01.03 PUBLIC FINANCE

1. Basic Information
1.1. Désirée Number: PL0003.03
1.2. Title: Public finance
1.3. Sector: Finance - Twinning code: PL2000/IB/FI02
1.4 Location: Poland

2. Objectives
2.1. Wider objective
Poland’s accession to the European Union implies the need to meet membership criteria which, in the economic dimension, refer to an effective operation of the market economy and the ability to participate in the expenditures and revenues of the EU general budget.

The objective of the project is to meet in medium term fiscal criteria of the economic and monetary union and to achieve readiness to participate in the EU own resources system.

2.2. Immediate objectives:
The project is composed of the three following sub-projects influencing each other, but for the sake of clarity of the project they are described separately.

1) Establishment of an effective public debt management system in Poland – in conformity with the standards in place in the EU Member – by :
   • Implementation of an effective IT system;
   • Methodological progress in debt management.

2) Adaptation of public finance to the requirements of participation in the system of the EU own resources:
   • Preparation of the administrative structures responsible for co-operation with the European Commission in the area of own resources, including training of the public administration officials on EU budgetary provisions;
   • Adaptation in the field of calculation of own resources (especially VAT and GNP).

3) Improving of the long-term budgetary planning and improvement of the public finance reporting:
   A. Creation of the public finance sector model;
   B. Implementation of the General Equilibrium Model of the Polish economy;
   C. Optimisation of public finance statistics

2.3. Reference to Accession Partnership, NPAA and Regular Report

Accession Partnership:
Short-Term: Economic Criteria: maintain progress achieved in ensuring macro-economic and budgetary stability.

Medium-term: Economic criteria: establish an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specifically fiscal positions, in line with EU procedures. Polish commitments in the negotiation areas ‘budget and finance’, ‘economic and monetary union’ and ‘statistics’ will be taken into account.

NPAA:
The tasks related to public indebtedness are reflected in Chapter No 3.3.1 “Economic and Monetary Union” of the NPAA, under priority 3.3.1.1. Establishment of a public debt management system.
The general equilibrium model and public finance sector will be an important research and projection tool applied to fulfil the priority concerning a joint assessment of medium-term economic policy priorities. This priority was incorporated in the NPAA (Chapter 2.1).

Regular Report:
Project refers to the following statements written in the Report of the European Commission:

2.3 Assessment in terms of the Copenhagen Criteria
Macro-economic stability has been maintained in Poland.(...) The main challenge lies in fiscal consolidation, against the background of the multiple reforms which are underway and their costs to the public budget.

3.3 Economic and Fiscal Affairs – Economic and Monetary Union
Poland has indicated that it accepts and will comply fully with EMU acquis as defined by title VII of the EC treaty and the other relevant texts. Poland has also stated that the administrative structures to implement and enforce the acquis will be in place.

3.3 Economic and Fiscal Affairs – Statistics
Sector-specific efforts are still needed in areas such as business register updating, macro-economic statistics,
external trade, labour and transport statistics in order to fully meet EU requirements. Co-operation between the Central Statistical Office and other services involved (i.e. Ministries of Agriculture and Finance, National Bank, Labour Office) need to be strengthened.

3. Description
3.1. Background and justification
One of the conditions for Poland’s accession to the European Union is to meet the accession criteria which, in the economic dimension, refer to an efficient operation of the market economy and the ability to face European Union market forces. In a medium-term perspective, Poland will also have to adopt *acquis communautaire* as regards the economic and monetary union, which entails co-ordination of economic policy within the EU, implementation of the economic convergence programmes, avoidance of an excessive budget deficit and limitation of the debt level in the public finance sector. Poland will engage in a policy aiming to achieve compliance with the EU goals of economic and social coherence in a more distant perspective, while keeping in mind the achievement of the final goal, that is compliance with the nominal convergence criteria and adoption of the common European currency, euro. Simultaneously, at the pre-accession stage, Poland with the participation of the European Union will prepare and implement mechanisms allowing it to assess, together with the EU, the medium-term priorities of the economic policy within the association institutions appointed under the Europe Agreement. This assessment will focus mainly on how Poland meets the economic criteria for EU membership. Poland’s accession to the European Union will also involve a need to pay a contribution to the EU general budget. Hence, it is necessary to adapt the methodology of the calculation of particular elements of the Polish contribution to the EU general budget and to improve the tools of economic policy analyses and forecasts. It is also necessary to prepare the appropriate administrative structures and train officials responsible in the future for co-operation with the European Commission in the area of the EU own resources.

3.2. Linked activities
1) The programme for implementation of an IT system and debt management methodology, entitled *DEBT MANAGEMENT IMPLEMENTATION PLAN for the MINISTRY of FINANCE of POLAND, Version 3.0, 16 October 1998, The World Bank*, was developed in co-operation with the World Bank experts (programme preparation was financed by the World Bank). The report includes the description of necessary actions in the field of public debt management, the implementation schedule, the cost estimate and the scope of necessary experts’ support. The report, prepared in co-operation with WB experts does not constitute part of the wider World Bank project for Poland in this area, therefore no source of financing of the program has been indicated. The amount of financial means in the Phare’2000 project is lower than required by the World Bank Program. Therefore, the additional means should be obtained from other sources (e.g. World Bank loan – such loan is currently negotiated) otherwise only the basic part of the project (described in the project fiche) will be realised.

2) The project is also connected with Phare 1999 and Phare 2000 projects for customs and tax administration (own resources component).

3.3 Results
- Higher level of work quality and effectiveness.
- Minimisation of the servicing cost of the debt in long term horizon.
- Increased ability to fulfil the convergence criteria with respect to public debt level.
- Higher technical level of work equipment, including computer hardware and software.
- Implementation of modern IT technology: hardware, data processing and transmission methods, integration of IT systems.
- Well trained and qualified staff in the Public Debt Department of the Ministry of Finance acquainted with EU Member States standards/practices in IT techniques and debt management methodology, able to put this experience into practice in Poland.
- Implementation of *acquis communautaire* concerning own resources system (VAT, GNP, traditional own resources);
- Establishment of sound and efficient organisational structures, including IT system, servicing own resources system (reporting, control, co-ordination of the exchange of information).
- Expertise concerning: current state of matters in adjustments to UE requirements (customs, agricultural and sugar levies, VAT and GNP), evaluation of efficiency of performance, in relevant fields, having direct impact on Poland's participation in the own resources system.
• Materials, guidelines and manuals concerning methodology, rules and mode of: calculation (especially VAT own resource); collecting and transferring into EU general budget (budgetary procedures), and monitoring and reporting in accordance with EU standards.
• Preparation and analysis of the coherence of guidelines underlying the national budget, which under Article 83 of the Law of 26/11/1998 on Public Finance (Journal of Laws, 1998, N° 1555, item 1014), the Minister of Finance is required to submit to the Council of Ministers.
• Forecasting particular elements of the public finance model, including development of three year forecasts of the public finance sector revenue and expenditure.
• Identification of the decision-making elements of the economic policy, which impact the outlook of public revenue and expenditure in the Public Finance Act.
• Development of simulations showing the impact of changing macroeconomic environment on the size of public revenue and expenditure.
• Estimation of the effects of planned systemic changes for the public finance sector, including revision of tax rates.
• Development of a database for the CGE model, comprised mainly of the so-called Social Accounting Matrix (SAM) which requires a consistent combination of various statistics (national accounts, input-output table, household budget surveys, balance of payments). Depending on the formal shape of certain dependencies in the model, certain parameters cannot be identified in the SAM. Therefore, the appropriate econometric examinations will be conducted.
• Development of the CGE model methodology together with the specification of formulas, procedure of calibration and solving mechanism;
• Creation of the database enabling the presentation of information on the state of public finance in accordance with the EU requirements.

3.4 Activities
Long-term expert – Pre-Accession Adviser will co-ordinate all actions of the project. He will also be responsible for the sub-projects concerning long-term budgetary planning and own resources system.
Requirements:
1) Working language: English
2) Professional qualifications:
   • Very good knowledge of macroeconomics, econometrics, statistics and economic processes characterising Polish economy;
   • Practical knowledge of statistical and econometrical packages;
   • Experience in creating general equilibrium models;
   • Practical knowledge of principles of the preparation of data for national accounts in accordance with ESA 95 and SNA 93 methodology and of data in the area of public debt calculated in accordance with the EU excessive deficit procedure;
   • Practical knowledge of the cross-sectoral flow table and it’s application;
   • Knowledge of public finance problems and budgetary planning methods;
   • Practical knowledge of the relations and flows inside public finance sector.

3.4.1 Public debt sub-project
1) Medium-term visiting twinning expert (not PAA) responsible for design of information system for public debt management and supervision of its implementation.
Requirements:
Working language: English
Experience in implementation and application of Information system for public debt management, especially:
   • Preparation of the system assumptions and specification (key objectives, functional requirements, technology parameters, etc.);
   • Preparation of tender documents;
   • Designing of database (ACCESS, ORACLE) for debt management;
   • Designing of links of the debt system to related systems;
   • Installation, customisation and enhancement of the system;
   • Testing of the system.
2) Preparation of two experts opinions on information system and debt management methodology
3) Training, study visits, seminars.
3.4.2 Own resources sub-project

1. One medium-term expert for:
   - evaluation of current state of matters in adjustments to UE requirements (customs, agricultural and sugar levies, VAT and GNP);
   - evaluation of efficiency of performance, in relevant fields, having direct impact on Poland's participation in the own resources system;
   - recommendations further actions envisaged to be undertaken to adjust Polish public finances to UE requirements.

2. Three short-term experts to support resolving *ad hoc* problems accruing under implementation phase.

3. Training, study visits, exchange of experience, workshops, seminars.

4. Interpretation, translation and publications.

3.4.3 Long-term budgetary planning sub-project

A. Public finance sector model:

1. Domestic training in applied mathematical and econometric analysis for the Department of Economic Policy, Analyses and Statistics of the Ministry of Finance.

2. Workshops, site visits and seminars in selected countries of the European Union in which centres with a track record of building public finance models, forecasting tax income and budget planning exist (for the Department of Financial Policy, Analyses and Statistics of the Ministry of Finance and other departments).

3. One medium-term expert under the twinning agreement, responsible (with one national expert) for:
   - Preparation of the public finance database covering income, spending and deficit;
   - the use of formulas, identification of the dependencies within the public finance sector as well as transfers between particular sector entities;
   - Preparation of a table (together with a description) quantifying particular sector elements and internal flows serving simultaneously as a database used for econometric projections.

4. One medium-term expert under the twinning agreement, responsible (together with one national expert) for implementation of the following tasks drawing on the base provided by the previous experts:
   - Identification of the sector elements dependent on the macroeconomic environment and development of specification proposals of the key formulas describing public finance sector revenue and expenditure.
   - Selection of the formulas with the best forecasting value for the Polish economy and their use to establish a coherent public finance model.
   - Implementation of the model and forecast methods and preparation of reports and simulation modules. Development of a comprehensive description of the overall model.

B. General equilibrium model of the Polish economy

1) Three medium-term experts under a twinning agreement:
   a) An expert to prepare the general concept of the model, to outline the theoretical framework and specify and build the database, in particular the Social Accounting Matrix. In addition, the expert would be responsible for:
      - development of the basic methodological assumptions,
      - definition of the model structure,
      - supervision over the model implementation.
   b) An expert in computer programming in order to implement a software for the model and to be responsible for its proper operation from the technical point of view, and for preparation of the model solving algorithm.
   c) An expert to calibrate parameters and close the model. In addition, the expert would be responsible for development of a comprehensive training programme in the optimum application of the model, long-term general projections and analysis of the impact of systemic (structural and institutional) changes and external shocks.

2) One national expert to support work on the implementation of the general equilibrium model and to monitor continuously the possibilities of applying the model in the Polish economic conditions (optimum customisation to the Polish statistics). The national expert will not be required to participate daily in the work on the model but merely on the dates agreed in advance.

3) Training, seminars, workshops, site visits, ad hoc experts, translations.
C. Optimisation of public finance statistics
1) Three medium-term experts for:
   • assessment of the current state of public finance reporting system;
   • design of the model the most appropriate for the Polish conditions and indication of the necessary infrastructure;
   • implementation of the agreed model and definition of the scope of the necessary training;
2) Training, seminars, study visits in Poland
3) Training, seminars, study visits in the EU Member States, translation costs:
4) Purchase of analyses, manuals, other publications and their translation

3.4.4 Investment support
In addition to the above-mentioned activities, the necessary computer hardware and software will be purchased. Detailed specification of the equipment will be prepared in collaboration with twinning experts.

- Public debt sub-project
  Purchase of software and hardware and installation of IT system.

- Own resources sub-project
  Purchase of IT equipment, software and hardware for IT system supporting own resources system at national level.

- Long-term budgetary planning sub-project, including:
  Purchase of computer hardware and software for the purpose of public finance sector model building. Purchase of computer hardware and software necessary to implement the general equilibrium model. The purchase of equipment and software for optimisation of public finance statistics.

4. Institutional framework
The beneficiary of this project is the Ministry of Finance (Financial Policy, Analyses and Statistics Department, Public Debt Department, State Budget Department, Regional Policy and Agriculture Department, Foreign Assistance Funds Department, Department of International Economic Integration and other units) and other offices participating in the system of EU own resources (including Central Statistical Office and Central Customs Board). The Ministry of Finance will become the owner of the equipment.

5. Detailed Budget (by contracts and in EUR)

<table>
<thead>
<tr>
<th>Contract</th>
<th>Investment</th>
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<th>Total PHARE</th>
<th>National Co-financing</th>
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## Adaptation of public finance to the requirements of participation in the system of EU own resources

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<td>4.3 Purchase of computer hardware and software for improvement of the long-term budgetary planning</td>
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* Also possible the additional co-financing from World Bank loan – such loan is currently negotiated

The Polish authorities have assured that the Government cofinancing is available either through the reserve budget foreseen specifically by the Ministry of Finance for this purpose each year, or directly through the budget of the relevant Ministry.

### Implementation framework

#### 6.1. Implementing agency

PAO: P. Samecki, Undersecretary of State at the Office of the Committee for European Integration

Al. Ujazdowskie 9, Warsaw. Tel.: 4822 694 75 42, 4822 694 7195, 4822 694 6064. FAX: 4822 694 7194, 4822 625 0380.

CFCU: Foundation “Cooperation Fund”, 6/12 Nowy Świat St., 00-400 Warsaw

The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the Ministry of Finance which itself shall be responsible for preparing projects and managing their technical implementation.

In the Ministry of Finance (beneficiary institution) the Steering Group assembling the representatives of all units concerned will be responsible for the implementation of the project.

Contact person: Mr. Krzysztof SAJDAK, Head of Unit, Department of International Economic Integration, Ministry of Finance, 12, Swietokrzyska St. 00-916 Warsaw, tel.: 4822 694 5935, fax: 4822 694 3058.

#### 6.2. Twinning

It is planned to conclude twinning agreement with one or two EU Member States. The leading Member State will second a PAA to Poland. This country will be responsible for the sub-projects connected with long-term budgetary planning and EU own resources. The second Member State would be responsible for the component related to public debt management. Beneficiary institution will be the Ministry of Finance.

#### 6.3. Non-standard aspects

Project implementation will proceed in accordance with the standard PHARE principles (DIS an Twinning Manuals).

#### 6.4. Contracts

It is planned to conclude 2 contracts: 1 twinning agreement (2,000,000 Eur) and 1 contract for the provision of equipment (800,000 Eur).

### Implementation schedule

01.03 Public finance/6
7.1. Start of tendering/call for proposals
October 2000 - twinning
July 2001 – equipment tender

7.2. Start of project activity
April 2001

7.3. Project Completion
December 2002

8. Equal Opportunity
In Poland sex discrimination is forbidden by law. The only criteria for the participation in the project will be professionalism and experience.


11. Investment criteria: n.a.

## Annex 1: LOG-FRAME PLANNING MATRIX FOR PUBLIC FINANCE DEVELOPMENT PROGRAMME

<table>
<thead>
<tr>
<th>Programme number:</th>
<th>Programme title:</th>
<th>PUBLIC FINANCE</th>
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<td>Total budget:</td>
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<td>Date of drafting:</td>
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### Wider objectives

The objective of the project is to meet in medium term fiscal criteria of the economic and monetary union and to achieve readiness to participate in the EU own resources system.

### Immediate objectives

1) Establishment of an effective public debt management system in Poland – in conformity with the standards in place in the EU Member – by:
   - Implementation of an effective IT system;
   - Methodological progress in debt management.

2) Adaptation of public finance to the requirements of participation in the system of the EU own resources:
   - Preparation of the administrative structures responsible for co-operation with the European Commission in the area of own resources, including training of the public administration officials on EU budgetary provisions;
   - Alignment of the methodology of the calculation of the particular elements of the Polish contribution to the EU general budget.

3) Improving of the long-term budgetary planning and improvement of the public finance reporting:
   - Implementation of the General Equilibrium Model for the Polish economy;
   - Creation of the public finance sector model;
   - Public finance statistics development.

### Results of projects

- Higher level of work quality and effectiveness in

### Indicators of achievement

- Full implementation of project assumptions,

### Sources of information

- Opinion of the EU experts

### Assumptions and risks

- Co-operation of national (Ministry of Finance, Statistical Office, central bank) and foreign institutions.
- Allocation of appropriate funds for project implementation
- Implementation of the first phases of the project will influence subsequent actions undertaken in the scope of the project.
the debt management area.
• Higher technical level of work equipment, including computer hardware and software.
• Enhanced level of staff qualifications
• Implementation of EU provisions in the area of own resources;
• Creation of the well-functioning organisational structures in the area of own resources;
• Well-functioning public finance model
• Well-functioning General Equilibrium Model for the Polish economy
• Public finance statistics in conformity with the EU requirements.

| Activities |
|-----------------|-----------------|-----------------|-----------------|
| **Pre-accession Adviser** | **Public debt management** | **Adjustment of public finance to the requirements of participation in the system of EU own resources** | **Improvement of the long-term planning** |
| Medium-term twinning expert in the area of information systems for debt management / Expertise on debt management methodology / Expertise on software and hardware for the debt management system / Study visits and consultations with the EU experts / Training for the staff | Medium-term expert in current adjustment situation analysis / Three short-term expert in solving current problems connected with adaptation of the own resources / Site visits in particular EU countries / Seminars, translation, seminars, publications | Medium-term expert in current adjustment situation analysis / Three short-term expert in solving current problems connected with adaptation of the own resources / Site visits in particular EU countries / Seminars, translation, seminars, publications | Domestic training / Workshops, site visits and seminars / Purchase of books and publications and translation / Foreign expert in public finance sector analysis / Foreign expert in forecasting methods and their implementation / National expert in public finances / National expert in econometrics |
| **Implementation of the General Equilibrium Model** | **Public finance sector model** | **Public finance statistics optimisation** | **Computer hardware and software** |
| Domestic training / Workshops, site visits and seminars / Purchase of books, publications and translation / Foreign expert in database construction (SAM) / Foreign expert in computer programming / Foreign expert in calibration and model closure / Long-term (national) expert | Domestic training / Workshops, site visits and seminars / Purchase of books and publications and translation / Foreign expert in public finance sector analysis / Foreign expert in forecasting methods and their implementation / National expert in public finances / National expert in econometrics | Experts / Technical assistance (translation, site visits, seminars, training) | Computer hardware and software for debt management system / Computer hardware and software for own resources system / Computer hardware and software for long term budgetary planning |
Annex 2: Cumulative Implementation, contracting and disbursement schedule

<table>
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D = design / C = contracting / I = disbursement and implementation