strategic phase of budget preparation will be developed. This phase will consist of formulating budget policy choices and providing line ministries with expenditure ceilings to frame budget preparation, at an early stage of budget preparation. To ensure sustainability of budget policies and plan policy changes, a medium term budget (MTBF) framework (MTBF/MTEF) will be prepared and submitted to political authorities. Currently line ministries include in their budget requests forward expenditure estimates, but these estimates are not used in the budgeting process.

The degree of detail of the expenditure projections of the MTBF will be defined when undertaking this project activity, but the MTBF should, at least, give aggregate fiscal targets and expenditure targets by ministry.

Preparing a MTBF will require close coordination between the Macroeconomic Analysis and Planning bureau, responsible for estimating the fiscal aggregate and the Treasury.
The activities through which the result will be achieved are the following:

1.1. Design the format of the MTBF;
1.2. Define the MTBF preparation procedure and revise the budget preparation procedure to take into account the MTBF procedure;
1.3. Establish the new budgeting procedure taking into accounting existing capacities;
1.4. Review and amend the legal framework;
1.5. Prepare manuals for MTBF and budget preparation.

Another group of activities should be aimed to straighten programme-budgeting and associated performance indicators in order to improve efficiency in intrasectoral resource allocation. Some initial steps have been done in this direction, but developing a programme budgeting approach will need time and success in developing such an approach will depend, in the larger part, on line ministries.

The implementation approach will consist of starting with a few pilot ministries. In parallel, measures aimed at increasing responsibilities and accountability of line ministries will be designed and progressively implemented, provided that internal control is effective. This will encourage line ministries to participate in the exercise.

In order to facilitate budget preparation and planning and to improve transparency, control and authorization, several activities of improvements are required in SAP SEM-BW system used for budget preparation:

- Enable budget users to enter the programs and sub-programs directly into an on-line system.
- When an activity is moved from one ministry to another, system should be able to report on both the old and the new structure, including support for multiple versions of master data.
- Reports for Parliament and all other reports based on data contained in SEM-BW system should be taken straight out of the SEM system, rather than using Excel as reporting tool, and the SEM-BW system should allow for the manual changes required.
- The revenue information which is sent from Financial Agency (FINA) in a spreadsheet should be imported directly into the system by FINA.
- When new activities are opened during year, they are not entered in SEM at all – this should be revised, so that these activities follow same procedure as activities defined during budget planning.

The activities taken in the Treasury and "pilot" line ministries will be:

1.6. Improve the current programme classification;
1.7. Set up of performance indicators and define procedures to monitor and report them;
1.8. Draft operational guidelines;
1.9. Modifications of existing SAP SEM-BW in line with proposed improvements.

The project will provide: technical assistance from international experts (36 person/months); and local experts (6 person-months); and training (see activity 5.5. and activity 5.7.).

**Result 2. Streamlined budget execution systems**
Budget execution processes will be streamlined. This will be achieved through the following activities:

2.1. Extension of the TSA coverage;
2.2. Improvement of cash planning;
2.3. Definition of the procedures to centralize the data on commitments;
2.4. Review/improvement of accounting/reporting and streamlining commitment control;
2.5. Review of appropriation management rules in order to provide line ministries with a modicum of flexibility.

The coverage of the TSA will be extended to all central government transactions, including own revenues of line ministries. Channelling all revenues and payment transactions through the TSA will require: (i) implementing the source of financing classification that is under preparation, with the view to accounting for user charges and earmarked revenues, and expenditures paid out from these revenues; and (ii) streamlining the expenditure control system with the view to ensuring that the extension of the TSA do not create inefficiencies in budget management.

A review of the different categories of expenditures and revenues currently managed outside the TSA will be undertaken in order to both define budget management rules appropriately, when including these expenditures in the TSA, and to eliminate loopholes in the expenditure control system.

Cash planning will be strengthened. Good cash planning requires being informed in advance on cash needs. Procedures to following up future payment obligations and prepare cash plans and borrowing plans will be designed.

Procedures to centralize data on commitments, including multi-year commitments and expenditure at the verification stage, will be defined.

Accounting methods should be reviewed in order to ensure that both cash payments and unpaid expenditures will be reported. As soon as possible, automated procedures should be set up to compare the modified accrual based accounts with the cash based accounts.

Appropriation management rules will be reviewed (e.g. rules for transfers between budget items). In order to improve efficiency in programme management, line ministries should be provided with a modicum of flexibility in budget management. However, measures aimed at providing line ministries with increased flexibility in public expenditure management will be closely coordinated with the actions aimed at reinforcing internal control, which are supported by a CARDS funded project.

Assistance from the project will include: (i) technical assistance from international experts (23 person/months) and (ii) training (see activity 5.5. and activity 5.7.).

**Result 3. FMIS of State Treasury and budget users integrated**

In order to achieve integration between the FMIS of State Treasury and FMIS’ of budget users, having in mind the fact that those systems are generally incompatible, the integration should be done leveraging today’s de-facto industry standards for enterprise application integration (EAI) purposes, i.e. service oriented approach.
This integration pattern, would allow all of the past investments in IT equipment in all of the budget users to be maintained. An integration layer on the side of the State Treasury would be allow for provisioning of services, with predefined interfaces to any number of budget users. A state-wide framework for data exchange with State Treasury would be defined, strictly stating structure of digital documents in transit. This catalogue of specifications would be based on XML, as today’s lingua franca for information interchange, essentially imposing no requirements on the budget user FMIS’ technological base.

The project will cover the following activities:
- 3.1. Procurement/ installation of hardware;
- 3.2. Procurement/installation of software (system software and application software: Data Based Management System (DBMS) and/or Enterprise Planning Software (ERP), additional SAP integration modules and);
- 3.3. Training.

Total costs of this project activities amount to 1.221.600 €, including: (i) hardware is 461.600 €; (ii) software 560.000 €; (iii) users training (instructor led training and e-learning solutions based training) 200.000 €.

Result 4. Master Data Management solution established

In the process of integration it is necessary to uniquely identify core business entities (e.g. suppliers, invoices), define their structure, reconcile, store and manage the data from various, disparate sources into the central location (data hub), which is a function of the Master Data Management solution.

As a result of the FMIS' integration, business processes will now span multiple organisations, notably the MoF (State Treasury) and specific budget user. It is an absolute requirement for the entities and relationships used in this processes to be uniquely identified and described consistently regardless of the organisation that refers to them, which is the primary purpose of the MDM solution.

The project will cover the following activities:
- 4.1. Procurement/ installation of hardware and system software;
- 4.2. Procurement/installation of application software- MDM solution;
- 4.3. Training.

Total costs of this project activity amount to 510.000 €, including: (i) hardware and system software 160.000 €; (ii) MDM solution 300.000 €; (iii) users training 50.000 €.

Result 5. Training of relevant staff of the MoF and line ministries in budget management areas carried out

A training programme will be prepared and implemented. It is expected that training will be delivered in budget management areas including notably the following: macroeconomic and fiscal forecasting, preparation of a MTEF, defining and monitoring performance indicators within programme budgets, programme and project analysis, cash management and forecasts and public awareness actions.
Special attention will be paid to change management. This will include, among other actions, an awareness seminar for the staff of the MoF and line ministries. Parliament support is crucial for success in implementing the reforms. Therefore actions to inform the Parliament and get its feedback will be undertaken. These will include actions such as seminars and debates on the reform and presentation of other countries experience. Public communication work in general will be also part of these advocacy efforts.

Taking into account the complexity of the project, one EU long-term expert will assist the project manager in ensuring an effective and efficient overall project management.

A project manager will be appointed by the MoF. She/He should preferably full time for the project and budgetary reforms.

A Steering Committee, chaired by State Secretary in the Ministry of Finance, will be responsible for overall supervision. The Steering Committee will include the following members: Secretary in the Ministry of Finance; Assistant of Minister in the Ministry of Finance; Assistant of Minister in the Ministry of Foreign Affairs and European Integration. The Steering Committee shall evaluate the progress achieved (both in terms of timely implementation and quality of the outputs), and decide corrective measures as appropriate. If needed, working groups on special technical issues will be set up.

The project will cover the following activities:

5.1. Preparation and implementation of a framework for capacity assessment of MoF staff;
5.2. Establishment of training programmes-curricula and implementation schedules;
5.3. Elaboration of training materials;
5.4. Establishment of training quality assurance system;
5.5. Delivery of training (for the staff from both the MoF and line ministries);
5.6. Procurement of books and materials related to the financial management field;
5.7. Study tours to EU countries;
5.8. Implementation of public awareness actions.

The total costs of stated activities supported by the project will amount to 959,800 € and consists of (i) technical assistance from international experts - the project manager (16 persons/month), international experts (10 person/months) and local experts (3 person/months); (ii) cost of books and materials 35,000 € and (iii) cost of study tours to EU countries 300,000 €.

3.5. Linked Activities

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<th>2002</th>
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<td>CARDS</td>
<td>Development of public debt management capacity</td>
<td>WB + other donors</td>
<td>WB Grant</td>
<td>Netherlands Grant</td>
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</table>
CARDS Development of public debt management capacity, April 2005 - December 2006

As part of a three-year reform program targeting the Public Debt Management Sector, which was recommended in a joint study carried out by the World Bank and IMF, there is an ongoing EU technical assistance program funded from CARDS 2002 for the purpose of public debt management capacity building within the Croatian MoF.

Since April 2005 staff education and training requirements have been identified, and a three-year training program targeted at employees in the Public Debt Management Sector (and employees from other sectors within the Ministry) has been developed.

The new system for debt management has been purchased (the Public Debt Management Sector uses the FTI STAR information system for recording financial obligations and guarantees) and the implementation of interface to the Treasury financial management information system (SAP) is currently underway. A validity check of all data on financial obligations and guarantees entered in the FTI STAR system has been performed and all borrowing contracts/agreements concluded in the International Financial Institutions Directorate have been collected and compiled. Reconciliation between records kept in the MoF and those from the Central Bank has been completed.


Throughout the transition period, countries of South Eastern Europe have been confronted by limited knowledge of management accounting techniques in the government sector, with most public accountants performing little more than bookkeeping for compliance purposes. Many countries still do not have systematic training to develop the necessary skills, which mean that public accountants in the region are generally poorly qualified, when compared to their counterparts in EU countries. Without adequate effort to upgrade public accounting skills, the broader public finance reforms being undertaken in the region, whose success depends, at the end of the day, on improved transparency and accountability, may be put at risk.

The goal of the project is to upgrade capacity in public accounting. Distance learning program was implemented and first group of 50 students was educated over the two years period and will get the internationally recognized certificate of public accountant. Second group is ongoing as well as the phase of localisation of the project.

WB Grant Performance measurement, December 2004 – June 2005

The Government needs to strengthen budgeting in Croatia as it lacks performance orientation. The budget classification is input-based and does not provide for performance evaluation. In the context of the IDF grant, the Government wished to recruit short-term expertise to help strengthen the basis for performance budgeting in the MoF and chosen line ministries through determining the standards and data requirement for performance measurement as well as providing training of MoF and line ministries personnel in performance budgeting.

The project resulted with very good but complex measures which were too advanced to be implemented at this stage.


Croatian budget formulation process is placed with line Ministries. The Government relies heavily on each line Ministry for assuring that sectoral policies are optimal, spending is efficient and effective, and programs operate under sound financial principles. Although it is standard practice for line Ministries to take the lead in policy and planning for their sector;
there is a role at the centre for the MoF in setting standards, coordinating government-wide financial issues, analysing policy issues and budget developments, and supporting central decision-making bodies (e.g., Government Cabinet). In the context of the IDF grant, the Government wished to recruit short-term expertise to help strengthen the capacity for sectoral budget analysis and budget presentation in the Ministry of Finance. The project resulted with institutional establishment of the new organizational unit in the MoF: Department for budget analysis and capital project evaluation. First basic training on the budget analysis was provided under the project.

Netherlands Grant - Rationalization study, April 2005 – August 2005 (see Annex 8)

3.6. Lessons Learned

A fast-paced transition from the concept of line-item budgeting to program planning budgeting caused many problems. Program planning does not only refer to the classification of expenditures by activities, project and program but also to quintessential change and reform in the functioning of the government administration, which shifts the focus from types of expenditures and their size to the performance and effectiveness of expenditure. This kind of reform can not be carried out in practise without the knowledge and involvement of all levels of government, as well as strong commitment and determination to put necessary set of changes into effect.

Additionally, some performance indicators are being prepared for pilot programmes, with the support of an IDF grant. This pilot project did not achieve the expected results because basic steps mentioned above have not been taken.

Regarding FMIS integration, conducted rationalization study showed that documentation that exists for State Treasury FMIS can not be considered acceptable and opens up series of questions about information security standards and operations management procedures of business system of State Treasury.

In addition, the research showed that inter connecting of budget users FMISs by using connection model based on XML standard of electronic forms (documents) exchange with use of digital signatures for data integrity is feasible and justified.

The conclusion of the research was that number of FMIS in use should be limited, by means of defining budget user FMIS reference model with prescribed set of mandatory functionalities related to budget preparation, execution and audit. It is recommendation of that study that budget users FMIS should be compliant to reference model, and to develop functional specification template based on reference model as blueprint for public tender and objective evaluation of offers.

4. INSTITUTIONAL FRAMEWORK

The MoF will be the main recipient institution. The following ministerial departments will play a key role in the implementing of the project: State Treasury – Sector for Budget Preparation, Sector for Budget Execution, Sector for Public Debt Management, Department for Development and Support to the State Treasury System and others. According to the Decree on the Internal Organisation of the Ministry of Finance, the State Treasury is responsible for carrying out tasks in relation to budget preparation and consolidation, state budget execution, state accounting and reporting as well as cash and public debt management.
These activities are within framework of public administration linked with: Croatian National Bank & banking sector, Financial Agency (FINA), as well as with the line ministries, Government and Parliament.

This project will be implemented in accordance with the “Strategy of the State Treasury development 2006-2010”.

The MoF will assign the following MoF staff for this project implementation:

- Project Manager Ivana Jakir-Bajo, Head of Budget Analysis and Capital Project Evaluation Department - overall coordination of the project,
- Project Advisor Boris Marciuš, Head of Department for Development and Support to the State Treasury System, IT expert.

5. DETAILED BUDGET (IN EUR)

<table>
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<th>Phare/Pre-Accession Instrument support</th>
<th>Co-financing</th>
<th>Total Cost</th>
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<td>Other Sources (**)</td>
<td>Total Co-financing of Project</td>
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<td>Sub-project</td>
<td>Investment support – sub-total</td>
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### Year 2006 Institution Building support

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<tr>
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(*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises  
(**) private funds, FIs loans to private entities

1. All investment sub-projects supported by PHARE must receive co-financing from national public funds. Minimum requirement for co-financing from national public funds is 25% of the combined PHARE and national contributions to the overall investment support.

2. Many Institution building projects will also have a degree of co-financing – this should be quantified and included wherever possible.

3. Expenditure related to equipment (regulatory infrastructure or ESC-related) and to Technical Assistance supporting investment (e.g. pre feasibility study / supervision of works / technical specifications) should be considered as Investment support in the project fiche.

4. All co-financing must be provided on a joint basis. Parallel co-financing will, in a principle, not be accepted. Exceptions to this rule have to be agreed with the Commission in advance.

5. All co-financing should be clearly quantified, also the degree of certainty of such co-financing (i.e. for National Public Funds: is it already earmarked in local or national budget, for FIs Loans, private funds: are they already approved/ under appraisal, etc.).

6. Where parallel co-financing is accepted and justified per exception to the normal rule it should be provided in monetary form. If this is not possible there should be clear criteria set out for the valuation of any non-monetary contributions (that should be quantified in the table).

7. If twinning is involved, clearly state the expected budget of the twinning covenant.

8. The financial engineering of the project should be closely monitored against actual delivery during implementation and against the objectives that were set in the project fiche so that corrective actions may be taken where required.
6. IMPLEMENTATION ARRANGEMENTS

6.1 Implementing Agency

CFCU (Central Finance and Contracting Unit)
Ms. Vladimira Ivandić, Director
Katančićeva 5, 10 000 Zagreb, Croatia
Tel.: 003851-4591-245
Fax: 003851-4591-075
E-mail: cfcu@mfin.hr

The CFCU, under the authority of the PAO, has the sole responsibility over the payments, accounting, contract administration and financial reporting side of the procurement of services, supplies, and works in the context of the decentralised EC assistance programmes in the Republic of Croatia. The CFCU ensures that the EC rules, regulations and procedures pertaining to the procurement of services, supplies and works are adhered to, and that a proper reporting system and project information system is functioning.

Senior Programme Officer
Ms. Ana Hrastović
Assistant Minister
Ministry of Finance
Katančićeva 5
10000 Zagreb
Croatia
E-mail: ana.hrastovic@mfin.hr

6.2 Twinning: not applicable

The experts in other countries, government officials, usually do not have a broad knowledge and understanding of the system except their own one. They mostly try to impose and implement the solutions from the country they come even though not necessary the best options for the beneficiaries. In addition, according to our experience key experts in the ministries are usually not available for a long period of time.

Since the Treasury officials in Croatia have high level of knowledge and awareness of the practice in the Treasury processes in other countries, there is no need to have the experts who will introduce practical experience from his/her country.

The experts on this project should, taking into account current conditions and features of the system, give the idea for the optimal solution and advise on further development.

6.3 Non-standard aspects

All aspects of project procurement and implementation will be carried out in full compliance with the competitive tender/contract procedures outlined in the PRAG.

The required relevant analysis of the IT component will be provided through three projects financed by World Bank’s TAL2 Loan No: 4460HR (Technical Assistance Project for Institutional and Regulatory Reform for Private Sector Development). The Terms of references for these three projects have already been launched (see Annex 5). The deadline for completion of the projects is end June 2006.

6.4 Contracts
Contract 1 - technical assistance- 897,600 €; Contract 2 - technical assistance- 506,000 €;
Contract 3 - supply – 1,221,600 €; Contract 4 - supply – 510,000 €; Contract 5 – technical assistance- 959,800 €

7. IMPLEMENTATION SCHEDULE

7.1 Start of tendering/call for proposals : November/December 2006
7.2 Start of project activity : March/April 2007
7.3 Project completion : November/December 2008

8. EQUAL OPPORTUNITY

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

Specifically in relation to the issue of equality between men and women, Croatia’s population (2001 census) constitutes 51.87% women and 48.13% men, with those in active employment (based on Labour Force Survey statistics, conducted in accordance with ILO methodology, for the second half of 2002) divided 45.31% women and 54.69% men.

All contractors shall be requested to provide monitoring data recording the participation of men and women in terms of expert inputs (in days) and of trainees benefiting under the project (in days) as an integral component of all project progress reports.

Equal participation of man and woman during the implementation of the project will be assured.

9. ENVIRONMENT

Not applicable

10 RATES OF RETURN

Financial rate of return is not directly measurable.
Indirectly measurable with:
- Decreased capital cost of borrowing;
- Improved resources and collection;
- Improved the positive effect on the state budget;
- Improved the know-how of staff;
- Increased quality of data needed for the decision-making process
Sources of indicators are annual reports of the MoF, Croatian National Bank and official statistical reports.

11. INVESTMENT CRITERIA (APPLICABLE TO ALL INVESTMENTS)
11.1 **Catalytic effect**
Not applicable

11.2 **Co-financing**
The Project will be co-financed by the Croatian government in the amount of 1.023.750 €.

11.3 **Additionality**
Phare financial contribution will accelerate the establishment of an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specifically fiscal positions, in line with EU procedures.

11.4 **Project readiness and size**
Not applicable

11.5 **Sustainability**
The Ministry of Finance will borne any future costs required for the maintenance, improvement or development of IT equipment.

11.6 **Compliance with state aids provisions**
Not applicable

12. **CONDITIONALITY AND SEQUENCING**
The Ministry of Finance has commissioned studies to analyse possible options to interface the SAP FMIS with budget users systems and to prepare a strategy for the rationalization of the architecture of the FMIS.

**ANNEXES TO PROJECT FICHE**

- Annex 1 - Logical Framework Matrix
- Annex 2 - Detailed Implementation Chart
- Annex 3 - Contracting and Disbursement Schedule
- Annex 4 – List of Feasibility Studies, Financial Appraisals, EIAs etc.
- Annex 5 - Reference List of Relevant Laws and Regulations
- Annex 6 - Reference List of Relevant Strategic Plans and Studies
- Annex 7 - Contracts
- Annex 8 - Study of Rationalization
## Improving Budget Processes for Effective Financial Management

<table>
<thead>
<tr>
<th>Programme name and number</th>
<th>HR2006/018-113/3/1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance, State Treasury</td>
<td></td>
</tr>
<tr>
<td>Contracting period expires :</td>
<td>30.11.2008</td>
</tr>
<tr>
<td>Execution of contracts period expires :</td>
<td>30.11.2009</td>
</tr>
<tr>
<td>Total budget:</td>
<td>4 095 000 €</td>
</tr>
<tr>
<td>PHARE budget:</td>
<td>3 071 250 €</td>
</tr>
</tbody>
</table>

### Overall Objective

More efficient, accountable and better-functioning public service in Croatia, in line with the standards of EU member states

### Objectively Verifiable Indicators

- Decreased number of bureaucratic procedures with the sustained amount and quality of service delivered
- Inclusion of wider public into discussion of budget preparation and execution
- Improved perception of wider public regarding efficiency of civil service

### Sources of Verification

- European commission annual reports
- Media coverage of budget preparation and execution
- Information bulletins for wider public
- Questionnaires
- Ministry of Finance statistical reports

### Project Purpose

Efficient and sustainable financial management system based on modern instruments and mechanisms, designed and operating to European standards

### Objectively Verifiable Indicators

- Decreased deficit of central government
- More transparent, precise and comprehensive budget documents and financial reports.
- Less differences between original and actual budget
- Average time needed for payment decreased
- Decreased time-period required to produce financial statements for central government

### Sources of Verification

- Statistical reports produced by the Ministry of Finance
- Budget document
- Budget execution reports

### Assumptions

- Continuous government support to the reform of civil administration in Croatia
<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively Verifiable Indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result 1 - Modernised budget processes</td>
<td>- Medium-Term Budget Framework prepared - Performance indicators developed and performance reports prepared for pilot ministries</td>
<td>- Availability of the MTBF line ministries performance reports</td>
<td>- Established systems regarding transfer of know-how in case of staff-turnover</td>
</tr>
<tr>
<td>Result 2 - Streamlined budget execution systems result</td>
<td>- Percentage of central government payment channelled through the TSA - Production and publication of comprehensive financial reports</td>
<td>- Contents of IT data-base for exchange of accounting data between Central Treasury Unit and budget users - Quarterly Reports produced under the project - Sigma reports</td>
<td>- Financial incentives to keep skilled technicians within the government</td>
</tr>
<tr>
<td>Result 3 - FMIS of State Treasury and budget users integrated</td>
<td>- Budget users’ data on commitment, liabilities and assets available</td>
<td>- FMIS of State Treasury and budget users integrated</td>
<td>- Effective coordination between the MoF and line ministries</td>
</tr>
<tr>
<td>Result 4 - Master Data Management solution established</td>
<td>- Balance sheet for central government prepared</td>
<td>- Master Data Management solution established</td>
<td>- Willingness of all the project beneficiaries to apply acquired knowledge and IT solutions into practice</td>
</tr>
<tr>
<td>Result 5 - Training of relevant staff of the MoF and line ministries in budget management areas carried out</td>
<td>- Number of trained professional working in budget preparation and budget execution - Number of trained book-keepers</td>
<td>- Human Resource Reports produced within Ministry of Finance - Quarterly Reports produced under the project</td>
<td>-</td>
</tr>
<tr>
<td>Activities</td>
<td>Means</td>
<td>Assumptions</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>1.1. Design the format of the MTBF;</td>
<td>1. TA: EU experts 36 person/months and local experts 6 person/months</td>
<td>- Availability of forecasted inputs</td>
<td></td>
</tr>
<tr>
<td>1.2. Define the MTBF preparation procedure and revise the budget preparation procedure to take into account the MTBF procedure;</td>
<td></td>
<td>- Arrangement to manage the project in place and functioning effectively</td>
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</tr>
<tr>
<td>1.3. Establish the new budgeting procedure taking into accounting existing capacities;</td>
<td></td>
<td></td>
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<tr>
<td>1.4. Review and amend the legal framework;</td>
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<tr>
<td>1.5. Prepare manuals for MTBF and budget preparation.</td>
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<tr>
<td>1.6. Improve the current programme classification;</td>
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<tr>
<td>1.7. Set up of performance indicators and define procedures to monitor and report them;</td>
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<td></td>
</tr>
<tr>
<td>1.8. Draft operational guidelines;</td>
<td></td>
<td></td>
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<tr>
<td>1.9. Modifications of existing SAP SEM-BW in line with proposed improvements</td>
<td></td>
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</tr>
<tr>
<td>2.1. Extension of the TSA coverage;</td>
<td>2. TA: EU expert 23 person/months</td>
<td></td>
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<tr>
<td>2.2. Improvement of cash planning;</td>
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<tr>
<td>2.3. Definition of the procedures to centralize the data on commitments;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.4. Review/improvement of accounting/reporting and streamlining commitment control;</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2.5. Review of appropriation management rules in order to provide line ministries with a modicum of flexibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1. Procurement/installation of hardware;</td>
<td>3. Supply: (i) hardware 461.600 Euro; (ii) software 560.000 Euro; (iii) users training 200.000 Euro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2. Procurement/installation of software (Data Based Management System (DBMS) and/or Enterprise Planning Software (ERP), additional SAP integration modules);</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.3. Training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1. Procurement/installation of hardware and system software;</td>
<td>4. Supply: (i) hardware and system software 160.000 Euro; (ii) MDM Solution 300.000 Euro; (iii) users training 50.000 Euro</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.2. Procurement/installation of application software -</td>
<td></td>
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<tr>
<td>MDM solution;</td>
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<tr>
<td>4.3. Training</td>
<td></td>
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</tr>
</tbody>
</table>

- 5.1. Preparation and implementation of a framework for capacity assessment of MoF staff
- 5.2. Establishment of training programmes/curricula and implementation schedules;
- 5.3. Elaboration of training materials;
- 5.4. Establishment of training quality assurance system;
- 5.5. Delivery of training (for the staff from both the MoF and line ministries);
- 5.6. Procurement of books and materials related to the financial management field;
- 5.7. Study tours to EU countries;
- 5.8. Implementation of public awareness actions

- 5. TA: (i) EU expert project manager 16 person/months; EU experts 10 person/months; local experts 3 person/months; (ii) cost of books and materials 35,000 € and (iii) cost of study tours to EU countries 300,000 €

| Precondition |
| Inventory of the information systems between line ministries and their respective budget users |
## Annex 2 – Detailed Implementation Chart

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract 3</strong></td>
<td>T</td>
<td>T</td>
<td>T</td>
<td>C</td>
</tr>
</tbody>
</table>

- **P** - Preparation of Twinning Fiche / Terms of Reference for the service contract
- **T** - Tendering
- **C** - Contracting
- **I** - Implementation
- **R** - Reporting
### ANNEX 3 – CONTRACTING AND DISBURSEMENT SCHEDULE

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted</td>
<td>1,40</td>
<td>2,70</td>
<td>3,07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Disbursed</td>
<td>0,50</td>
<td>1,15</td>
<td>2,15</td>
<td>2,65</td>
<td>2,90</td>
<td>3,07</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 4 – LIST OF FEASIBILITY STUDIES, FINANCIAL APPRAISALS, EIAs etc.

Not applicable

ANNEX 5 – REFERENCE LIST OF RELEVANT LAWS AND REGULATIONS

1. The Budget Law (Official Gazette, no. 96/03).
4. The Book of Rules on Budget Users and the Manner of Keeping the Register of Budget Users (Official Gazette, no. 80/04).
5. The Book of Rules on Budget Accounting and Chart of Accounts (Official Gazette, no. 27/05).
7. The Book of Rules on Internal Audit of Budget Users (Official Gazette, no. 150/05).
8. The Decision on the Form of Standard Methodology for Financial Impact Assessment (Official Gazette, no. 27/05).

ANNEX 6 – REFERENCE LIST OF RELEVANT STRATEGIC PLANS AND STUDIES

Not applicable
<table>
<thead>
<tr>
<th>Contract 1</th>
<th>Contract 2</th>
<th>Contract 3</th>
<th>Contract 4</th>
<th>Contract 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modernized budget processes</td>
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<td>3.1. Procurement/ installation of hardware</td>
<td>4.1. Procurement/ installation of hardware and system software</td>
<td>5.1. Preparation and implementation of a framework for capacity assessment of MoF staff</td>
</tr>
<tr>
<td>1.2. Define the MTBF preparation procedure and revise the budget preparation procedure to take into account the MTBF procedure</td>
<td>2.2. Improvement of cash planning</td>
<td>3.2. Procurement/installation of software (Data Based Management System (DBMS) and/or Enterprise Planning Software (ERP), additional SAP integration modules)</td>
<td>4.2. Procurement/installation of application software - MDM solution</td>
<td>5.2. Establishment of training programs/curricula and implementation schedules</td>
</tr>
<tr>
<td>1.3. Establish the new budgeting procedure taking into accounting existing capacities;</td>
<td>2.3. Definition of the procedures to centralize the data on commitments</td>
<td></td>
<td>3.3. Training</td>
<td>4.3. Training</td>
</tr>
<tr>
<td>1.4. Review and amend the legal framework</td>
<td>2.4. Review/improvement of accounting/reporting and streamlining commitment control</td>
<td></td>
<td></td>
<td>5.3. Elaboration of training materials</td>
</tr>
<tr>
<td>1.5. Prepare manuals for MTBF and budget preparation</td>
<td>2.5. Review of appropriation management rules in order to provide line ministries with a modicum of flexibility</td>
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<td>5.4. Establishment of training quality assurance system</td>
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<td></td>
<td></td>
<td>5.8. Implementation of public awareness actions</td>
</tr>
</tbody>
</table>
ANNEX 8 – STUDY OF RATIONALIZATION

STUDY OF RATIONALIZATION (SUMMARY)

Conclusion

Conducted rationalization study showed that SAP financial management information system (FMIS) software supports business process of State Treasury in generally acceptable manner. Documentation that exists for State Treasury FMIS can not be considered acceptable and opens up series of questions about information security standards and operations management procedures of business system of State Treasury.

Non-existent documentation and non-existent operational procedures block transfer of responsibility for correct functioning of system from software provider (b4b) to system support provider (FINA), and that results in permanent dependency about software provider (b4b).

It is the conclusion of this study that project office and project committee should be established, so that adequate technical documentation of system in use can be written, what would enable that responsibility for functioning of FMIS can be transferred to system support provider (FINA).

Total of funds invested in business system of State Treasury according to 2003. audit report are 111,9 mil. kuna for application software, system software, hardware and other services. For SAP business system for State Treasury, without hardware expenses, total expenditure was 54,8 mil. kuna, e.g. 50% of total expenses. Total of 36% of funds was spent on consulting services, and 10% was spent for system and other software licenses.

It is conclusion of this study that total expenditure for business system of State Treasury, when related to assumed grade of acceptability in relation to support of business process based on reference model, cannot be justified. Relation of invested funds and implemented functionality does not speak in favour of expanding SAP FMIS of State Treasury to other budget users.

Conducted research showed that FMIS used in Ministry of Interior (MoI) can be graded as very acceptable (4) in relation to supported functionality and invested funds. Said FMIS can not be considered as reference model for FMIS for budget users because of uneven support for various groups of functionalities based on reference model.

It is conclusion of this study that none of researched FMIS can be considered reference FMIS for budget users which supports more than three quarters of required functionalities in a way that required functionalities are very well supported and, according to that, choice of one FMIS for all budget users can not be supported.

FMIS used in Ministry of Science, Education and Sports (MoSES) can be graded as moderately acceptable (3) because of relation of supported functionalities and invested funds – which are five times that of MoI for same level of functionality.

It is conclusion of this study that funds invested related to attained functionality are not justifiable for FMIS implemented in MoSES, and according to that partial expanding of SAP system to major budget users can not be justified.

Conducted research showed that interconnecting of budget users FMIS by using suggested connection model based on XML standard of electronic forms (documents) exchange with use of digital signatures for data integrity is feasible and justified.

It is conclusion of this study that number of FMIS in use should be limited, by means of defining budget user FMIS reference model with prescribed set of mandatory functionalities.
related to budget preparation, execution and audit. It is recommendation of this study that budget users FMIS should be compliant to reference model by the end of the budget year, and to develop functional specification template based on reference model as blueprint for public tender and objective evaluation of offers.

It is conclusion of this study that it is necessary to transfer responsibilities for management and maintenance of State Treasury FMIS to system support provider (FINA). It is recommendation of this study to choose software provider by means of public tender, based on previously developed functional specification so to eliminate dependency on current service provider (b4b).

Remarks on conclusions

Strategy of development for budget users FMIS is largely dependant on business strategy for development of public finances, which, in time of this study, was not complete. Rationalization study gave the answers to questions asked and laid out guidelines for development of FMIS through reference model used for measuring supported business processes in use during realization of the study.

Strategy of public finance development depends on attained level of fiscal discipline of budget users and can lead to substantial changes of budget planning, execution and audit processes together with change of budget accounting which was started by using modified accrual principle. Conclusions of this rationalization study are based on conducted research about support for business processes in time of conducting the study and can be different if public finance development strategy changes current business context by introducing new model of budget accounting.

Introduction of new model of budget accounting with transfer of responsibility for budget accounting to State Treasury for major budget users presumes using unique FMIS. In that case, based on conducted research, SAP system used in State Treasury could not support unified budget accounting for major budget users beside business processes of State Treasury and cash based accounting used in State Treasury, without major modifications to it. Beside existing FMIS in State Treasury, it is possible to establish completely new FMIS for major budget users based on accrual principle, and as continuation of project of establishing communication network of all state entities which is currently being developed by FINA. Said FMIS for major budget users should be under management of FINA as provider of services for State Treasury and MoF.

Introduction of new FMIS for major budget users also requires connection with State Treasury FMIS by using suggested model of inter connection based on XML standard of electronic forms (documents) exchange with use of digital signatures for data integrity. Rationalization study proved feasibility and justification of such inter connection, with remark that connecting with State Treasury SAP system does not presume that new major budget users FMIS must be based on SAP solution. It is conclusion of this study that relation between invested funds and implemented functionalities does not speak in favour of expanding SAP FMIS of State Treasury to major budget users.

Introduction of new FMIS for major budget users presumes implementation of connection with State Treasury FMIS in same way as connection of FMIS used by rest of budget users, which will continue to use their existing FMIS, either because of protection of investment or because of need to have separate budget accounting.

In implementation of connection of State Treasury FMIS and budget users FMIS it is necessary to resolve different accounting principles problem. Using central Treasury account presume paying liabilities of budget user based on approved and appointed funds in current
model in which users enter just their “Payment request” in SAP system, but liabilities are entered in budget users FMIS. Connection model should resolve when the information about liability is transferred to State Treasury FMIS, and whether payment request or invoice based on which payment request is generated is transferred. Budget users should enter their liabilities just once, without need to enter data twice, once as a liability in their FMIS and separately entering payment request in Treasury FMIS for making payment through central Treasury account. There are two possible models of executing payments through central Treasury account.

First model presumes that all payments are made through central Treasury account by transferring payment request to State Treasury FMIS, which maintains cash based principle. Payment requests would be based on documents processed in budget users FMIS, based on which request for payment through central Treasury account with future due date in electronic form would be submitted to State Treasury FMIS on day of making of liability, what would enable better funds planning. In said model control of making payments and sequence of paying liabilities of budget users is on State Treasury.

Second model of connection is based on idea of central Treasury account and sub-accounts from which budget user payments are made based on previously approved funds requested through somewhat modified funds reservation system, and transferred from central Treasury account to budget user’s sub-account. Instead of making single payment request, budget user submits electronic request for necessary funds for servicing due liabilities on specific date. After making payments balance on user’s sub-account should be zero, and if there are any funds left at the end of the day they are transferred to central Treasury account. Every request for funds on certain day, and transferred funds must be equal to sum of payments made from user’s sub-account, and request for funds is paired to sub-account transactions report. Said model does not break cash based principle of State Treasury FMIS, neither accrual based principle for budget users, and enables control of all payments made through sub-accounts of central Treasury account. Beside that, budget users have complete control over priorities for making payments based on available funds.

**Recommendations of the study**

- Establish Project Support Office (PSO) for entire Ministry of Finance (MoF), which will support project and risk management, and separately support for document management and configuration management. For PSO needs document management portal should be established, and separately system for permanent keeping of delivered project and technical documentation of implemented systems.
- Define standard methodology for project and risk management, develop standard templates of necessary project, technical and other documentation (e.g. Users guide, Functional specification, Project plan) based on chosen methodology and accepted standard procedures. It is recommendation of consultant to use PRINCE2 methodology for its proven effectiveness on large and long projects and programs.
- Establish project committee for managing State Treasury business system project (not just related to SAP system), which will have representatives from end users of the system (Senior user), representative of customer with administrative authorization (assistant minister), and representative of contractor – what constitutes standard management structure for project.
- Establish system improvement department as a center of competencies in project and risk management, and separately administratively enable department for managing software, hardware and other services provided by different service providers (b4b, FINA).
- Develop education plan for members of system improvement department for next two years which will include not only technical skills, but also business skills necessary for analysis, modelling and improvement of business and other processes, and specially for understanding, managing and using components of SAP system currently in use.

- Develop plan for education, improvement and administrative capabilities of users of State Treasury business system. Heads of sectors and departments additionally familiarize with chosen methodology of project and risk management. All users with administrative rights should be educated to use standard software tool for project management – e.g. Microsoft Project, for which there are licences for use based on consultants findings.

- Establish unified contact point for service support (Service Desk) for users of State Treasury business system inside of system improvement department, together with support for outside users (budget users).

- Begin the process of risk assessment and synchronization with recommendations and guidelines of information security management standard (BS:7799), and establish procedures for operations management based on recommendations of ITIL standard and standards for change management, configuration management, problem and incident management, security management, capacity management, availability management and other business system management disciplines.

- Describe business processes in use, in a way that requests for change and improvement of system can be made based on users observations and recommendations of this study. Described business processes, work procedures and workings put in relation with user and technical documentation of business system in use.

- Develop necessary technical documentation for State Treasury business system, in a way that described business processes and support for business processes by means of implemented business system can be put in connection. Thoroughly describe all components of the system and versions of different components in use, dependencies of specific components of the system and their versions (configuration management). This task should be carried out by service provider (b4b) under direct lead by system improvement department with support of independent expert for quality control of delivered technical documentation of the system.

- Develop technical specification of connecting budget users’ business systems with State Treasury SAP business system based on suggested model of connection using XML standard for describing structure of electronic record (documents) that is exchanged between two systems. Technical specification should be delivered to budget users and establish timeframe for implementing connection, e.g. by the end of the year.

- Establish registry of budget users and FMIS in use by budget users.

- Develop reference model for budget users FMIS with mandatory set of functionalities for budget planning, executing and auditing.

- For every user in registry track investments in software, hardware and other services for supporting FMIS in relation to support for functionalities from reference model and number of active users of said system.

- Every two years evaluate support for required functionalities from FMIS reference model for every user from registry of budget users, enter results in registry and relate them to investments in previous period.

- Based on reference model develop template of FMIS functional specification as baseline for public tender and objective evaluation of offers, in a way that no service provider is favoured over others.