Title: Public Finance & Control -

Sub-programme: Adoption and Implementation of the Acquis

Geographical Location: SLOVENIA - Ministry of Finance (MoF)

Objectives

Process of institutional strengthening of the Ministry of Finance for the tasks linked with the EU Accession in the area of Government Fiscal Management and improved overall Government implementation and administrative capacity will continue under implementation of Phare 1999 programme. Building on the past reform efforts that had resulted in fiscal stabilisation through the further development of the systems, institutions of the Government Fiscal Management, the continuity and coherent approach will be ensured and MoF will be able to continue with the implementation of EU legislation (Acquis Communautaire).

Public Expenditure as a part of the overall Government Fiscal Management in the Public finance area is one of the priority areas that is given an opportunity to benefit from twinning projects in order to meet the obligations of EU membership and meet criterias of the EU member countries in the area. Future assistance under FM 1999 should improve the overall Government Fiscal Management capacity including the improvement of the institutional organisation and systems of the budget preparation, budget execution and fiscal reporting, development of multi-year budget programming, systems for the preparation of the plan of development programs, systems for monitoring investment project and improvement of public procurement practice. Assistance with further development of core government accounting systems and development of spending agencies budget execution systems and cash and debt management systems ensure budget accountability, transparency and overall financial control. It is expected that twinning should foster general cooperation and in particular deliver specific results agreed between partners in advance for the successful implementation of priority areas in the Acquis, as set out in the Accession Partnership.

Intensive activities of a complete Institution Building process should be focused towards the following key areas of public finance:

- further reinforcement of institutional and administrative capacity in the areas of tax reform, further assistance in improvement of the public expenditure management including public procurement, assistance in the strengthening of internal financial control, strengthening of Insurance Supervision Authority and in the area of financial services the preparation of feasibility study, action plan and legal solution.

Accession Partnership defines the accession priorities. All list of priorities and proposals for twinning arrangements stated in Phare Programming 1999 for finance should be devoted as a support in a view of accession in financial sector. It would be highly appreciated to start with

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1 Multi-year programming approach to budgeting management was included as Plan of Development Programs in the in new Organic Budget Law currently before the parliament.

2 For the Development of Financial Control capacity see a separate proposal.
the implementation and continue with this approach. A rationale is the reinforcement of institutional and administrative capacity in the following areas:

- **Taxation (VAT implementation, integrated taxation information system),**
- **Budget (budget planning, public expenditure organisation and management, public procurement improvement)**
- **Internal financial control of budgetary expenditures**
- **Insurance supervision (compliance with EU directives which are concerned with Insurance Supervision Authority and institutional building-upgrading of insurance supervision),**
- **Capital Movements and Financial System (further administrative reform and institutional building is indispensable in order to have the structures to apply and enforce the Acquis effectively).**

The assistance addresses the key components mentioned in *Agenda 2000* and the Accession Partnership, namely, the need to strengthen the administrative structure in general and especially to establish institutions prepared for full membership.

The European Commission is prepared to help Slovenia to further align the legislation and administrative framework with the Single market. This co-operation is based on the *Road Map* (the EU adopted in October 1997). The Road Map for financial area focuses inter alia on the following issues: taxation, financial services and free movement of capital, public procurement and insurance supervision.

**National Programme for the Adoption of the Acquis (NPAA):**
The Slovene NPAA on points 1.1.1 (Monetary and Foreign Exchange Policy), 1.1.2 (Fiscal Policy), 1.2.3. (Financial Sector Reform), 1.2.7 (Budget and Tax Reform) and 4.6. (Public Finance) defines the following objectives and targets in these priority areas:

- **Monetary and Foreign Exchange Policy:** Continuation of gradual liberalisation of capital transactions and establishment of full capital account convertibility by the year 2001;
- **Fiscal policy:** Balanced general government account, improved tax collection, reduced tax evasion, reduction of the expenditures;
- **Financial Sector Reform:** the increase of international competitiveness of the financial sector to the level which will allow its successful financial integration into the global market for financial sector, harmonisation with EU banking and insurance sector, adjustment of the banking and insurance legislation;
- **Budget and Tax Reform:** Restructuring of expenditures in a way to reduce budget pressures and increase development component, improving of budget preparation, implementation, monitoring and control and increase of the efficiency of budget performance; introduction/restructuring of taxes (VAT), establishment of taxation system which does not create economic distortions between economic activities nor hinder the competitiveness of the economy and is stimulating to an efficient utilisation of resources;
- **Public Finance:** decentralisation of budgetary responsibilities, creation of new budgetary mechanism, development of the Budgetary Control Department within the Ministry of Finance, necessary management and control mechanisms to cope with EC requirements;
- **Public Procurement:** improvement and development of transparent public procurement procedures, assurance of operational rules.
Description

1. Public Expenditure Management including systems for monitoring investment projects and improvement of Public Procurement

Relation to the Regular Report towards Accession
The Regular Report highlights a number of issues that have to be targeted as a part of Slovenia’s accession. In general the report concludes that, although the budget deficit is modest, the current account remains close to equilibrium, the currency is relatively stable, and economic growth is accelerating, “the evolution of public finances in 1997 was less than satisfactory.” Further the report states that “Slovenia has made little additional progress in its preparations for participation in the Economic and Monetary Union” and “As regards macro-economic statistics, improvements are needed in the area of data sources, in particular on the quality of Chart of Accounts, related to Government revenues and expenditures, landing and repayments as well as accounting related to Government assets and liabilities. Government finance and especially debt and deficit statistics also require methodological improvements.” The report concludes with: “There is a lack of relevant regulations to define budgetary procedures, a lack of adequate standards and norms in public expenditure management...” In the area of public procurement “Some legislative alignment is still needed,...” and “The main issue remains the enforcement of legislation and training of the institutions responsible for implementation.” In respect to the need for strengthening the administrative capacity the report states: “At this stage staffing levels are clearly insufficient. Significant training will also be required within the sectoral ministries for staff involved in executing the new procurement procedures.”

Relation to the Accession Partnership
All the areas of this twinning are short and medium-term priorities and intermediate objectives that have been identified for Slovenia. Budgeting and public expenditure management should be “...focusing on satisfying the Copenhagen criteria for membership of the Union and the acquis in the area of economic and monetary policy (coordination of economic policies, submission of convergence programmes, avoidance of excessive deficits...”), then “Reinforcement of institutional and administrative capacity: as regards public procurement (in particular transparency)...”

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3 Regular report on Slovenia’s Progress towards Accession, p.17
4 Regular report on Slovenia’s Progress towards Accession, p.26
5 Regular report on Slovenia’s Progress towards Accession, p.27
6 Regular report on Slovenia’s Progress towards Accession, p.46
7 Regular report on Slovenia’s Progress towards Accession, p.20
8 Regular report on Slovenia’s Progress towards Accession, p.21
9 Regular report on Slovenia’s Progress towards Accession, p.42
10 Slovenia: Accession Partnership (98/C 202/10)
11 Slovenia: Accession Partnership (98/C 202/10)
Relation to the NPAA
Designed to ensure a timely enforcement of the Acquis in the above mentioned areas, the project will provide a better vantage point for implementation of the medium-term priorities in the NPAA which are included in chapters: 1.1.2 Fiscal policy, 1.2.7 Budget and Tax Reform, 1.2.16 Common Rules of Operation on the Internal Market, 4.1 Public Administration, 4.6 Public Finance

SYSTEMS FOR BUDGET PREPARATION AND BUDGET EXECUTION AND FISCAL REPORTING
The Ministry of Finance has prepared an integral reform of public finance which encompasses various public finance elements. In the FM 1998 project Ministry of Finance will finish the projects of new economic and functional classification where special attention will be paid to establish international standards. In addition the new Law on Accounting (adopted on March 23, 1999) and the New Organic Budget (in the first reading in the Parliament and scheduled for the adoption by the end 1999) provide further legal basis for the development of the systems of budget preparation, execution and overall public expenditure management.

New classifications and legal authorities will act as means for future assistance under FM 1999 that shall improve the overall Government Fiscal Management capacity including the improvement of the institutional organisation and administrative capacity of systems of the budget preparation, budget execution and fiscal reporting, development of multi-year budget programming, that would with further development of core government accounting systems and development of spending agencies budget execution systems and cash and debt management systems ensure budget accountability, transparency and overall financial control.

To further the FM 1999 objectives the Ministry of Finance is especially interested in cooperation with a long-term expert who shall carry out his duties in the area of further development:

- systems for budget preparation, both for the recurrent as well as capital and foreign assistance (EU funds) financed (existing and new) programmes and projects under the new internationally comparable economic and functional classification;
- systems of budget execution and fiscal (expenditures) reporting; including further integration of the EU National Fund expenditure execution and EU National Fund reporting;
- multi-year budget programming;
- systems for the preparation of the Plan of Development Programmes as an multi-year budgetary obligation and system for monitoring investment projects, including further development public procurement practices in the execution of the investment projects and recurrent expenditures procured according to the public procurement law.

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12 Multi-year programming approach to budgeting management was included as Plan of Development Programs in the in new Organic Budget Law currently before the parliament.

13 For the Development of Financial Control capacity see a separate proposal.
The long-term expert mentioned above will be responsible for planning and co-ordinating short-term experts in close collaboration with the respective units.

Systems for Budget Preparation
In the eight years of Budget preparation in the independent Slovenia major efforts were undertaken in order to build an appropriate systems for the Budget preparation. Prepared by the Budget Department of the Ministry of Finance, the specific forms for the preparation of the input oriented Financial Plans of the Line Ministries and Spending Agencies were build around detailed up-to-date economic classification and old “functional” classification. Given the new UN-IMF-OECD, ESA 95 compatible functional classification further effort is needed to establish an overall System for Budget Preparation.

The expert should provide the best practice of EU member countries that would enable encompassing both the recurrent expenditures pressures as well capital expenditures, especially on the new programmes and projects. In this context an overall system would also improved the institutional capacity of the line ministries and MoF on the “planning stage” of the EU funds and IFIs instruments to be utilised in the pre-accession period and thus provide an appropriate framework for the expected obligation of an EU member country.

Systems for Budget Execution (incl. EU National Fund)
Existing’systems of budget execution and fiscal (expenditures) reporting; including those financed from the EU Phare programme under previous COP provide relatively satisfactory ex-post reporting on the overall fiscal expenditures. However in order to improve government funds utilisation and the move from input to resource budget (to be undetaken under the FM98 program) further development of budget execution system is needed. Given the provisions of the Organic Budget Law and the Financing Memorandum of the COP98 futher integration of the EU National Fund is needed in the overall Government expenditure executions. That would allow to cross-fertilize good EU funds execution practices with Slovene Government funds expenditures, including integration of fiscal and EU National Fund reporting.

The expert shall provide assistance on the above area building on the earlier reform effort

Multi-year Budget Programming
There is large demand for public services and expenditures and also for restructuring of the present expenditure programmes. At the same time fiscal policy must make it possible to comply with public finance related convergence criteria.

Assistance is required in the following areas:
- Full implementation of performance budgeting in feasible areas including methods for verifying and evaluation of results.
- Design and implementation of procedures for budgeting in a medium term macro-economic framework which will enable the government to present reliable-convergence plans.
Design and implementation of methods for using medium term fiscal policy targets consistent with the Maastricht criteria and the Stability and Growth pact.
Design and implementation of a system for top-down budgeting based on the Governments political priorities.

The expected outcome would contribute to stabilize public finances and facilitate compliance with the convergence criteria.

**Systems for the Preparation of the Plan of Development Programmes**
The Organic Budget Law prescribes defining the Plan of Development Programmes as the core of the Government multi-year expenditure programming. The legislation stipulates the preparation of a plan as a four-year program, regularly updated in the annual budgetary debate. As such it provides the core input both in the Government – EU “Community Support Framework” as well a critical input into the preparation of the spending agencies budgets and overall State Budget.

The expert shall provide assistance to the MoF in its coordinative and preparation activities for the preparation of the Plan of Developmental Programmes as synchronized program of the Council of Ministers. The key benefit of the work would be in an integrated Budget covering emphasizing the capital investments as well as those programs and projects financed by the EU funds’ and IFIs instruments.

**Systems for Monitoring Investment Projects and Improvement of Public Procurement Practice**
Currently the system for monitoring investment projects, including monitoring the procurement practices in the execution of the investment projects (as well as current expenditures procured according to the public procurement) is not satisfactory. Lack of multi-year planning and low level of institutional capacity in public expenditures are key causes.

In this context additional focus of FM 1999 programme shall be on the development of the systems of monitoring investment projects and improvement of public procurement practice in the overall context of budget and public expenditure management. That would include development and strengthening of Public Procurement & Investment Department and public procurement units in the line ministries including Joint Services of Government of RS to enable them for operating according to the EU law and good practice, as using right procedures, technical specifications and European standards and establish qualified purchasing units.

The expert shall thus provide assistance in institutional building and upgrading of infrastructure, implementation of supervision and controlling mechanism in PP procedures.

Further activities and transfer of skills of experts from EU Member States, methods and practices, related to the further development of the Slovenian Public Procurement market and its enhanced opening to the competition and its transparency, primarily by implementation and enforcement of the Public Procurement Law and efficient legal remedies in practice, further comprehensive training for the staff working in public procurement units, additional
training of purchasing officers in a view to sensitise and increase the efficiency of the public expenditures and in a view of raising of capability for carrying out procurement procedures, would be required.

Especially the following long-term objectives according to the required EC Directives should be followed:

- Improvement of the level of competition and transparency of public procurement in Slovenia with more efficient procurement and legal remedies.
- Establish better qualified procurement units.
- Setting-up of a better national IT-support for publishing Tender and contract award notices, compatible with EU-TED (Tender Electronic Daily), which will also easily collect reliable statistical data for monitoring public procurement in Slovenia.
- Introduce periodical systematical evaluation and analysis of public procurement in Slovenia on the basis of questionnaires, statistics of tender and award notices, and other available sources of public procurement related information.

Based on the input and work of public procurement advisors a centralised or decentralised office will be established for which further assistance may be required.

2. Financial Control
The aim of this assistance is establishment and reinforcement of the new institutional structure of financial control and inspection, and the establishment of internal control officers within the spending Ministries.

At present financial control in Slovenia is dealt by 3 institutions: The National Court of Audit, The Budget Inspection Department at the Ministry of Finance, and the Parliamentary Budget and Other Public Finance Audit Committee. The Budget Inspection Department within the MoF is the internal control body. The legal basis for this control is the Budget Implementation Act and two implementation regulations, which call for the establishment of internal control officers within spending Ministries. Whilst staffing levels for financial control are at present low, the Government plans to recruit 17 new officers in 1999 and some 40 more in 2000-2001. This is a clear indication that it is committed to reform in this all important area and that it is addressing the need to meet EU standards.

Capacity to exercise financial control within the Government needs to be built and upgraded and practical experience from EU member states is sought under this assistance program. Capacity building measures will target both decision makers and persons who have responsibilities to audit the implementation of the Slovene budget, exercise financial control and audit systems both in general and in particular related to the disbursement of EU funds. Training, revision of existing regulations and preparation of manuals are needed to upgrade the financial control in order to reach the level expected in EU member states. In particular, assistance will be needed to ensure an efficient financial control to cope also with the rules governing the use of structural funds. Since it is anticipated that the governing of Structural
Funds will take place in the MoF, there are substantial efforts needed to establish the necessary financial control and management mechanism to cope with EU requirements.

The Ministry of Finance is seeking a twinning program which will provide a long-term technical assistant in the following four areas:

a) EU practices of financial control for budget spending units
b) reinforcing the institutional structure for financial control
c) training support for staff of Financial Control Units (for internal controllers, inspectors and auditors)
d) familiarisation with EU institutional and functional requirements for the financial control of structural funds.

**EU practices of financial control for budget spending units**
- budget planning and adoption of budget control
- system of internal control on different levels (budget spending units, MoF, the Parliament)
- control environment that defines the system of supervision
- co-operation among internal and external control unit
- relationship and function of control organs in projects which are co-financed by EU funds
- professional and technical ability of performers of control according to the size and structure of the budget
- resources required for successful and rational work performance
- status and professional conditions for independence

**Institutional environment for financial control**
- organisational forms of supervisory/control units on a national level
- the level structure of supervisory/control bodies, their mutual/inter connection (budget spending units, MoF, the Parliament)
- relationship among internal and external controls
- definition of specific areas which require special treatment (international financial frauds)
- setting up of suitable relation among control procedures (ex-ante and ex-post)
- suitability/adequacy of national legislation and level of implementation of EU regulations
- use/application of international audit standards applied to public sector
- use of INTOSAI standards at audit of internal control
- efficiency of administrative and financial sanctions
- professional and functional connection with different bodies of EU
- adoption and functioning of directorial control
- minimal methodology and data bases for common and general control procedures

**Training assistance (expected to be the most important element of the twinning project)**
- define professional experience requirements of the control staff
- define minimal standards for execution of control in the fieldwork (concrete environment)
- present optimal reporting scheme on all supervisory functions
- show the basic elements/standards for exercising of control functions
- define measures for size and type of authorisation and competence of controllers
present the basic forms and methods of communication with different public (official, professional, political) and ways of inter-institutional co-operation
assess performance and organisation of so far made work of financial controllers and make cost assessment for the reorganisation of the system of financial control, gradual staff-fulfilment, material-fulfilment
efficiently detect mistakes, irregularities and illegal actions of budget users and stimulative arrangements for controllers
become familiar with the system of permanent functional training on relation among budget users MoF – EC (seminars, workshops, bulletins etc.)

**Familiarisation with EU institutional and functional requirements**
- direct familiarisation with working tools/instruments, manuals (DIS, EASY, Sampling Manuals) in EC directorate and Member States
- study of regulations and methods of control on general and particular budget sources, for example: foreign assistance, own sources, structural funds
- getting familiar with obligations and authorisations of certification bodies and setting up of basic preconditions for fully enforcement of mentioned
- preparation of starting points for new organisational guidelines
- proper planning and use of information systems available in Slovenia (MFERAC application) and systems used in EU
- familiarisation with analysis about financial control efficiency
- setting up of additional legal basis for this area, if needed on the basis of previous analysis and familiarisation with foreign practice

The Ministry of Finance anticipates that the above project will be implemented through a twinning arrangement with an EU member state, with the provision of a long-term advisor. The assistance will focus on formal and practical (on-the-job) training of financial control staff and the development of procedures, manuals and regulations for the exercise of effective financial control. In addition to supervising and co-ordinating training and exchange visits, the long-term expert will provide advisory support to the Slovenian Authorities in the area of financial control and audit of use of EU funds in the period of familiarisation with EU practices.

3. Strengthening of the Insurance Supervisory Authority

**Relation of the Insurance supervision to the Regular Report towards Accession**
The Regular Report highlights a number of issues that have to be target as a part of Slovenia’s accession. In general the report concludes..."supervision in the financial sector is not yet sufficiently strong..."14 and "Major efforts are still needed to improve the development and competitiveness of the insurance sector..."15 The Report highlights that "Not much progress has been made in consolidation and privatisation of the... insurance sectors. Supervisory

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14Regular Report from the Commission on Slovenia’s Progress towards Accession, p.16
15Regular Report from the Commission on Slovenia’s Progress towards Accession, p. 17
capacity, notably with regard to insurance markets, still needs to be strengthened\textsuperscript{16} and "Regarding insurance, no development have taken place since mid-1997\textsuperscript{17}

All mentioned improvements will help Slovenia to accept the related European legislation -relevant directives especially in the field of life, non-life and accounting and their implementation in the practice. This will speed up the readiness of the Slovene insurance industry to be prepared to accept the open market conditions and thus its competition in the frame of EU. Insurance Supervisory Authority, its staff training and education and its information system are playing a crucial role in this development towards Accession.

**Relation to the Accession Partnership**

One of the first priorities mentioned in the Accession Partnership\textsuperscript{18} is: "the reinforcement of institutional and administrative capacity as regards supervision of the insurance market"

The priorities in the field of reinforcement of institutional and administrative capacity include upgrading of the Insurance Supervisory Authority (ISA) and support in its transformation to an internationally acceptable and sustainable authority. Other priorities are the improvement of the efficiency and modernisation of the work performance of ISA and to overcome the serious shortfalls of actuaries both in industry and in the administration.

**Relation to the NPAA**

Designed to ensure compliance with EU directives concerning insurance supervision and other institutional building-upgrading, the project will provide a better vantage point for the implementation of the following priority in the NPAA:

*Reform of financial sector*

No. 1.2.3.4. Insurance - develop a competitive insurance sector. Regulation and supervision: strengthen regulation and enhance insurance supervision.

**Objectives:** The overall objective is to strengthen key supervisory services, particularly, insurance control focusing on provision of assistance to the staff of ISA in the effective supervision of the life and general insurance industry in Slovenia. Further assistance is required in the following items: to ensure assistance to new ISA staff (insurance finance, actuaries), knowledge upgrading, transfer of supervisory activities experiences from MS (statistics, financial sheets, reports, methods and procedures of direct insurance supervision on the spot), assistance by setting up of a consistent information data base, for the purposes of ISA.

**Scope of Work:** The scope of work for the expert(s) will comprise the following activities:

1. Analysis of the insurance industry in Slovenia

\textsuperscript{16}Regular Report from the Commission on Slovenia's Progress towards Accession, p. 22

\textsuperscript{17}Regular Report from the Commission on Slovenia's Progress towards Accession, p. 22

\textsuperscript{18}Slovenia: Accession Partnership, p. 3
At the time being, the insurance industry in Slovenia is in the state of restructuring and consolidation process after big efforts and strains, which have been taken by ISA in last four years, mainly in the field of recapitalization process, the Slovene insurance industry is now preparing itself to increased potential competition within the country and outside the country. For being well prepared for future competition, some insurance companies are in the merging process or in the process of being overtaken by predominant Slovene reinsurance company. At the same time, a process with the objective to stop enormous current losses in insurance class of autoliability insurance, is taking place.

ISA believes that acquaintance of foreign experts with present movements and developments in Slovene insurance sector is needed for tendering appropriate assistance to ISA’s staff. ISA would also appreciate any comments, viewpoints and opinion of foreign experts of adequacy and acceptance of Slovene procedures and analytical findings, comparing to market development of the insurance industry in European countries.

There are eight employees in the ISA, six of them without adequate supervisory practice and sufficient insurance knowledge, so foreign experts would work closely with all the staff members, particularly with younger employees. At the same time ISA intents to increase the number of staff by the additionally employing four experts of actuaries and finance also with the aim to benefit as much as possible from this project acquire insurance knowledge from assistance of Phare experts.

2. Assistance in the analysis of statistical returns and company accounts and the procedures for on-site company visits
3. Assistance in development of appropriate system and databases to facilitate the effective supervision
4. Transfer of methods generally used in the control and supervision of life and general insurance companies
5. Insurance accounting and actuarial principles applications
6. Evaluation of the adequacy of technical provision in selected non-life risk groups
7. Determination of adequate reserves for life insurance policies and appropriate solvency standards for companies and monitoring of company performances against these measures
8. Design, selection and management of databases for the purposes of effective insurance companies supervision and control.

The following outputs are expected to be achieved by the project:
  a) ISA staff shall obtain appropriate experience in the supervision of insurance companies,
  b) be conversant with insurance supervisory procedures within the EU,
  c) progress will be made toward the establishment of an appropriate database which will support the supervision and monitoring of Slovenian insurance companies to EU standards.

As the amended Law on the Insurance Companies is prepared, approved by the Government and already in parliamentary procedure, it should enable Insurance Supervisory Authority to comply in its procedures with EU directives. Therefore, the immediate results of this twinning project could be of big help in final preparation phase and its implementation. Considering the transposition of EU Directives (3rd Generation Directives), the proposal for short term
twinning assistance for the Ministry of Finance in 1998 was not accepted, so it was agreed that the draft Law will be discussed by some selected experts through TAIEX.

4. Financial Services Supervision Authority – Feasibility study

In order to amend the legal foundation and supervisory system of all financial market sectors, to meet the principles set in the EU directives as well as to implement and enforce these principles, a single, multi-disciplinary and independent supervisory body – feasibility study should be made. This way supervision for different activities would remain complete and synchronised, incorporating the corresponding EU directives. Joining different supervisory bodies would also increase efficiency in their international co-operation and communication.

Joint and systematic actions by a single supervisor would better ensure the transparency and integrity of the whole financial services market. The improper practices of market participants would be discovered faster because the interdependence among their activities would become transparent to the supervisor and to other industry participants. The surveillance of legally separate companies with different financial activities yet affiliated through management or by capital would become easier. The information flow between the industry and supervisory body would become more efficient, the dialogue between the industry and the supervisor would become easier, the goals of both parties more synchronised and transparent. All this could lead to more sound, fair and competitive financial services market.

Particular objectives of the assignment:

Joining the different supervisors for banks, investment companies (including licensed banks and investment companies often owned by insurance companies and banks under the current regime) and insurance companies would remove the grey areas in the division of authorities and responsibilities between the supervisors. There would be no doubt where responsibility of one supervisor ends and where starts of the other, nor will be the question who will supervise which activities and which subjects. A single supervisor would be responsible for supervision of banks, investment firms and insurance companies.

It is essential that the cost of regulation and supervision, which is a burden to the industry, be minimised. This is especially true in a small financial system. Costs can be decreased by single reporting system instead of multiple reporting by the industry. On the other hand, additional cost savings would arise from joining the supervisory bodies, which would increase efficiency through better use of resources and through omission of multiple surveillance of the same company.

Institutional framework

The Implementing authority is the Slovene Ministry of Finance which is responsible for each of the three components. Within the Ministry of Finance the key partners in particular parts of the plan will be the Budget Sector, the Public Procurement Unit, the Financial Control at the Ministry of Finance – Budgetary Control Department, the Insurance Supervisory Authority and Financial System Department. The fullfilment of the planned tasks depends on the personnel of the abovementioned units. There are human resources constrains which limits to
some extent the absorption capacity of the Ministry of Finance. One of main issues is the need for the reinforcement of units and authorities concerned. Staffing levels are in the process of being slowly approached to the required level for harmonisation and implementation of aquis and efficient performance of the institutions.

### Budget

<table>
<thead>
<tr>
<th></th>
<th>Investment</th>
<th>Institutional Building</th>
<th>Total Phare ((=I+IB))</th>
<th>Recipient</th>
<th>IFI*</th>
<th>Total in MEUR</th>
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<tr>
<td>Public Expenditure Management &amp; PP</td>
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**Implementation arrangements**

The Ministry of Finance shall be responsible for project identification, specification, contract implementation and project monitoring. Tendering and contracting shall be carried out by the CFCU. The Programme Implementation Unit of the Ministry of Finance shall closely co-ordinate with all the departments of the Ministry of Finance.

Twinning activities shall follow the standard procedures applicable. The procurement of services and supplies shall follow Phare DIS rules.

**Implementation schedule**

<table>
<thead>
<tr>
<th>Components</th>
<th>Tendering</th>
<th>Start of project activity</th>
<th>Completion</th>
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</thead>
<tbody>
<tr>
<td>Financial Control</td>
<td>twinning</td>
<td>3.2000</td>
<td>1.2002</td>
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<tr>
<td>Insurance Supervision</td>
<td>Technical assistance</td>
<td>2.2000</td>
<td>1.2002</td>
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</table>
Equal opportunity

Will be fully respected in the selection of the experts. In the Ministry of Finance, there are more than 50% female employees, so women will be equally represented in the activities performed.

Environment Not applicable.

Rates of Return Not applicable.

Investment criteria Not applicable.

Conditionally and sequencing
Institutional structural changes especially in the sense of availability of sufficient personnel are in course of being done. There are efforts made in the sense of employment of new staff, on the level needed to ensure the implementation and enforcement of the Acquis criteria, tasks set out in the national plans. Further development of administrative skills is under the way by trainings organised also by support of Phare, Taiex.

Annexes to Project Fiche SL 9905.03.01
<table>
<thead>
<tr>
<th>Project Number SL9905.03.01</th>
<th>Indicators of Achievement</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
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<tbody>
<tr>
<td><strong>Wider Objective</strong></td>
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| Adjustment of the financial sector to the Acquis communautaire (NPAA) and to international competition in line with EU requirements | - the FM is supported by an evaluation and monitoring matrix which identifies indicators of achievements which are not supported by a relevant quantification i.e. financial institutions performances, regulations passed, no. of people trained in supervision, in budget sector, in financial control, public procurement and insurance. | - regular reporting, screening and sub-committee exercises  
- the complex set of action are based upon the implementation of medium-long term activities with the aim of having an effective impact on the adoption of Acquis  
- introduction and enforcement of legislation, practice and activities, standards in line with EU legislation and regulations | No major risks identified. The following range of assumptions was identified:  
- adoption of the legislation by government and Parliament  
- ability to implement legislation |
| **Immediate Objectives**     |                           |                                               |                       |
| Public Expenditure Organisation including Public Procurement improvement  
Implementation of Financial Control to the standards expected in EU member states  
Improvement of the supervisory capacity of the Insurance Supervisory Authority  
the project of preparation of feasibility study, action plan and legal solution for the process of joining different supervisory bodies in the financial services industry in Slovenia | - Budgetary familiarisation with EU methods and practice, qualitative improvement in budget transparency and documentation, international standards in public procurement  
- Functioning system of internal control, capacity of internal controllers to carry out their functions to EU standards  
- Improved insurance supervision according to EU practice  
- Improved professional capacity of staff involved in procurement and financial control | - regular reporting, screening and sub-committee exercises  
- progress towards the adoption of Acquis  
- introduction and enforcement of legislation, practice and activities, standards in line with EU legislation and regulations | - Long term availability of senior experienced counterparters  
- Adoption of proposed National Strategy  
- Late adoption of relevant legislation  
- Co-funding through National Budget  
- Availability and retention of qualified staff  
- MoF able to cope with various new tasks and to absorb reforms |
<table>
<thead>
<tr>
<th>Outputs</th>
<th>Indicators of Achievement</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
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<tbody>
<tr>
<td>- improved Public Expenditure Management, improved budget control,</td>
<td>- improved institutional organisation, the overall Government Fiscal Management capacity</td>
<td>- regular reporting, screening and sub-committee exercises</td>
<td>- Long term availability of senior experienced partners</td>
</tr>
<tr>
<td>accountancy and control, introduction of long term budget programming,</td>
<td>including the improvement of the institutional organisation and administrative capacity of</td>
<td>- the complex set of actions, based upon the implementation of medium-long term activities with the aim of having</td>
<td>- Adoption of proposed National Strategy</td>
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<tr>
<td>reinforced budget principles, developed and strengthened public</td>
<td>systems of the budget preparation, budget execution and fiscal reporting, development of</td>
<td>an effective impact on the adoption of Acquis</td>
<td>- Late adoption of pertinent legislation</td>
</tr>
<tr>
<td>procurement unit, upgraded public procurement infrastructure</td>
<td>multi-year budget preparation and implementation of the budget programming, including</td>
<td>- introduction and enforcement of legislation, practice and activities, standards in line with EU legislation</td>
<td>- Co-funding through National Budget</td>
</tr>
<tr>
<td>- Financial control in budget spending units, upgraded organisation</td>
<td>with development of systems for monitoring investment: projects and improvement of public</td>
<td>and regulations</td>
<td>- availability of qualified staff and financial resources</td>
</tr>
<tr>
<td>and management of the overall system of financial control</td>
<td>procurement practice, setting up of Public Procurement statistics according to EU Directives</td>
<td></td>
<td>- keeping the trained staff within the Ministry</td>
</tr>
<tr>
<td>- functioning of the Insurance Supervisory Authority according to EU</td>
<td>and setting up of annual analysis of PP, workshops held in the field of PP</td>
<td></td>
<td>- MoF able to cope with various new tasks and to absorb reforms</td>
</tr>
<tr>
<td>norms, training assistance to the ISA's staff, consistent system of</td>
<td>- unified and standardised financial control practice and regulations, adequately trained</td>
<td></td>
<td></td>
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<tr>
<td>information database</td>
<td>staff, and revision of existing regulations in order to reach an efficient financial control,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Preparation of feasibility study for coordination and integration of</td>
<td>alignment of Slovene compulsory measures towards the EU measures, training of staff and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>financial services supervisory authority, definition of action plan</td>
<td>reorganisation of control functions</td>
<td></td>
<td></td>
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<tr>
<td>and establishment of legal basis for the process of joining of existing</td>
<td>- introduction of supervision norms and standards and databases for insurance sector</td>
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<tr>
<td>supervisory institutions</td>
<td>- definition of the responsibilities and authorities of the financial services supervisory</td>
<td></td>
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</tr>
<tr>
<td>Inputs</td>
<td></td>
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<tr>
<td>- assistance of Phare experts to improve public expenditure management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- assistance of public procurement including public procurement help</td>
<td></td>
<td></td>
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<tr>
<td>- introducing EU</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>norms and standards, transfer of practice in budgetary area, workshops exercises, development of training, information and data system to encourage open competition, public scrutiny of procurement processes</td>
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<tr>
<td>workshp for financial control, further work in transfer of practice to exercise financial control and audit systems in general and in particular related to the use of budget and EU funds</td>
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<tr>
<td>general and specific experience in supervisory activities in insurance industry, work on setting up data bases system, specific training exercises</td>
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<tr>
<td>advisory activities taking into account different supervisory institutions covering also legal aspects for the financial services supervisory authority</td>
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# CUMULATIVE CONTRACTING SCHEDULE

(1.4 EUR million)

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<tr>
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<th>QU1/01</th>
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CUMULATIVE DISBURSEMENT SCHEDULE
(1,4 EUR million)

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### CUMULATIVE CONTRACTING and DISBURSEMENT SCHEDULE

(1,4 EUR million)

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<th>QU 4/01</th>
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Implementation time chart

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<tr>
<th>COMPONENTS</th>
<th>Implementation Time Schedule (Quarters)</th>
<th>PLANNED</th>
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</thead>
<tbody>
<tr>
<td>1. Public expenditures</td>
<td>D</td>
<td>D-C</td>
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<tr>
<td>2. Financial control</td>
<td>D</td>
<td>D-C</td>
</tr>
<tr>
<td>3. Insurance supervision</td>
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<td>D-C</td>
</tr>
<tr>
<td>4. Feasibility study</td>
<td>D</td>
<td>D-C</td>
</tr>
</tbody>
</table>

Legend:
- D = design
- C = contracting
- I = implementation
Annex 4 to Project Fiche SL 9905.03.01: Relation with previous Phare activities

The total amount of technical assistance financed by Phare from 1992 till 1998 was approximately 13,35 MECU in the Financial Sector Programmes. The wider objective of this programme of support to the Public Finance and Financial Sector is to strengthen Slovenia's ability to design its fiscal policy, financial regulatory framework, control mechanisms and transform financial institutions into compatible units with the goal to achieve Acquis communautaire. The main activities in the financial sector are a continuation of processes which started under EC technical assistance to meet the accession requirements. Past projects in private and public financial sector were: assistance in the banking sector, support to the insurance sector, customs reform, taxation reform, pension insurance system reform, further development of Slovene auditing standards, payment system reform, public procurement, actuarial training.

In Phare National Programme 1998 for Slovenia with the title Reinforcement of the Slovene institutional and administrative capacity to ensure the adoption, implementation and enforcement of the Acquis in the Public Finance and Financial sector, the following fields were included: Tax reforms linked to the implementation and enforcement of the VAT&Excise systems, Capital Movements Liberalisation, Implementation/enforcement of the Public Procurement Law according to the EC requirements, Improvement of the budgetary procedures and of the public expenditure management, Improvement of financial control and inspection systems within the MoF, Strengthening of the capacity of the Insurance Supervisory Authority.

Summary
The programmes under FM98 and FM99 are logical follow up of the activities carried out under the Phare GTAF programmes SL9201, SL9302, SL9402, COP95, COP96, COP97 which devoted substantial assistance to the Public Finance and banking sector. The previous Phare assistance was focused on Banking (Assistance to the Central Bank, to the commercial banks and to the Reform to the Payment System) and on the Public Finance sector (institutional strengthening of the MoF, taxation, management of state assets, accounting and auditing standards). The continuity is assured by the immediate objectives which further address to the reform of the financial sector, further institutional building as well as the need to increase the efficiency of public finance administration.

Objectives which were followed during the implementation of the previous projects were the following:
- the increase of the professional qualification of the taxation personnel of the Tax Administration and improvement of the information system in order to build a performing Tax Administration,
- alignment of the CURS with par level with other Phare and EU countries customs and adoption of EU standards and classification,
- preparation of introduction of VAT,
- control and management system for state-owned assets,
- further institutional development of MoF,
reform of the pension/insurance system, 
bringing of the Slovenian auditing standards in line with world wide applicable standards, 
further assistance in the restructuring of the insurance sector.

The Ministry of Finance is satisfied with the results achieved, especially with the platform 
established in order to implement present and future projects of relevant importance such as 
further assistance to the Tax Administration, Budget sector, Insurance Supervisory Authority.

Annex 5 to Project Fiche SL 9905.03.01: Reference to feasibility/prefeasibility studies
Not applicable

Annex 6 to Project Fiche SL 9905.03.01: Relevant Laws and Regulations

Taxation:
VAT Law, Law on Excise Duties, Regulation Acts on VAT, Law on Personal Income Tax, 
Law on Profit Tax on Legal Entities, Law on Tax Procedures, Customs Law

Budget:
Law on Budget Execution, Regulations of Procedures for Payments from the Budget, 
Accounting Law, Law on Public Procurement

Insurance Supervision:
Insurance Law

Annex 7 to Project Fiche SL 9905.03.01: Relevant Government Strategic plans and Studies

Strategic Plan for Slovene Tax Administration and
Strategic Plan for Slovene Customs Administration