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Establishing a Fiscal Risk Management Department in the Ministry of Finance of Serbia

World Bank Disaster Risk Financing and Insurance Program
World Bank Europe and Central Asia Disaster Risk Management

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This review was prepared by a World Bank team composed of Benedikt Signer (disaster risk finance and insurance specialist), Vica Bogaerts (disaster risk management specialist), and Martin Luis Alton (disaster risk finance and insurance specialist), with support from Edward Kuhn (disaster risk finance and insurance consultant). The functional review that informed this note was carried out by Professor Dragan Lončar, Faculty of Economics, University of Belgrade, with assistance by Filip Stojanovic.

Preliminary findings of this review were presented and discussed during a workshop held in Belgrade, Serbia, March 29–30, 2016, hosted by the minister of finance. Participants included 40 officials from the government of Serbia and development partner representatives. The review benefited greatly from the technical expertise of the participants, and the recommendations in this report reflect the discussions at the workshop.

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ABBREVIATIONS

DMFAP	Department for Macroeconomic and Fiscal Analysis and Projections
DRFIP	Disaster Risk Financing and Insurance Program
FRMD	Fiscal Risk Management Department
GoS	Government of Serbia
IMF	International Monetary Fund
MoF	Ministry of Finance
NBS	National Bank of Serbia
PDA	Public Debt Administration
PE	Public enterprise
PEMG	Public Enterprises Monitoring Group
PPP	Public-private partnership
SECO	Swiss State Secretariat for Economic Affairs
SOE	State-owned enterprise

Executive Summary

In recent years, Serbia has faced substantial fiscal costs from contingent obligations associated with public enterprises, as well as unexpected expenditures arising from the catastrophic floods of May 2014. This situation makes clear that Serbia is exposed to important fiscal risks, and that the impact of the resulting shocks could be sizable if such risks are not properly managed.

Serbia's Budget System Law defines fiscal risks as "short-term and medium-term variations of fiscal variables against the values envisaged in the Budget, financial and/or other reports or projections of public finances."[1] In other words, fiscal risks are driven by circumstances that, if realized, would bring significant revenue shortfalls or expenditure increases, and most likely bring increases in deficits and public debt as well. In general, sources of fiscal risks include direct liabilities and liabilities contingent on the occurrence of a particular event. Examples of important and specific sources of fiscal risk for Serbia include public enterprises, government debt guarantees, and disaster risk.

While current legislation covers some fiscal risks and some aspects of how to manage them, important gaps remain in the country's fiscal risk management framework. International best practice suggests several aspects of current Serbian practice that could be improved, including fiscal reporting; the monitoring of state-owned enterprises and public enterprises; the quantification of fiscal risk; the management of fiscal risks associated with public-private partnerships (PPPs), such as through better assessments of new PPP proposals and monitoring of PPPs; proactive efforts to address detected fiscal risks, by encouraging government decision makers to give greater weight to the recommendations of fiscal risk management bodies (such as the fiscal council); and disaster risk financing.

1. http://www.mfin.gov.rs/UserFiles/File/english/AMENDMENTS%20AND%20ADDENDA%20TO%20THE%20BUDGET%20SYSTEM%20LAW.pdf

In light of these gaps—and based on discussions at a workshop on fiscal risk management held in Serbia in March 2016—stakeholders from across the government have agreed on the need to establish a Fiscal Risk Management Department (FRMD) within the Ministry of Finance. The stated objective of the new department would be to strengthen fiscal risk management and coordination across the government. Specifically, the responsibilities of the department would include (i) ensuring that fiscal risks are properly identified, quantified, monitored, mitigated, and disclosed, and collecting all available information and analysis relevant for fiscal risk management; (ii) providing advice to the minister of finance on issues of fiscal risk and recommending actions to mitigate risks; and (iii) coordinating all government entities that are involved in or relevant for fiscal risk management.

The findings of this review suggest that the FRMD should comprise three units. One unit would focus on monitoring fiscal risks related to public and state-owned enterprises and state-issued guarantees, thus absorbing much of the work of the current Public Enterprises Monitoring Group. It would work closely with the Ministry of Economy as well as other relevant ministries. A second unit would focus on monitoring fiscal risks related to macroeconomic and financial market performance and direct liabilities. This unit would collaborate closely with the National Bank of Serbia and other teams within the Ministry of Finance, in particular as regards data collection. A third unit would focus on monitoring risks related to local governments, public-private partnerships, and natural disasters, and would also identify new potential sources of fiscal risk.

The proposed FRMD should work closely with existing entities involved in fiscal risk management, and the specific responsibilities of all relevant stakeholders should be clearly defined. For instance, the new FRMD should work closely with the Budget Department and the Department for Macroeconomic and Fiscal Analysis and Projections on subnational budgets; with the Budget

Department and relevant disaster risk management institutions to determine an appropriate level of contingency funds; and with the Commission for Public Private Partnerships to manage fiscal risks associated with PPPs. At the same time, it is critical that the responsibilities of the FRMD and other entities involved in fiscal risk management be clearly defined and delineated, and that the interactions between them be clearly mapped out.

There are several potential obstacles to creation of the proposed FRMD: the legal framework does not clearly specify the fiscal risks or include mandates for managing them; there are few procedures for managing fiscal risk; a public sector hiring freeze is in effect; and current actors may be resistant to changes. But these obstacles can be surmounted. Obstacles related to legal or procedural gaps regarding fiscal risk management could be addressed by passing relevant amendments to the legal framework. Potential obstacles related to an ongoing public sector hiring freeze could initially be overcome by shifting and/or using existing staff currently working on issues related to fiscal risk management. To minimize potential resistance to change and overlap of responsibilities, the creation of the FRMD should be effectively communicated to all relevant stakeholders, and respective responsibilities clearly explained and discussed in workshops and trainings.

Introduction

In recent years, Serbia has faced substantial fiscal costs from contingent obligations associated with public enterprises, as well as unexpected expenditures arising from the catastrophic floods of May 2014. This situation makes clear that Serbia is exposed to important fiscal risks, and that the impact of the resulting shocks could be sizable if such risks are not properly managed.

This review responds to a request from the government of Serbia (GoS) for World Bank support in analyzing and assessing the government's fiscal risk management capabilities and in exploring options to strengthen them. The review was informed by technical missions, interviews, and workshops involving GoS stakeholders and representatives of the World Bank and International Monetary Fund (IMF).

The review identified several key fiscal risks faced by the GoS:

- Poor business performance by public and state-owned enterprises
- Activation of government-issued guarantees
- Natural disasters
- Financial instability and exchange rate volatility

The review noted that while some fiscal risks are currently monitored by state agencies, important gaps remain:

- Existing legislation covers most important identified sources of contingent liability, but gaps remain in how these risks are addressed and what mechanisms exist to respond financially.
- Quantification, reporting, and mitigation of fiscal risks are not sufficient.
- Responsibility for fiscal risk management is disbursed among multiple departments within the Ministry of Finance (MoF) and other agencies across the GoS.
- Understaffing and a lack of specialized skills impede effective fiscal risk management; specifically, the management of fiscal risk from public and state-owned enterprises, disasters, and public-private partnerships was (PPPs) found to be insufficient.

Based on the review and on discussions at a workshop held in March 2016, this study recommends the creation of a dedicated fiscal risk management unit within the MoF.

The proposed Fiscal Risk Management Department (FRMD) would provide advice to the minister of finance on risk exposure, recommend actions to mitigate risks, coordinate existing units involved in fiscal risk management, and directly manage specific fiscal risks that are not already addressed through other government bodies. The importance of this and work already underway was also confirmed in the government in 2015 in its Memorandum of Economic and Financial Policies to the International Monetary Fund (IMF)[2]

This note summarizes the main findings of the technical review and workshop. It describes the key fiscal risks faced by the GoS, the current practices for mitigating these risks, and deviations from good practice based on international experiences that should be addressed going forward. Finally, the review proposes a structure for a Fiscal Risk Management Department within the MoF, and sets out potential roles, responsibilities, and processes in detail.

2. International Monetary Fund, "Third Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria—Press Release; Staff Report; and Statement by the Executive Director for the Republic of Serbia," Country Report No. 15/347, December 18, 2015.

1. Assessment of Fiscal Risks

Overview

According to Article 2, Provision 25e of the Budget System Law, fiscal risks are defined as "short-term and medium-term variations of fiscal variables against the values envisaged in the Budget, financial and/or other reports or projections of public finances."[3] In other words, fiscal risks are driven by circumstances that, if realized, would bring significant revenue shortfalls or expenditure increases, and most likely increase deficits and public debt.

Various documents highlight fiscal risks faced by the government of Serbia. The "Fiscal Strategy for 2016 with Projections for 2017 and 2018," for example, details a number of key fiscal risks that confront the government.[4] The Fiscal Council regularly releases opinions that highlight and elaborate on specific fiscal risks as well. In addition, risks related to the public debt are listed in the "Public Debt Management Strategy for the Period 2015 to 2017."

The risks identified in the sources above are of four types:

- *Direct explicit liabilities* are legal or contractual obligations that will arise in any event and that the government is legally mandated to settle when they become due. They are the subject of conventional fiscal analysis.
- *Direct implicit liabilities* are moral obligations or expected burdens the government is not legally obligated to act on but may nevertheless be required to meet based on public expectations and political pressures.[5]
- *Contingent explicit liabilities* are legal or contractual obligations that will arise only if a particular future event occurs (e.g., if a banking sector crisis occurs); thus they are rarely, if ever, included in the budget.
- *Contingent implicit liabilities* are obligations that depend on the occurrence of a particular event and that the government is not explicitly mandated to act upon. Such obligations are not typically officially recognized until after an event that triggers the liabilities occurs. The triggering event, the value at risk, and the potential size of government outlays are uncertain.[6]

As direct liabilities—both implicit and explicit—are planned, anticipated, and covered by existing operational procedures in the Ministry of Finance, this report focuses on contingent liabilities. However, a future FRMD should also monitor and maintain transparency around direct liabilities, which can cause serious fiscal difficulties.

Fiscal Risks Faced by the Government of Serbia

In interviews, representatives from government departments involved in fiscal risk management identified various risks confronting Serbia. These risks were consolidated and assessed on the basis of their potential impact on Serbia's fiscal situation and the likelihood of their occurrence (table 1).

3. http://www.mfin.gov.rs/UserFiles/File/english/AMENDMENTS%20AND%20ADDENDA%20TO%20THE%20BUDGET%20SYSTEM%20LAW.pdf
4. Government of the Republic of Serbia, "Fiscal Strategy for 2016 with Projections for 2017 and 2018," 43–44, http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf.
5. Adapted from Hana Polackova Brixi and Allen Schick, Government at Risk: Contingent Liabilities and Fiscal Risk (Washington, DC: World Bank, 2002), 22–23, http://documents.worldbank.org/curated/en/284531468771891611/Government-at-risk-contingent-liabilities-and-fiscal-risk.
6. Ibid, 23.

Table 1. Fiscal Risks Faced in Serbia

Source of fiscal risk	Description	Effect on government finances	Impact	Likelihood
Poor business performance of public and state-owned enterprises	Poor financial results from public and state-owned enterprises Problems with planned reorganization and restructuring efforts	Decline in planned government revenues from public enterprises Increase in expenditures to cover financial losses or unpaid contributions to social welfare funds	Significant	Likely
Activation of government-issued guarantees	Inability of local governments, public or state-owned enterprises to meet debt obligations, leaving government with obligation to repay their debts	Increase in expenditures due to repayment of guaranteed debt	Moderate	Likely
Natural disasters	Floods, earthquakes, landslides, droughts, and other natural hazards	Unforeseen expenditure on relief, recovery, reconstruction[a] Possible tax revenue shortfall due to fall in economic activity	Moderate	Possible
Financial and foreign exchange markets	Depreciation of the domestic currency Rise in interest rates in domestic or international capital markets	Increased expenditures for repayment of foreign-denominated debt[b] Possible squeezing of fiscal space by higher refinancing costs	Moderate	Possible
Decline in economic activity	Unanticipated decline in economic activity Lower than projected economic growth	Shortfall in expected public revenues Potential increase in public spending (e.g., social transfers)	Moderate	Unlikely
Banking sector crisis	Insolvency of one or more banks	Increase in expenditures due to recapitalization of financial institutions Increased borrowing costs due to potential credit rating decline caused by (anticipated) government bailout of financial institutions	Moderate	Rare
Public-private partnerships	Decline of project revenue below contractually guaranteed level, activating government guarantees Unforeseen cost increases (e.g., due to contract termination)	Increase in government expenditures	Low	Rare
Local government budgets	Excessive fiscal deficits of local governments	Increase of transfers to local governments, undermining central government finances	Negligible	Unlikely

a. The 2014 floods caused damage and losses amounting to 4.8 percent of GDP (€1.7 billion EUR) and affected an estimated 1.6 million people. The Serbian economy contracted by 1.8 percent in 2014, instead of growing by 0.5 percent as had been projected.
b. Government of the Republic of Serbia, "Public Debt Management Strategy for the Period 2015 to 2017," 32, http://www.javnidug.gov.rs/upload/Strategija/Strategija%20cir/2015-2017/Public%20Debt%20Management%20Strategy%20for%20the%20Period%202015%20to%202017.pdf.

2. Analysis of Current Practices

Relevant Legislation for Fiscal Risk Management

This section reviews the legal framework and institutional and operational practices that determine current fiscal risk management in Serbia.

Although Serbia currently has no legal acts explicitly defining the management of its fiscal risks, existing legislation does dictate roles, responsibilities, and procedures for managing a number of the risks listed in table 1. The Budget System Law and the Public Debt Law cover areas that are relevant for fiscal risk management. Furthermore, two regulations contain relevant provisions: the Regulation on General Conditions for the Issuance and Sale of Long-term Government Securities on the International Financial Market, and the Regulation on General Conditions for the Issuance and Sale of Government Securities on the Primary Market.

The Budget System Law

The Budget System Law regulates the planning, preparation, adoption, and implementation of the national budget, of local government budgets, and of financial plans of various state funds.[7] As a result, the Budget System Law governs the planning of budgetary revenues and expenditures that are relevant for all risks identified above, especially for risks related to public and state-owned enterprises, local governments' budgets, and risk related to macroeconomic outcomes (e.g., economic activity and inflation). The Budget System Law also details the roles and responsibilities of some stakeholders involved in fiscal risk management, including the Fiscal Council and the Treasury. In addition, it defines which funds can be used to cover unforeseen expenditure needs or revenue shortfalls when fiscal risks materialize; among the possible funds are the Budgetary Fund for Emergency, the Current Contingency Reserve, and the Permanent Budgetary Reserve.

The Public Debt Law

The Public Debt Law defines the tasks associated with public debt management, including the management of exchanges rate, interest rates, and other risks; the purchase and sale of foreign currency; cash management; etc.[8] It also defines various procedures associated with these tasks and the roles and responsibilities of key stakeholders involved.

The Law on Public-Private Partnerships and Concessions

Enacted in 2011, the Law on Public-Private Partnerships and Concessions introduced the concept of public-private partnership into Serbian law in an integrated and systematic manner.[9] It regulates the proposal and approval processes for the establishment of PPPs, including the type of entity authorized to submit proposals; it lays out the rights and obligations of public and private partners; and it governs the creation, status and, competence of the Commission for Public Private Partnerships. While the law states that the distribution of risk has to be considered and clarified in the conditions of the contract, it provides only general guidance on this distribution; specifically, it indicates that risk should be the responsibility of the partner who can better manage or affect it.[10] The law also lays out how the creation of PPPs

7. Official Gazette of the Republic of Serbia No. 103/2015, Budget System Law.

8. Official Gazette of the Republic of Serbia No. 78/2011, Public Debt Law, Article 11.

9. Official Gazette of the Republic of Serbia No. 88/2011, 15/2016, Law on Public-Private Partnerships and Concessions, http://www.ppp.gov.rs/doc/PPP%20and%20Concession%20Law%20PARLIAMENT.pdf.

10. Ibid., Articles 27, 46.

Table 2: Fiscal Risks and the Legal Framework: Key Laws and the Sources of Fiscal Risk They Cover

Law	Poor business performance of PEs and SOEs	Activation of government issued guarantees	Natural disasters	Financial and foreign exchange markets	Decline in economic activity	Inflation	Banking sector crisis	Public-private partnership activities Local government budgets
Budget System Law	X			X	X		X	
Public Debt Law	X		X					
The Law on Public-Private Partnership & Concessions							X	
The Law on Reconstruction Following Natural and Other Hazards		X						
The Law on the National Bank of Serbia					X	X		

Note: PE = public enterprise; SOE = state-owned enterprise.

should be supervised,[11] and a 2016 amendment to the law requires that fiscal implications be considered before a project is approved.[12] But there is no entity responsible for monitoring fiscal risks arising from PPPs. The Commission for Public Private Partnerships is an advisory body and has no specific mandate to monitor fiscal risks.[13]

The Law on the Use of Funds for Restoration and Protection from Natural Disasters

This legislation, enacted in 1992, was the first law in Serbia entirely dedicated to the rehabilitation of large-scale damage; it defines what qualifies as a natural disaster, establishes the procedure for allocating funds following a disaster, and stipulates the creation of the Fund for the rehabilitation and protection from natural disasters.

The Law on Reconstruction Following Natural and Other Hazards

Enacted in 2015, this law supersedes the Law on the Use of Funds for Restoration and Protection from Natural Disasters.[14] It institutes the Government Office for Public Investments Management,[15] dictates its activities and reporting requirements,[16] and specifies the sources of funding for the office.[17] It also stipulates the requirements for obtaining aid and damage assessment.

This law sets out a number of important provisions related to managing the cost of natural disasters. But no explicit mandate exists for any government entity to set out and implement financial protection policies and instruments that would comprehensively manage the potential fiscal impact from disasters.

The Law on the National Bank of Serbia

This law governs the status, organization, powers, and tasks of the National Bank of Serbia, as well as its interactions with other Serbian entities and with international organizations and institutions. From a fiscal risk management perspective, the law is important because it

11. Ibid., Article 62.
12. Ibid., Article 13.
13. Ibid., Article 68.

14. Law on Reconstruction Following Natural and Other Hazards, Article 35, http://www.obnova.gov.rs/uploads/useruploads/Documents/Zakon_o_obnovi%20nakon%20el%20i%20druge%20nepogode_engl.pdf.
15. Ibid., Article 13.
16. Ibid., Articles 11, 16–19, 23, 24, 28.
17. Ibid., Article 14.

details the functions of the Administration for Supervision of Financial Institutions. Together with the Law on Banks, it provides the legal framework for the supervision of the banking sector in Serbia.[18]

In conclusion, important sources of fiscal risks are covered by existing legislation (see table 2). However, no law exists that specifically and comprehensively addresses fiscal risks and fiscal risk management.

Analysis of Relevant Stakeholders

This section briefly describes key stakeholders currently involved in fiscal risk management in Serbia, their roles and interests, and the fiscal risks they are involved in managing.[19]

1. Ministry of Finance

The MoF has a prominent and legally sanctioned role in managing fiscal risks, and carries out this role through five administrations and departments (see figure 1 for an organizational chart of MoF, with these entities highlighted):

1.1. Public Debt Administration

As defined in the Public Debt Law, the Public Debt Administration (PDA) is responsible for the management of public debt. In this role, it

- Prepares the government's debt management strategy
- Takes action to reduce risks resulting from public debt (e.g., via currency swaps, foreign exchange options, etc.)
- Monitors negotiations on borrowing when a state guarantee is required
- Monitors local government borrowing
- Monitors and analyzes domestic and foreign financial markets
- Manages the state guarantees registry
- Provides input on the assessment of major public investment projects

Interviews with GoS representatives suggest that staff within the PDA generally have the required level of expertise to fulfill their roles. However, some skill gaps were noted in IT, accounting, auditing, and quantitative finance in the middle and back offices. The biggest capacity gap was due to understaffing: interviews indicated that 40 employees would be required for the office to reach full efficiency, but only 26 employees were currently in the administration. The number of employees is limited by the Decision on the Maximal Number of Employees in the Organizations of State Administration, Public Agencies, and Mandatory Social Security. These limits result in heavily burdened employees and potential bottlenecks.

1.2. Department for Macroeconomic and Fiscal Analysis and Projections (DMFAP)

The DMFAP is in charge of forecasting fiscal and macroeconomic variables, analyzing the fiscal implications of legislation and policies, and annually drafting the three-year Fiscal Strategy. The department works closely with the Statistical Office, the National Bank of Serbia, the PDA, and the Treasury in order to collect the appropriate data for its analyses. Its projections are used throughout the MoF and the Fiscal Council, and provide the basis for the national budget.

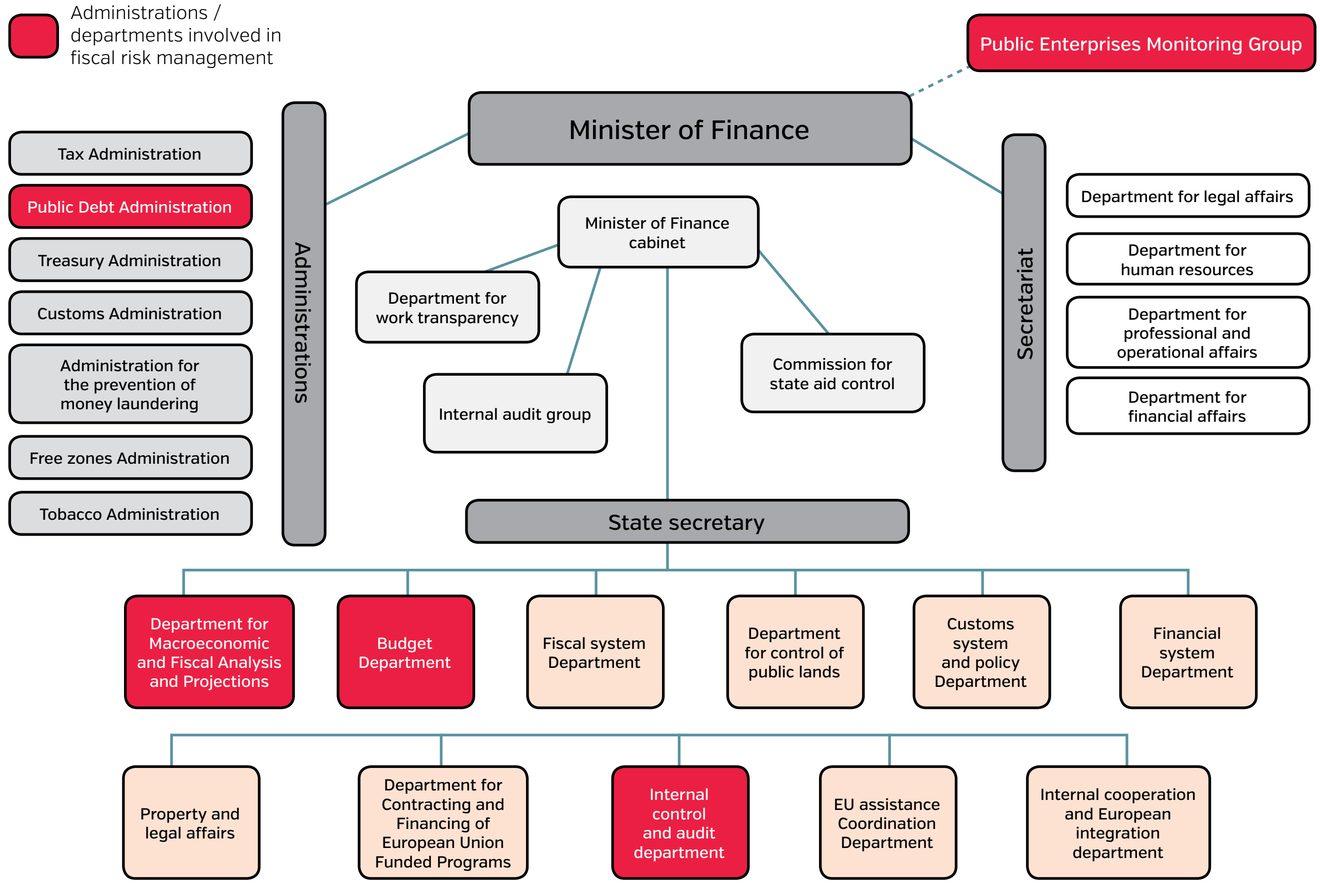
Interviews with department staff made clear that the DMFAP, like the PDA, is understaffed. This problem puts a significant strain on existing staff and undermines the quality of analysis. Interviews indicated that 21 staff were required to adequately fulfill the mandate of the department, which currently employs 14. In particular, more staff skilled in macroeconomic and fiscal forecasting are needed.

1.3. Budget Department

The Budget Department plays a pivotal role in the preparation and approval of the annual budget and in the overall management of Serbia's budget system and various state institutions. In addition, the Budget Department is responsible for a number of activities directly related to fiscal risk management, including analyzing the budgets of

18. Official Gazette of the Republic of Serbia Nos. 44/2010, 76/2012, 106/2012, 14/2015, Law on the National Bank of Serbia.
19. The information in this section was compiled from official documents and interviews with GoS representatives.

Figure 1. Organizational Diagram of the Ministry of Finance Highlighting Entities Involved in Fiscal Risk Management



local governments and public and state-owned enterprises. It also helps determine the level of the government's current contingency reserve.

Like other areas of the MoF, the department has been found lacking in qualified personnel. The department currently has 32 employees, whereas 46 would be required to deliver appropriately on its current commitments, according to department officials. In addition, the wages paid by the department are inadequate to attract staff with the requisite technical ability.

1.4. Internal Control and Audit Department

The Internal Control and Audit Department is responsible for operational risks within the MoF and for improving financial management and control within Serbia's public sector at large, thereby reducing fiduciary and ultimately fiscal risk.

1.5. Public Enterprises Monitoring Group (PEMG)

The PEMG is an ad hoc expert panel located within the Ministry of Finance.[20] The group analyzes financial statements of public enterprises, state subsidies, and guarantees, and reports on a quarterly basis to the state secretary and minister of finance. It does not conduct any type of scenario analysis, stress test, or risk valuation.

2. Ministry of Economy

Within the Ministry of Economy (ME), the Department for Control and Monitoring of Public Enterprises is responsible for topics related to fiscal risks. The ME cooperates closely with the MoF regarding the business performances of state-owned and public enterprises. It gathers financial data from the public enterprises it controls and from state-

20. It was previously housed within the Ministry of Economy.

owned enterprises that are in process of restructuring. These financial statements are then forwarded to the MoF for analysis, primarily by the Public Enterprises Monitoring Group.

3. National Bank of Serbia

In addition to its primary task of achieving and maintaining price stability, the National Bank of Serbia plays a key role in maintaining and strengthening the stability of the financial system. It issues and revokes operating licenses for banks and carries out prudential supervision of bank operations. It also is responsible for bank resolutions.

4. Fiscal Council

The Fiscal Council plays an important role in fiscal risk management. It independently reviews and analyzes macroeconomic and fiscal projections, economic policies, the government's fiscal strategy, the draft budget, and draft laws—specifically by commenting on how fiscal risks have been managed and whether the government followed its fiscal rules in the previous year. It also assesses the health of state-owned and public enterprises, providing transparent, independent data that can be used as the basis for fiscal risk analysis.

5. Public Investment Management Office (formerly the Office for Reconstruction and Flood Relief)

The office is tasked with managing reconstruction projects and aid allocation following natural and other hazard events; it focuses primarily focusing on the rebuilding of preschool, school, health care, and social protection premises. It coordinates implementation of the national disaster risk management program and reports quarterly to the government.

6. Public Private Partnership Commission

The Public Private Partnership Commission is an interdepartmental, independent public body that provides expert guidance on the implementation of public-private partnership projects and concessions. Reporting annually to the government, the commission assists in the drafting of PPP proposals, conducts cost-benefit analyses of projects, and delivers formal opinions regarding the approval of concessions. It is also tasked with identifying relevant international best practices in PPP management.

3. Examples of International Good Practices

Examples of fiscal risk management practices from other countries, as well as relevant recommendations from international organizations, help identify gaps in Serbia's current fiscal risk management architecture and provide recommendations to strengthen it.

The IMF's Fiscal Transparency Code establishes principles covering the following three dimensions of fiscal governance: [21]

1. *Fiscal reporting.* Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.
2. *Fiscal forecasting and budgeting.* Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of public finances.
3. *Fiscal risk analysis and management.* Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision making across the public sector.

An IMF report on best practices in fiscal risk management suggests that fiscal risk management is ideally based on the following institutional arrangements:[22]

- *A risk management policy,* which specifies the preconditions under which governments take on specific fiscal risks.
- *Clearly defined accountabilities*, so that individual departments and line ministries identify, estimate, analyze, and monitor specific fiscal risks under their remit.
- *A central oversight body,* to allow monitoring of aggregate fiscal risk and analysis of possible relationships between different sources of risk and their potential interactions, Such a body could also be tasked with assessing risk mitigation practices and conducting exercises on how to respond to the realization of risks.
- *Central control over major risks,* so that one authority (e.g., the minister of finance) has control over approving contracts that expose the government to fiscal risks.

These four key principles provide the basis for the suggested role and responsibilities of the Fiscal Risk Management Department in the Serbian MoF.

In order to learn from international experience, the fiscal risk management practices of a number of countries at various levels of economic development were reviewed.

21. International Monetary Fund, "Fiscal Transparency Code," 2014, http://blog-pfm.imf.org/files/ft-code.pdf.
22. International Monetary Fund, "Analyzing and Managing Fiscal Risks: Best Practices," June 2016, https://www.imf.org/external/np/pp/eng/2016/050416.pdf.

Chile

Chilean management of PPP contingent liabilities and direct commitments has been referred to as best-in-class globally.[23] Since 1991, only 3 of 59 projects have activated the minimum revenue guarantee, with a resulting total payment by the government of approximately US$20 million per year (0.01 percent of GDP). The Ministry of Public Works has authority to award concessions but it needs the MoF's approval throughout the contract preparation process. This involvement gives the MoF the opportunity to evaluate the contingent liabilities taken on by the government as a result of concessions. Concessions must be awarded in a competitive bidding process open to any firm, national or foreign; contracts can be adapted to each project.

Colombia

Colombia links the management of contingent liabilities to fiscal discipline, debt sustainability, reduction of fiscal risk, and transparency in the management of public resources. A dedicated fiscal risk management unit has been established in the Ministry of Finance. Its functions include (i) defining risk guidelines for the management of public debt; (ii) designing risk policies, guidelines, and strategies for the management of the Treasury, public debt, guarantees, counterguarantees, and contingent liabilities of the nation; (iii) designing, developing, and reviewing the methodologies for estimating contingent liabilities and the sustainability of public debt; (iv) designing and proposing guidelines for the participation of private capital in infrastructure projects and in assets directly or indirectly owned by the nation; and (v) producing reports for monitoring and controlling operations in the Treasury related to public debt, guarantees, counterguarantees, and contingent liabilities of the nation. In 2015 the unit was staffed with 23 officials.

23. Cigdem Aslan and David Duarte, "How Do Countries Measure, Manage, and Monitor Fiscal Risks Generated by Public-Private Partnerships? Chile, Peru, South Africa, Turkey," Policy Research Working Paper 7041, World Bank, Washington, DC, September 2014, 16.

New Zealand

New Zealand has arguably one of the world's most advanced fiscal risk management regimes,[24] characterized by a high level of transparency, well-designed fiscal policy rules, and clear guidelines for fiscal risk management and mitigation. Two to three times a year, a "Statement of Specific Fiscal Risks" is prepared by the Treasury with information on policy risks[25] and contingent liabilities from legal obligations, both quantifiable and unquantifiable. The Treasury also regularly assesses general macrofiscal risks, subjecting projections to sensitivity analysis and full alternative macroeconomic scenarios. In addition, at least every four years, the Treasury is required to publish a "Statement on the Long-Run Fiscal Position" to ascertain the sustainability of public finances over 40 years; this analysis covers a wide variety of fiscal risks. The Office of the Auditor General actively audits financial statements, contingent liabilities, and specific risks. A small general contingency account exists for urgent spending needs that cannot be met with existing resources. Furthermore, risks related to state-owned and public enterprises are monitored by their shareholding ministries through quarterly reporting requirements, and are also regularly monitored by the Treasury.

Romania

There are three areas of Romanian fiscal risk management that seem particularly relevant for the Serbian government as it reforms its fiscal risk management practice going forward.[26] First, borrowing by local governments is controlled by law and capped at 30 percent of average local government revenue over the past three years. Information on local government revenue, expenditures, and debt is

24. See, for example, Brixi and Schick, *Government at Risk*, 465. See also Aliona Cebotari, Jeffrey Davis, Lusine Lusinyan, Amine Mati, Paolo Mauro, Murray Petrie, and Ricardo Velloso, "New Zealand's Approach to Fiscal Risk Disclosure and Management," appendix 2 in *Fiscal Risks: Sources, Disclosure, and Management* (Washington, DC: International Monetary Fund, 2009), 47–49.

25. New Zealand is possibly unique in disclosing "policy risks"—that is, policy changes that the government has under active consideration—as fiscal risks. Such policy risks are not usually regarded as fiscal risks because they are under the control of the government. In New Zealand the disclosure of policy risks is linked to increasing the credibility of the medium-term fiscal forecasts, which contain explicit indicative envelopes to allow for new policy initiatives.

26. International Monetary Fund, "Romania: Fiscal Transparency Evaluation," MF Country Report No. 15/67, March 2015, 60, https://www.imf.org/external/pubs/ft/scr/2015/cr1567.pdf.

published monthly. Second, risk arising from the activation of government-issued guarantees is capped under a requirement that the government set a ceiling for the issuance of new guarantees in the current budget year plus the next two.[27] Third, Romania has created a separate unit within its Directorate General for Fiscal Policy dedicated to monitoring state-owned and public enterprises.[28]

Hungary

Several aspects of Hungary's fiscal risk management framework could be instructive for Serbia.[29] To manage fiscal risk associated with PPPs, Hungary has multiple levels of government institutions involved in approving, monitoring, and evaluating PPPs, including an interministerial committee on PPPs that can propose amendments to existing regulations, express its opinion on specific projects, and monitor and evaluate project implementation. In addition, the MoF proposes a ceiling on budget commitments associated with PPPs.[30] To manage fiscal risks associated with state guarantees, Hungary has imposed an annual ceiling on the amount of new state guarantees (at 1 percent of GDP) and requires that each guarantee be reported to the State Audit Office and published in the official Hungarian Gazette.[31]

Peru

Peru created a dedicated fiscal risk management unit, the Risk Management Division (DGR—Dirección de Gestion del Riesgo), in the Ministry of Economy and Finance to manage financial risks, operational risks, and contingencies due to legal proceedings, contracts, and natural disasters. Its specific functions include (i) designing and proposing policies, guidelines, and strategies for financial risk (market, credit or counterpart, investments), operational risk, and contingencies due to legal proceedings, contracts, and natural disasters; (ii) identifying, monitoring, and evaluating financial risk and contingencies from legal proceedings, contracts, and natural disasters, in coordination with other divisions of the ministry; (iii) designing, developing, and evaluating methodologies for quantifying and assessing financial risk, operational risk, and contingent liabilities; (iv) monitoring risk limits; (v) proposing approaches to controlling or mitigating risks; and (vi) developing a contingency plan for the Ministry of Finance. As of 2015 the unit was staffed with 15 public officials.

Turkey

Turkey's fiscal risk management practices related to PPPs and to financial markets and guarantees could be relevant for Serbia. In Turkey, the responsibilities for drafting, approving, financing, and monitoring PPPs are divided between various ministries, the High Planning Council, and the Treasury. In addition, the government has developed a cross-ministerial Debt Management Committee to serve as a decision-making and coordinating mechanism for debt management issues. A Risk Management Unit has also been created to formulate the strategy for risk-based debt management and monitoring of associated risks.

South Africa

The South African government uses good practices in the management of risks arising from public and state-owned enterprises, local government budgets, and public-private partnerships.[32] To manage risks related to public and state-owned enterprises, the government of South Africa created an Assets and Liability Management Division within the Treasury; this division assesses risks arising from these entities, rates them according to their risk profiles, and requires them to submit audited financial statements and quarterly performance reports, which it incorporates into budget documentation. In addition, the nine largest public enterprises are overseen by the Department of Public Enterprises, which works to ensure that they are managed efficiently. To mitigate fiscal risk

27. Ibid., 48.
28. World Bank, "Romania Functional Review: Public Finance Sector Final Report," World Bank, Washington, DC, October 2010, 30, https://openknowledge.worldbank.org/handle/10986/12291.
29. Brixi and Schick, *Government at Risk*, 214–21.
30. Cebotari et al., *Fiscal Risks: Sources, Disclosure, and Management*, 25.
31. Brixi and Schick, *Government at Risk*, 219.

32. The discussion of South Africa draws on Republic of South Africa, *Republic of South Africa Public Expenditure and Financial Accountability: Public Financial Management Performance Assessment Report, Final Report* (Rotterdam: ECORYS, September 2008), 66–68, http://www.treasury.gov.za/publications/other/Final%20PEFA%20Report%20-%2029%20Sept%202008.pdf.

associated with local governments, the government has mandated that subnational governments cannot generate explicit fiscal liabilities for the central government, and the Treasury publishes a consolidated "Local Government and Expenditure Review." Finally, the government has created a specialized PPP unit within the Treasury to regulate projects, provide technical assistance, and develop a generic project cycle to ensure effectiveness of design, implementation, and monitoring efforts.

4. Gap Analysis

When Serbia's existing model for dealing with fiscal risks is compared to good practices (as recommended by the IMF) and to practices of select countries, a number of gaps become apparent.

The countries assessed have centralized the management of fiscal risks to various degrees, either instituting a separate unit that oversees all fiscal risks (e.g., Turkey) or specialized units focusing on major sources of fiscal risks such as PPPs or state guarantees for loans. Without fail, ministries of finance play a central role in fiscal risk management.

In most countries highlighted, multiple government agencies and departments are involved in managing fiscal risks. The experience of these countries makes clear that the sources of fiscal risks vary, and that they may change as certain risks are effectively addressed or new ones emerge (e.g., through the creation of new PPPs). The potentially changing nature of fiscal risks, the correlation between various risks, the specific expertise required to rigorously analyze overall fiscal risk, and a direct (or short) reporting line to the minister of finance are major advantages of a centralized fiscal risk management unit. That being said, a fiscal risk management unit does not necessarily need to monitor and develop policies to mitigate all identified risks by itself. Rather, it could coordinate the efforts of other bodies involved in fiscal risk management, analyze the work of such bodies, assess the interactions between risks, and produce standardized reports on fiscal risk.

Based on the review of other countries' experiences and on the good practices recommended by the IMF, the following gaps in Serbia's fiscal risk management architecture emerge:

1. *Lack of detailed fiscal reporting.* At the moment, the government of Serbia does not regularly publish a report or statement dedicated to fiscal risks and fiscal risk management. Following the practice of New Zealand, the GoS could introduce regular reporting on fiscal risks, including a comprehensive fiscal risk statement describing the GoS's strategy for managing fiscal risks
2. *Need for improved monitoring of state-owned enterprises and public enterprises*. Despite having multiple governmental bodies tasked with monitoring state-owned and public enterprises, these enterprises still pose a substantial risk to the budget; in recent years, several entities have incurred high losses and made frequent calls on state guarantees. A new Fiscal Risk Management Department should work closely with existing stakeholders to establish a comprehensive monitoring system and plans for managing restructuring efforts and enforcement of corporate governance principles.
3. *Lack of proper fiscal quantification.* The GoS does not quantify potential adverse impacts of various fiscal risks in a comprehensive manner. However, some work in this area is currently conducted by the Public Debt Administration and the Department for Macroeconomic and Fiscal Analyses and Projections, and future efforts to quantify fiscal risks comprehensively should build on this. Comprehensive fiscal risk reports published by a new FRMD should quantify as far as possible the risks from all identified and quantifiable contingent obligations, and should also take account of the effects of possible interactions between various risks in discussing the overall risk to fiscal outcomes.
4. *Limited fiscal risk management content in assessments and monitoring of PPPs.* The existing institutional framework in Serbia does not ensure adequate monitoring of PPPs (or major public works, in general), particularly during implementation. As a result, emerging fiscal risk arising from ineffective implementation might not be detected in time to allow effective mitigating action. Fiscal liabilities contracted by central government entities should be monitored and reevaluated after the approval and during implementation of major PPPs. Recent modifications to the PPP law go part of the way toward this goal, for example by strengthening risk assessment during project appraisal.[33]

33. Official Gazette of the Republic of Serbia No. 15/2016, Law on Public-Private Partnerships and Concessions, http://www.ppp.gov.rs/doc/PPP%20and%20Concession%20Law%20PARLIAMENT.pdf.

5. *Inadequate reduction of operating and fiscal risks.* Although the Budget System Law defines the role of the Fiscal Council as a critical advisory body, its recommendations and opinions, particularly on public and state-owned enterprises and state guarantees, are often neglected. The assessments and conclusions of the Fiscal Council and other experts have minimal impact on decisions on loans, guarantees, and major publicly financed projects. Assessments by the Fiscal Council should have a greater impact on decisions made by the government in the area of fiscal risk management. Additionally, actions taken by the government to mitigate fiscal risks should be transparent and publicly disclosed, to allow leading experts to provide advice and input on these actions.

6. *Understaffing of government institutions in charge of fiscal risk management.* A lack of sufficient resources strains the staff currently involved in fiscal risk management. This problem is difficult to address because of restrictions that prevent the hiring of new staff, including both the Law on Determination of Maximal Number of Employees in the Public Sector and the Decision on Maximal Number of Employees in State Administration.[34] However, in the short-term, understaffing could be addressed by rearranging existing capacity within the GoS.

7. *Lack of a disaster risk financing framework.* The GoS currently has no comprehensive, forward-looking strategy for managing the fiscal risk posed by natural disasters, leaving the government reliant on ex post budget reallocations, emergency borrowing, and donor assistance—all of which can lead to a delayed, unpredictable, and underfunded emergency response. In order to integrate disasters into a broader contingent financing framework, a comprehensive national disaster risk finance strategy could be developed in coordination with the Public Investment Management Office.

34. Official Gazette of the Republic of Serbia No. 68/2015, Law on Determination of Maximal Number of Employees.

5. Recommendations

High-Level Recommendations

At a workshop in March 2016, stakeholders from across the GoS agreed on the need to create a Fiscal Risk Management Department within the Ministry of Finance. The stated objective of the new department would be to strengthen fiscal risk management and coordination across the GoS. Specifically, the responsibilities of the department would include

- Ensuring that fiscal risks are properly identified, quantified, monitored, mitigated, and disclosed, and collecting all available information and analysis relevant for fiscal risk management
- Providing advice to the minister on issues of fiscal risk and recommending actions to mitigate risks
- Coordinating all government entities that are involved in or relevant for fiscal risk management (e.g., developing a national disaster risk finance strategy in collaboration with Public Investment Management Office)
- Directly managing specific fiscal risks not already covered by other governmental bodies

We recommend that the new department complement existing institutions and avoid duplicating activities that are already undertaken by other entities; the outputs of the new department should include periodic reports to the relevant state secretary, who can use them to inform risk mitigation decisions, ensure that risk mitigation measures are reflected in the draft budget, and effectively communicate mitigating measures. Beyond this, the department should deliver ad hoc proposals when instant mitigating action is required. Except in some unusual cases (involving, for example, sensitive information on national security), results of the department's work should be shared with interested stakeholders so they can actively help the department achieve its objective.

Proposed Organizational Structure

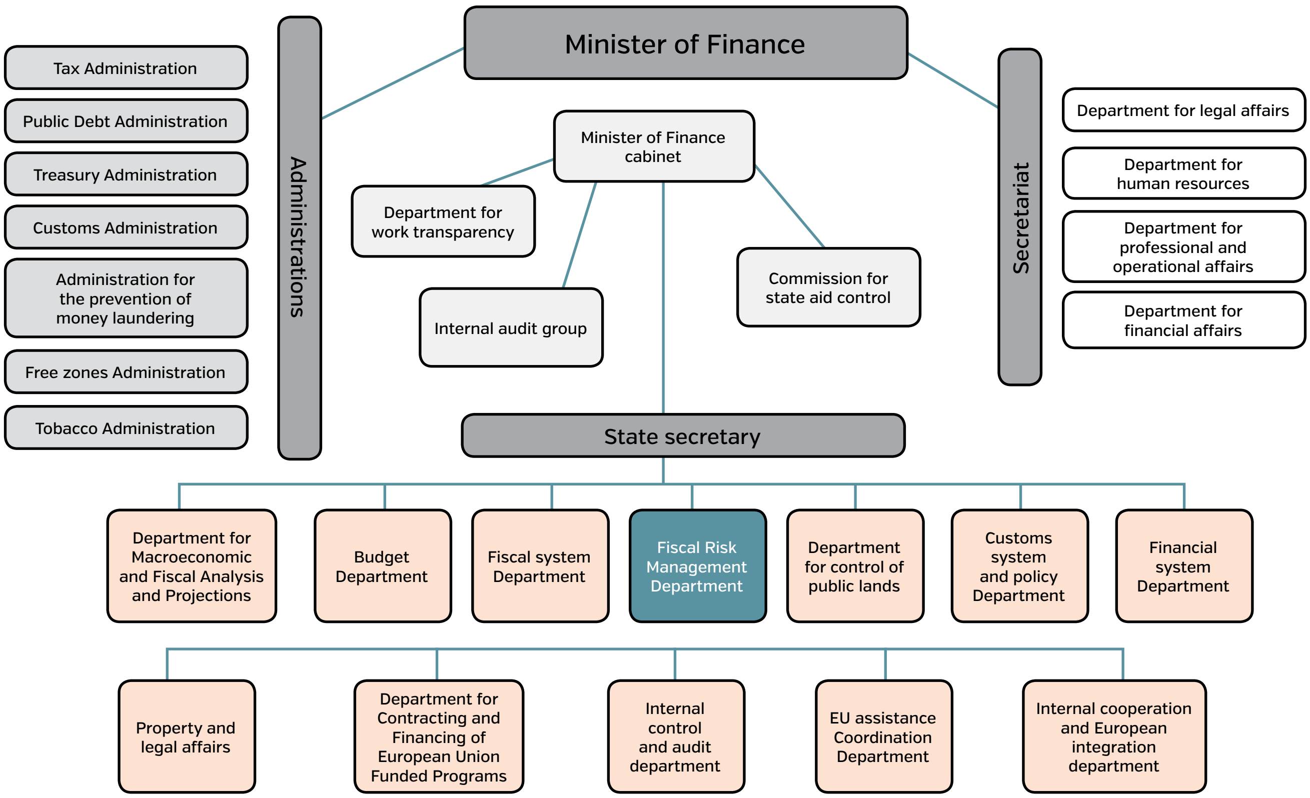
We propose that the department report directly to a state secretary of the Ministry of Finance as opposed to becoming part of an existing department within the MoF (see figure 2). This arrangement is preferable because of the importance and broad scope of the FRMD's role. In addition, the MoF could explore the establishment of a risk committee comprising key stakeholders for fiscal risk management.

The following paragraphs lay out a proposed structure for the FRMD, including units, indicative number of staff, and responsibilities. While this is a first proposal based on the review and conversations with officials, detailed decisions on how to design this department will have to be taken by the MOF during the implementation phase establishing it. Three specialized units are suggested; they are described below and illustrated in figure 3.[35]

1. *Unit A monitors fiscal risks related to public and state-owned enterprises and state-issued guarantees.*[36] This unit could consist of three employees and focus on managing the risks associated with
   a. Poor business performance of public and state-owned enterprises
   b. Activation of government-issued guarantees

35. The groups that will constitute the FRMD will conduct some activities that could partially overlap with the tasks of existing structures within the MoF or other institutions active in fiscal risk management. However, FRMD employees will gather information, conduct analysis, and report to the higher authority while continually maintaining their focus on fiscal risk monitoring and management. The other bodies, on the other hand, will remain primarily focused on their core activities.
36. As of March 22, 2016, the MoF's Informational Booklet contained information regarding the duties and assignments of the Public Enterprises Monitoring Group. Given the high importance of risk and contingent liabilities linked with public and state-owned enterprises and with guarantees, the FRMD should directly monitor those risks in place of the PEMG.

Figure 2. Proposed Organizational Diagram of MoF with FRMD



This unit would absorb much of the work of the current Public Enterprises Monitoring Group, and primarily focus on the risks generated by public enterprises and state-owned enterprises. The unit could analyze financial statements of public and state-owned enterprises and develop regular reports on the associated risks. These reports would ideally also include assessments of the fiscal risks posed by state guarantees. The unit would collaborate closely with the Ministry of Economy and other ministries that collect information on public and state-owned enterprises. We also recommend that the unit collaborate closely with the Public Debt Administration on the valuation of the risk associated with state guarantees.

2. *Unit B monitors fiscal risks related to macroeconomic and financial marke*t performance and direct liabilities. This unit could consist of two employees and focus on analyzing and reporting on fiscal risks posed by

   a. Decline in economic activity

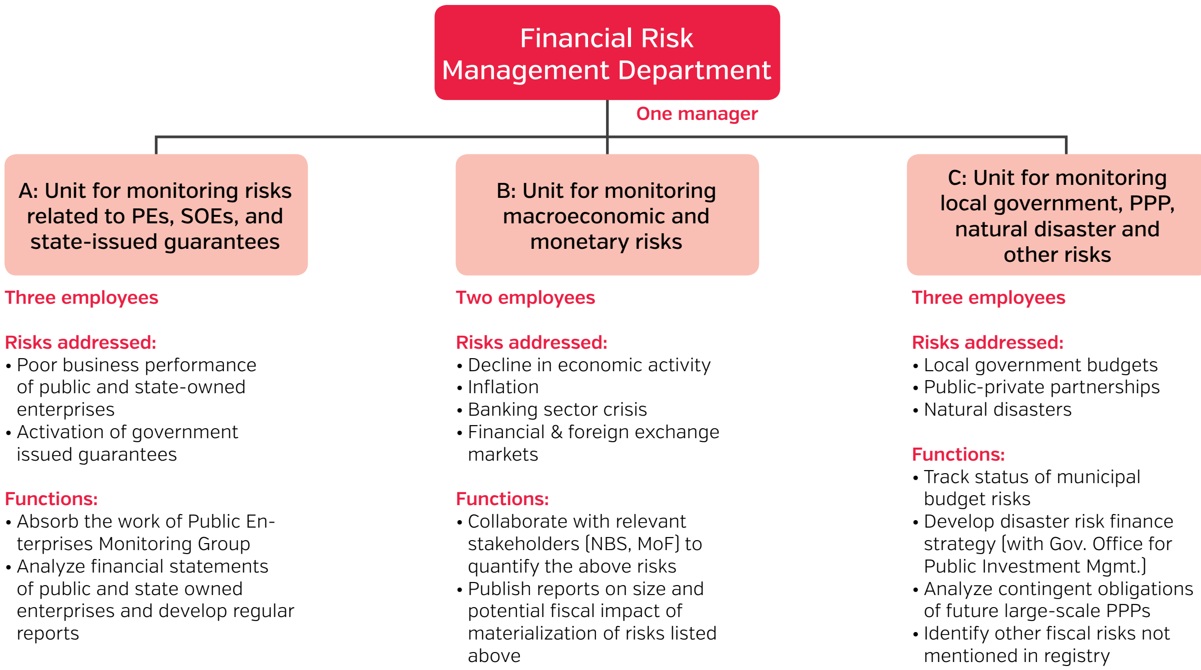
   b. Inflation

   c. Banking sector crisis

   d. Financial and foreign exchange markets

In collaboration with the National Bank of Serbia and other teams within the MoF, this unit would analyze fiscal risks associated with shocks to key macroeconomic variables, including growth and inflation. It would also analyze fiscal risks associated with Serbia's financial sector and markets, and would report on the size and expected future trajectory of the government of Serbia's direct liabilities. We recommend that the unit work closely with the Department for Macroeconomic and Fiscal Analysis and Projections and the Budget Department in these efforts.

Figure 3. Proposed Structure for the Fiscal Risk Management Department



Note: PE = public enterprise; SOE = state-owned enterprise; NBS = National Bank of Serbia.

3. Unit C monitors risks related to local governments, public-private partnerships, and natural disasters and identifies new potential sources of fiscal risk. This unit could consist of three employees and focus on managing the risks associated with

    a. Local government budgets

    b. Public-private partnerships

    c. Natural disasters

This unit would focus on fiscal risk associated with municipal finances. It would develop a disaster risk finance strategy in coordination with the Government Office for Public Investment Management, analyze contingent obligations of the government related to PPPs, and identify other potential fiscal risks not identified in this report (e.g., legal claims).[37] The unit would collect information on subnational budgets from the MoF's Budget Department and the Department for Macroeconomic and Fiscal Analysis and Projections; it would work closely with the Budget Department and relevant disaster risk management institutions to determine an appropriate level of contingency funds and would collaborate with the Commission for Public Private Partnerships in monitoring fiscal risks associated with PPPs.

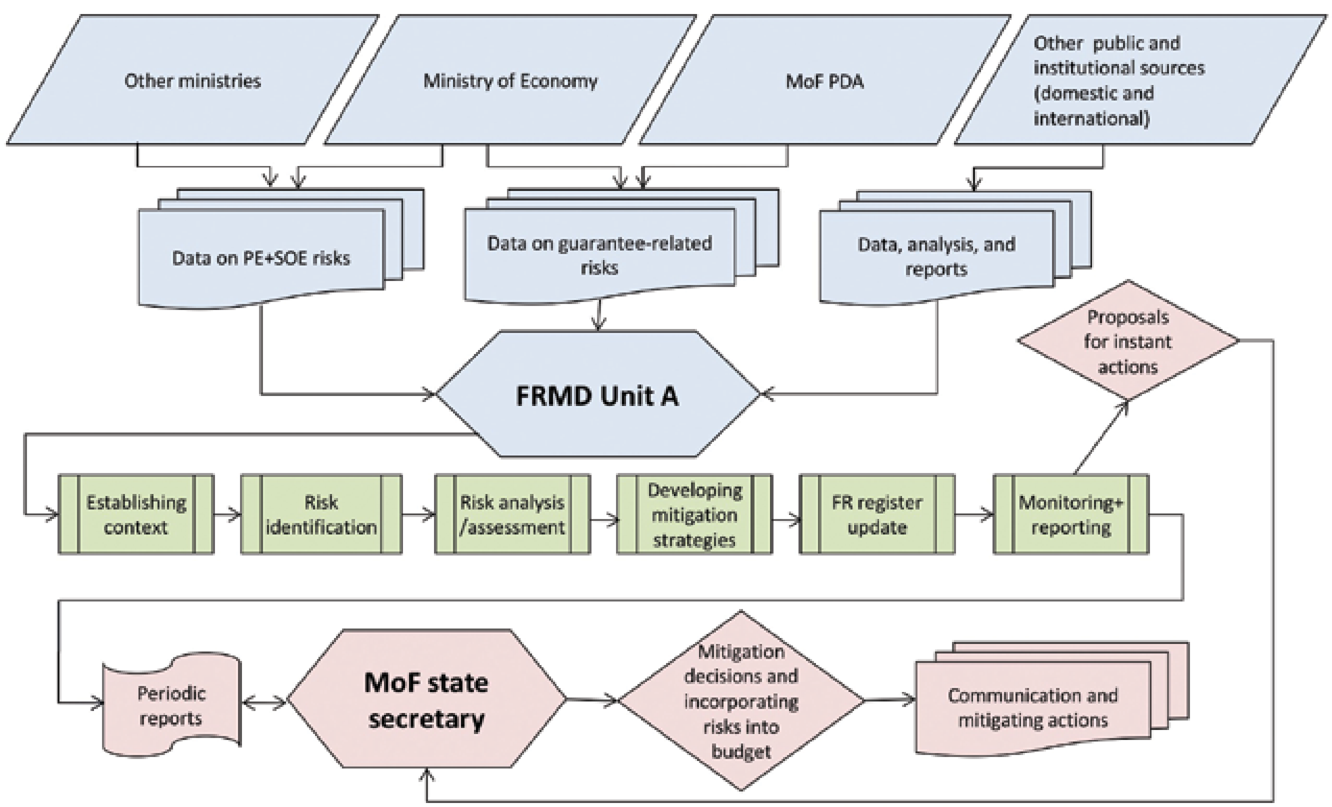
These three units should be coordinated by one manager responsible for organizing and overseeing their work, communicating the importance of fiscal risk management to outside entities, and recommending fiscal risk mitigation measures to other government entities if and when appropriate.

37. In this particular case, employees should seek to obtain information on the state's exposure to legal action against it—e.g., by initiating a survey of line ministries and agencies, by having a requirement for information inserted in the budget call circular, or by seeking information from the Ministry of Justice or the entity that represents the state in legal action.

Process Mapping: Macro Processes

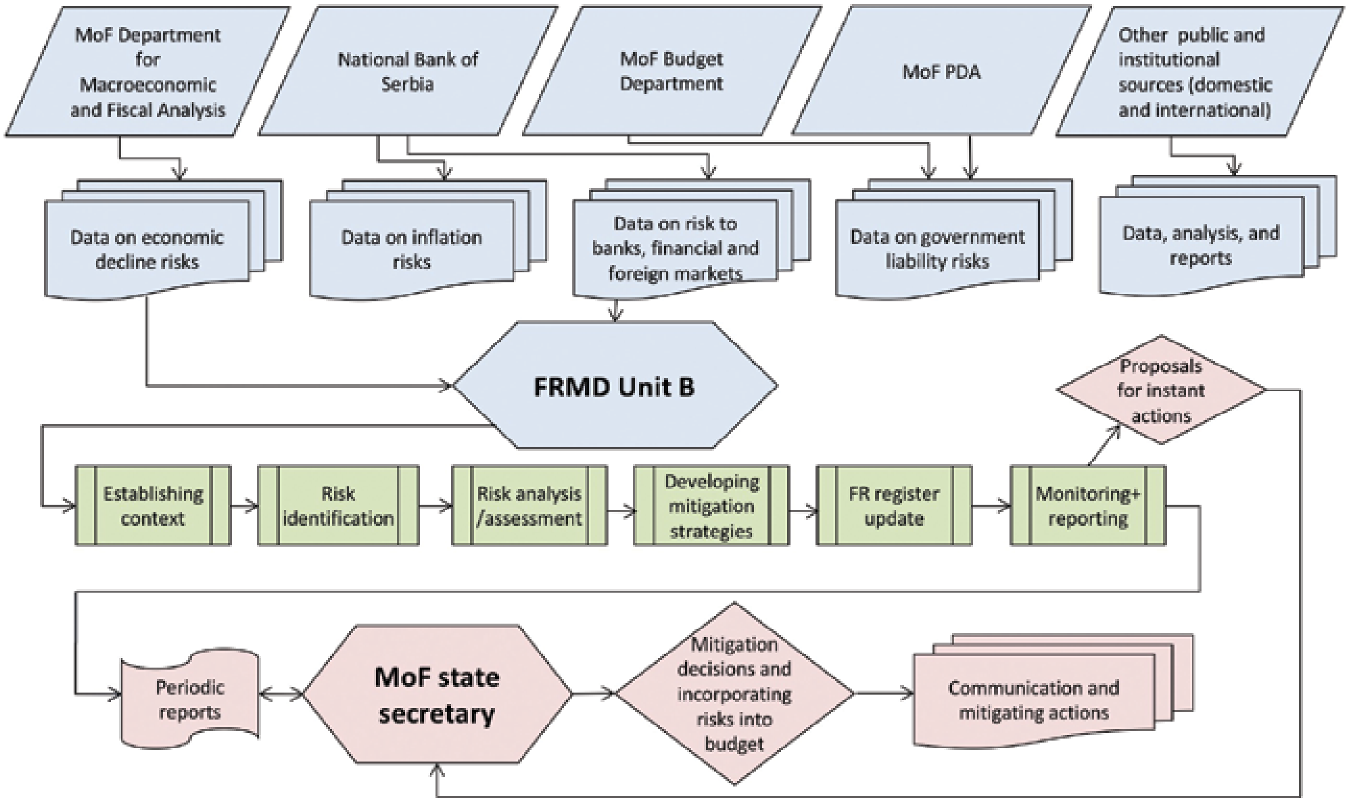
The proposed FRMD should work closely with existing entities involved in fiscal risk management. It is critical that the responsibilities of all these actors be clearly defined and delineated, and that the interactions between them be clearly mapped out. The macro process maps shown for each of the proposed FRMD units (figures 4–6) outline the inputs each unit should receive and from whom, the key activities of each unit, and each unit's key outputs. For a more detailed, indicative mapping of micro processes that each FRMD unit could follow—related to data collection, risk reporting, etc.—please see the micro process maps in appendix C.

Figure 4. Macro Process: FRMD Unit A



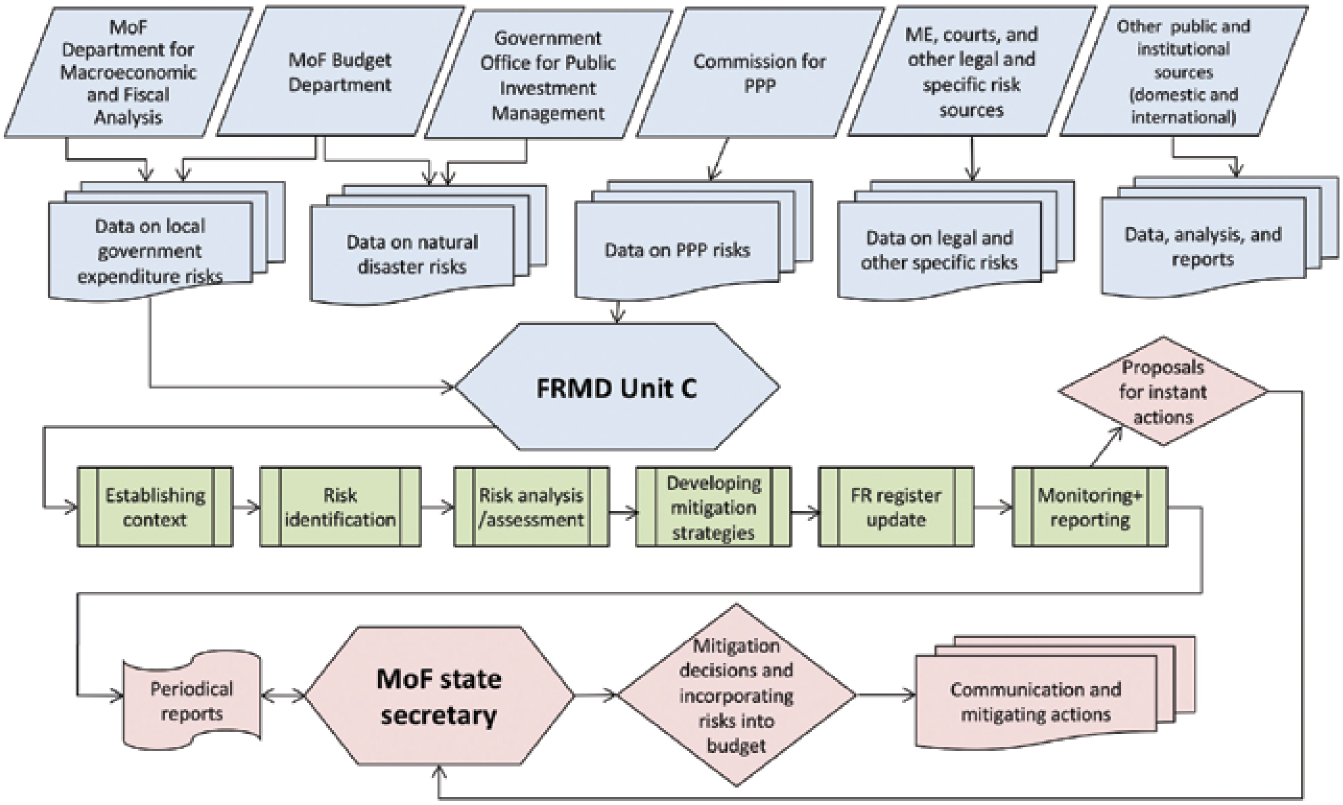
Note: PE = public enterprise; SOE = state-owned enterprise; FR = fiscal risk.

Figure 5. Macro Process: FRMD Unit B



Note: FR = fiscal risk.

Figure 6. Macro Process: FRMD Unit C



Note: FR = fiscal risk.

Potential Obstacles to Implementation and Potential Mitigating Actions

There are at least six potential obstacles to effective implementation of such a structure. But in each case mitigating measures are also possible.

Obstacle 1. The legal framework does not identify or address all relevant sources of fiscal risk.

- *Potential mitigating action:* An amendment to the Budget System Law could be passed that clearly defines fiscal risks and establishes the legal foundation for a fiscal risk management framework, including fiscal risk disclosure and transparency.

Obstacle 2. Fiscal risk management is currently not explicitly under the mandate of the Ministry of Finance.

- *Potential mitigating action:* An amendment could be made to Article 3 of the Law on Ministries, incorporating fiscal risk management into the prescribed activities of the MoF and clearly defining the roles and responsibilities of the various actors.

Obstacle 3. There are few policies and procedures dictating the roles and responsibilities of the various actors involved in fiscal risk management (including the Ministry of Finance).

- *Potential mitigating action:* Policies and procedures could be introduced to further detail the roles, responsibilities, and interactions of the various entities involved in fiscal risk management (potential options are detailed in appendix B).

Obstacle 4. There are a number of laws, government decisions, and decrees that hinder new employment and recruitment in the public sector. These include amendments to the Law on Budget System that prohibit new public sector recruitment; the Decree on the Principles for Internal Organization and Systematization of Jobs in Ministries, Special Organizations and Government Departments, which constrains the formation of any government department; and the Government Decision on the Maximal Number of Employees in the Organizations of State Administration, Public Agencies, and Mandatory Social Security, which determines the number of employees for each unit of the government. However, new recruitment and an increase in staff may be required in order to develop fully functioning fiscal risk management capabilities.

- *Potential mitigating action:* Where possible, the new FRMD should leverage existing staff and resources within the MoF and other relevant state institutions. In addition, staff should be trained to ensure that adequate fiscal risk management capacity is built. If additional employees are required, however, the FRMD should seek approval for new employment from the Commission for Approval of New Employment and Additional Work Engagement at Public Funds Users' Organizations.

Obstacle 5. The FRMD may face resistance to change from groups currently involved in fiscal risk management and other areas of the government.

- *Potential mitigating action:* The team implementing the recommendations for the creation of the FRMD should ensure that there is clear and effective communication on the rationale for change, and that there are efforts to minimize duplication of work between different entities.

Obstacle 6. As the transition to the new FRMD occurs, there may be confusion about the roles and responsibilities of stakeholders involved in fiscal risk management going forward. This could lead to ineffective and inefficient fiscal risk management, with possible gaps and overlaps.

- *Potential mitigating action:* Allocation of roles and responsibilities between the various stakeholders should be as clear and widely disseminated as possible. This effort should be coupled with workshops, trainings, and seminars to communicate and clarify the new roles and responsibilities.

6. Conclusion

The primary objective of this review was to analyze the roles, responsibilities, and capacities of the various Serbian government entities that are involved in fiscal risk management. Specifically, this review has analyzed the current institutional and legal framework governing fiscal risk management, benchmarked this against practices recommended by international financial institutions and implemented in select other countries, identified key gaps and opportunities, provided recommendations to guide the creation of a Fiscal Risk Management Department within the Ministry of Finance, and mapped out the roles and responsibilities of relevant actors to successfully implement the proposed FRMD.

The scope and mandate of the proposed department would include coordination, monitoring, information gathering, analysis, and the creation of relevant methodologies to improve fiscal risk management. After gathering all required information on particular groups of fiscal risks, the FRMD would assess and analyze individual risks. Once such assessments were complete, the FRMD′s personnel would develop recommendations on how to effectively mitigate a specific risk. The FRMD should also coordinate the information flow between the existing relevant institutions and should produce standardized and comprehensive reports on key fiscal risks facing the government of Serbia. The department could more actively manage risks that are not currently covered by existing entities.

Furthermore, the FRMD should draft a Fiscal Risk Statement identifying and describing existing fiscal risks in detail. It should also develop the government's fiscal risk management strategy. In situations when urgent mitigating actions are required, the FRMD should be authorized to prepare and submit an ad hoc report assessing the situation and proposing mitigating measures.

Regarding organization, we recommend that the FRMD report directly to a state secretary of the MoF. An initial recommendation envisions three units for the FRMD:

- Unit for monitoring fiscal risks related to public and state-owned enterprises and state-issued guarantees
- Unit for monitoring fiscal risks related to macroeconomic and financial market performance and direct liabilities
- Unit for monitoring risks related to local governments, public-private partnerships, and natural disasters and for identifying new potential sources of fiscal risk

For this preliminary proposed structure we recommend that these three units be staffed with a total of eight employees, with a manager responsible for organizing the FRMD's work and overseeing relations with other stakeholders relevant for fiscal risk management.

Appendix A. Current Structure and Capacity of Human Resources in the Ministry of Finance

Table 4 gives the number of personnel employed in various MoF units (excluding administrative roles) as of March 1, 2016. It also gives the optimal number of employees based on interviews with representatives of the government of Serbia.

Table 4. Staffing of MoF Units: Optimal versus Actual Number of Employees

Organizational unit	Optimal number of employees[a]	Actual number of employees[b]
State secretary	4	2
Minister of finance cabinet	9	7
Secretariat	46	41
Department for Macroeconomic and Fiscal Analysis and Projections	21	14
Budget Department	46	32
Fiscal System Department	33	28
Customs System and Policy Department	13	13
Financial System Department	17	16
Internal Control and Audit Department	10	8
EU Assistance Coordination Department	20	16
Department for Contracting and Financing of European Union–Funded Programs	61	44
Property and Legal affairs	30	28
International Cooperation and European Integration Department	15	9
Department for Control of Public Funds	22	18
Commission for State Aid Control	8	5
Public Relations Department	5	5
Internal Audit Group	3	2
TOTAL	350	279[c]

Note: Units directly involved in the management of fiscal risks are highlighted.
a. "Optimal" refers to the number of staff required for functioning of the unit.
b. "Actual" refers to the number of staff employed as of March 1, 2016.
c. Total number of persons employed by the MoF (excluding administrative roles) for an indefinite period of time (Indefinite Term Contracts), excluding state secretaries and seven cabinet staff members, who will remain in their positions until the end of the minister's term.

Appendix B. Fiscal Risk Management Model Matrix of Prospective Roles and Responsibilities

Failure to clearly allocate and define roles and responsibilities for the FRMD and other units and entities involved in managing fiscal risk could lead to management that is ineffective and inefficient, with possible gaps and overlaps in institutional roles.

A RACI matrix, which is often used for managing organizational processes, can help for identifying the responsibilities of all positions within an organization. It defines duties and responsibilities as follows:

- *R = RESPONSIBLE.* Work position has an operational/executive responsibility for the related activity, meaning that the position actively analyzes the situation, provides initial recommendations, develops alternatives, and executes the task.
- *A = ACCOUNTABLE.* Work position is accountable for completing related activity. Only one person can hold a role ″A″ at each activity line. This position is entitled to approve or stop the execution of the activity.
- *C = CONSULTED.* This position should be consulted before operational decisions are made and implementation takes place. "C" staff have a strong interest in the outcome of the decision, because they are usually tasked with supporting the related activity with the resources under their command. They don't have the right to block the decision or the execution of the activity.
- *I = INFORMED***.** This position should be informed after the relevant activity is completed. "I" staff have no direct influence over the execution of the activity, nor is their input required, but they have an interest in knowing the result because of other related activities. Communication is one-way.

Distributing roles and responsibilities within the RACI matrix provides a basis for describing jobs in detail, systematizing work positions, and defining criteria for measuring the performance and complexity of each work position. The ″owner″ of the RACI matrix for each department in the organization is the department or line manager. Depending on the relevant organizational policy, the Human Resources Department often participates in the creation and adjustments of this document. If a change in the business process becomes necessary, each employee and manager must inform the matrix owner, who then needs to make sure that the matrix is adequately updated; this process ensures the integrity and functionality of the tool.

Table 3 presents a proposed RACI matrix for the FRMD. It shows the groups of activities in each of the three FRMD units (as 1, 1.1, 1.1.1. etc.); these actually reflect the cascade of the micro processes and operations of each unit as presented in figures 4–6. Roles and responsibilities of each relevant FRMD manager and employee are clearly specified and paired to each activity line; the table also shows the roles and responsibilities of the participants in the external departments and institutions who will provide inputs for the work of the FRMD, participate in FRMD processes, or use the FRMD outputs.

Once the organizational processes maps and work matrix are evaluated and approved, the next step is to ensure that the obligations and responsibilities of all the participating positions become mandatory. This will require adequate appropriations for policies and procedures of all participating institutions and departments, and not only those of the FRMD or MoF. This is the critical condition for success of the proposed FRMD model.

Finally, besides roles and responsibilities, the RACI matrix provides a list of key decisions and documents that should accompany the outputs of each activity line, and the final column provides notes on the proper execution of the related activity line.

WBS code	ACTIVITY / ROLE	Roles/Positions within the FRMD								Roles/Positions outside FRMD						
		FRMD Manager	Employee A1	Employee A2	Employee A3	Employee B1	Employee B2	Employee C1	Employee C2	MoF State Secretary	MoF Budget Dept Liaison Officer	MoF Dept of Macroec.& Fiscal Proj. Liaison Of.	MoF Financial System Dept. Liaison Officer	MoF PDA Liaison Officer	MoE PE Liaison Officer	MoE SOE Liaison Officer
1. FRMD - UNIT A: risks related to public and state-owned enterprises and state issued guarantees																
1.1.	**Data Collection**															
1.1.1.	Collection of data related to potential risks generated by Public Enterprises	I	A/R												C/R	
1.1.2.	Collection of data related to potential risks generated by State-Owned Enterprises	I		A/R												C/R
1.1.3.	Collection of data related to potential risks generated by state-issued Guarantees	I			A/R									C/R		
1.1.4.	Collection of data from other domestic & foreign sources, reports and analysis related to potential risks covered by Unit A	I	R	R	A/R											
1.2.	**Risks Processing**															
1.2.1.	Establishing context on risks covered by Unit A	A/I	R	R	R									C	C	C
1.2.2.	Identifying risks	A/I	R	R	R									C	C	C
1.2.3.	Analyzing - assessing risks	A/I	R	R	R									C	C	C
1.2.4.	Developing preventive and reactive mitigation strategies	A/I	R	R	R									C	C	C
1.2.5.	Updating Risk Register	A/I	R	R	R					I				I	I	I
1.2.6.	Preparing periodical reports and proposals for instant actions when situation required	A/I	R	R	R											
1.3.	**Risks Reporting and Mitigating**															
1.3.1.	Submitting periodical reports to the MoF State Secretary Office	A	R	R	R					I				C/I	C/I	C/I
1.3.2.	Submitting proposals for instant actions when situation required	A	R	R	R					I				C/I	C/I	C/I
1.3.3.	Incorporating risks into budget	C	R	R	R					I	A			C	C	C
1.3.4.	Verifying periodical reports and making decisions on mitigating actions	C						C	C	A/R				C	C	C
1.3.5.	Communication of mitigation decisions to relevant stakeholders	A	R	R	R					I				I	I	I
1.3.6.	Undertaking / participating in mitigating actions	C/I	C/R	C/R	C/R					A/I	C/R			C/R	C/R	C/R
1.4.	**Coordination and managing the department unit A**															

									Key documents	**Key decisions**	**Notes**
	NBS - Inflation monitoring Liaison Officer	NBS - Banks, Fin. Markets, Forex Liaison Officer	Govt. Office for Public Investment Mgmt - Liaison	Govt. Commission for PPP - Liaison Officer	Courts and other sources for legal / specific risks	Other relevant domestic + foreign data sources	Government & relevant Ministries -Liaison Off.	Fiscal Council			
									Collected data 1.1.1.		Based on [To-Be] Instruction for Data Collection, Unit A, as the part of [To-Be] General Procedure for operational work of FRMD
									Collected data 1.12.		
									Collected data 1.1.3.		
						C	C	C	Collected data 1.1.4.		
											Based on [To-Be] Instruction for Risk Processing, Unit A, as the part of [To-Be] General Procedure for operational work of FRMD
										Decision - identified risks Unit A for period X verification	
									Proposed and checked mitigation strategies		
									Updated and verified version of Risk Register Unit A		
									Periodical report - Unit A, period X		Based on [To-Be] Instruction for Risk Reporting & Mitigation, Unit A, as the part of [To-Be] General Procedure for operational work of FRMD
									Proposal for instant mitigation action - when required		
										Approval for incorporation of risks int budget	
							C			Decision on mitigation actions	
						I	I	I	Distribution of mitigation decisions to stakeholders		
							C/R				

WBS code	ACTIVITY / ROLE	Roles/Positions within the FRMD								Roles/Positions outside FRMD						
		FRMD Manager	Employee A1	Employee A2	Employee A3	Employee B1	Employee B2	Employee C1	Employee C2	MoF State Secretary	MoF Budget Dept Liaison Officer	MoF Dept of Macroec.& Fiscal Proj. Liaison Of.	MoF Financial System Dept. Liaison Officer	MoF PDA Liaison Officer	MoE PE Liaison Officer	MoE SOE Liaison Officer
1.4.1.	Workforce selection, performance management , team building and trainings	A/R	C/I	C/I	C/I					C/I						
1.4.2	Securing continuous flow of information between the Unit and all the external sources and recipients	R	C	C	C					A						
1.4.3	Liaison and meetings with external officials responsible to provide support to FRMD work	A/R	C/R	C/R	C/R					I				R	R	R
1.4.4	Reviews of work in progress and consultations	A/R	C	C	C					I						
2. FRMD - UNIT B: monitoring macroeconomic and monetary risks and reporting on direct liabilities																
2.1.	**Data Collection**															
2.1.1.	Collection of data related to potential risks generated by macroeconomic decline	I						A/R			C/R	C/R				
2.1.2.	Collection of data related to potential risks generated by government direct liabilities	I						A/R			C/R			C/R		
2.1.3.	Collection of data related to potential risks generated by inflation	I							A/R				C/R			
2.1.4.	Collection of data related to potential risks generated by domestic banking sector	I							A/R				C/R			
2.1.5.	Collection of data related to potential risks generated by financial & foreign exchange markets	I							A/R				C/R			
2.1.6.	Collection of data from other domestic & foreign sources, reports and analysis related to potential risks covered by Unit B	I						R	A/R							
2.2.	**Risks Processing**															
2.2.1.	Establishing context on risks covered by Unit B	A/I				R	R				C	C	C	C		
2.2.2.	Identifying risks	A/I				R	R				C	C	C	C		
2.2.3.	Analyzing - assessing risks	A/I				R	R				C	C	C	C		
2.2.4.	Developing preventive and reactive mitigation strategies	A/I				R	R				C	C	C	C		
2.2.5.	Updating Risk Register	A/I				R	R			I	C/I	C/I	C/I	C/I		
2.2.6.	Preparing periodical reports and proposals for instant actions when situation required	A/I				R	R				C	C	C	C		
2.3.	**Risks Reporting and Mitigating**															

NBS - Inflation monitoring Liaison Officer	NBS - Banks, Fin. Markets, Forex Liaison Officer	Govt. Office for Public Investment Mgmt - Liaison	Govt. Commission for PPP - Liaison Officer	Courts and other sources for legal / specific risks	Other relevant domestic + foreign data sources	Government & relevant Ministries -Liaison Off.	Fiscal Council	Key documents	Key decisions	Notes
								Work contracts, work performance reports		Based on [To-Be] Instruction for Coordination and Managing the FRM Department, as the part of [To-Be] General Procedure for operational work of FRMD
								MoF State Secretary circular request for active support	MoF Ministry Decision [to be incorporated in legislation]	
						R		Meeting minutes		
								Progress reports		
								Collected data 2.1.1.		Based on [To-Be] Instruction for Data Collection Unit B, as the part of [To-Be] General Procedure for operational work of FRMD
								Collected data 2.1,2.		
C/R								Collected data 2.1.3.		
	C/R							Collected data 2.1.4.		
	C/R							Collected data 2.1.5.		
					C	C	C	Collected data 2.1.6.		
C	C									Based on [To-Be] Instruction for Risk Processing, Unit B, as the part of [To-Be] General Procedure for operational work of FRMD
C	C								Decision on identified risks Unit B for period X	
C	C									
C	C							Proposed and checked mitigation strategies		
C/I	C/I							Updated and verified version of Risk Register Unit B		
C	C									

WBS code	ACTIVITY / ROLE	Roles/Positions within the FRMD								Roles/Positions outside FRMD						
		FRMD Manager	Employee A1	Employee A2	Employee A3	Employee B1	Employee B2	Employee C1	Employee C2	MoF State Secretary	MoF Budget Dept Liaison Officer	MoF Dept of Macroec.& Fiscal Proj. Liaison Of.	MoF Financial System Dept. Liaison Officer	MoF PDA Liaison Officer	MoE PE Liaison Officer	MoE SOE Liaison Officer
2.3.1.	Submitting periodical reports to the MoF State Secretary Office	A				R	R			I	C/I	C/I	C/I	C/I		
2.3.2.	Submitting proposals for instant actions when situation required	A				R	R			I	C/I	C/I	C/I	C/I		
2.3.3.	Incorporating risks into budget	C				R	R			I	A	C	C	C		
2.3.4.	Verifying periodical reports and making decisions on mitigating actions	C						C	C	A/R		C	C	C		
2.3.5.	Communication of mitigation decisions to relevant stakeholders	A				R	R			I		I	I	I		
2.3.6.	Undertaking / participating in mitigating actions	C/I				C/R	C/R			A/I	C/R	C/R	C/R	C/R		
2.4.	**Coordination and managing the department unit B**															
2.4.1	Workforce selection, performance management , team building and trainings	A/R	C/I	C/I	C/I					C/I						
2.4.2	Securing continuous flow of information between the Unit and all the external sources and recipients	R	C	C	C					A						
2.4.3	Liaison and meetings with external officials responsible to provide support to FRMD work	A/R	C/R	C/R	C/R					I	R	R	R	R		
2.4.4	Reviews of work in progress and consultations	A/R	C	C	C					I						
3. FRMD - UNIT C: monitoring risks related to local governments, public-private partnerships, natural disasters and other risks																
3.1.	**Data Collection**															
3.1.1.	Collection of data related to potential risks generated by natural disasters	I						A/R			C/R					
3.1.2.	Collection of data related to potential risks related to legal and other specific causes	I						A/R								
3.1.3	Collection of data related to potential risks generated by local governments budget expenditures	I							A/R		C/R	C/R				
3.1.4	Collection of data related to potential risks generated by public-private partnerships	I							A/R							
3.1.5	Collection of data from other domestic & foreign sources, reports and analysis related to potential risks covered by Unit C	I						R	A/R							
3.2.	**Risks Processing**															

	NBS - Inflation monitoring Liaison Officer	NBS - Banks, Fin. Markets, Forex Liaison Officer	Govt. Office for Public Investment Mgmt - Liaison	Govt. Commission for PPP - Liaison Officer	Courts and other sources for legal / specific risks	Other relevant domestic + foreign data sources	Government & relevant Ministries -Liaison Off.	Fiscal Council	Key documents	Key decisions	Notes
	C/I	C/I							Periodical report - Unit B, period X		Based on (To-Be) Instruction for Risk Reporting & Mitigation, Unit B, as the part of (To-Be) General Procedure for operational work of FRMD
	C/I	C/I							Proposal for instant mitigation action - when required		
	C	C								Approval for incorporation of risks int budget	
	C	C					C			Decision on mitigation actions	
	I	I					I	I	Distribution of mitigation decisions to stakeholders		
	C/R	C/R					C/R				
									Work contracts, work performance reports		Based on (To-Be) Instruction for Coordination and Managing the FRM Department, as the part of (To-Be) General Procedure for operational work of FRMD
									MoF State Secretary circular request for active support	MoF Ministry Decision (to be incorporated in legislation)	
	R	R					R		Meeting minutes		
									Progress reports		
			C/R						Collected data 3.1.1.		Based on (To-Be) Instruction for data collection Unit C, as the part of (To-Be) General Procedure for operational work of FRMD
					C/R		C/R		Collected data 3.1,2.		
									Collected data 3.1.3.		
				C/R					Collected data 3.1.4.		
						C	C	C	Collected data 3.1.5.		

WBS code	ACTIVITY / ROLE	Roles/Positions within the FRMD								Roles/Positions outside FRMD						
		FRMD Manager	Employee A1	Employee A2	Employee A3	Employee B1	Employee B2	Employee C1	Employee C2	MoF State Secretary	MoF Budget Dept Liaison Officer	MoF Dept of Macroec.& Fiscal Proj. Liaison Of.	MoF Financial System Dept. Liaison Officer	MoF PDA Liaison Officer	MoE PE Liaison Officer	MoE SOE Liaison Officer
3.2.1.	Establishing context on risks covered by Unit C	A/I						R	R		C	C				
3.2.2.	Identifying risks	A/I						R	R		C	C				
3.2.3.	Analyzing - assessing risks	A/I						R	R		C	C				
3.2.4.	Developing preventive and reactive mitigation strategies	A/I						R	R		C	C				
3.2.5.	Updating Risk Register	A/I						R	R	I	C/I	C/I				
3.2.6.	Preparing periodical reports and proposals for instant actions when situation required	A/I						R	R		C	C				
3.3.	**Risks Reporting and Mitigating**															
3.3.1.	Submitting periodical reports to the MoF State Secretary Office	A						R	R	I	C/I	C/I				
3.3.2.	Submitting proposals for instant actions when situation required	A						R	R	I	C/I	C/I				
3.3.3.	Incorporating risks into budget	C						R	R	I	A	C				
3.3.4	Verifying periodical reports and making decisions on mitigating actions	C						C	C	A/R		C				
3.3.5.	Communication of mitigation decisions to relevant stakeholders	A						R	R	I		I				
3.3.6.	Undertaking / participating in mitigating actions	C/I						C/R	C/R	A/I	C/R	C/R				
3.4.	**Coordination and managing the department unit C**															
2.4.1	Workforce selection, performance management , team building and trainings	A/R						C/I	C/I	C/I						
3.4.2	Securing continuous flow of information between the Unit and all the external sources and recipients	R						C	C	A						
3.4.3	Liaison and meetings with external officials responsible to provide support to FRMD work	A/R						C/R	C/R	I	R	R				
3.4.4	Reviews of work in progress and consultations	A/R						C	C	I						

NBS - Inflation monitoring Liaison Officer	NBS - Banks, Fin. Markets, Forex Liaison Officer	Govt. Office for Public Investment Mgmt - Liaison	Govt. Commission for PPP - Liaison Officer	Courts and other sources for legal / specific risks	Other relevant domestic + foreign data sources	Government & relevant Ministries -Liaison Off.	Fiscal Council	Key documents	Key decisions	Notes
		C	C	C		C				Based on (To-Be) Instruction for Risk Processing, Unit C, as the part of (To-Be) General Procedure for operational work of FRMD
		C	C	C		C			Decision on identified risks Unit C for period X	
		C	C	C		C				
		C	C	C		C		Proposed and checked mitigation strategies		
		C/I	C/I	C/I		C/I		Updated and verified version of Risk Register Unit C		
		C	C	C		C				
		C/I	C/I	C		C		Periodical report - Unit B, period X		Based on (To-Be) Instruction for Risk Reporting & Mitigation, Unit C, as the part of (To-Be) General Procedure for operational work of FRMD
		C/I	C/I	C		C		Proposal for instant mitigation action - when required		
		C	C	C					Approval for incorporation of risks int budget	
		C	C	C		C			Decision on mitigation actions	
		I	I	I		I	I	Distribution of mitigation decisions to stakeholders		
		C/R	C/R	C/R		C/R				
								Work contracts, work performance reports		Based on (To-Be) Instruction for Coordination and Managing the FRM Department, as the part of (To-Be) General Procedure for operational work of FRMD
								MoF State Secretary circular request for active support	MoF Ministry Decision (to be incorporated in legislation)	
		R	R	C		C		Meeting minutes		
								Progress reports		

Appendix C. Process Mapping: Micro Processes

To assist the GoS in translating these recommendations into actual tasks, behaviors, and actions, three micro processes have been detailed for each of the three FRMD units:

1. *Data collection,* which involves gathering of information from all relevant stakeholders
2. *Risk processing*, which involves identifying and analyzing risks, developing risk mitigation strategies, and updating the risk register
3. *Risk reporting and mitigation,* which involves submitting periodic and ad hoc reports to the MoF state secretary

Micro processes by Unit A are presented in figures 7–9.

Figure 7. FRMD Unit A: Micro Process 1–Data Collection

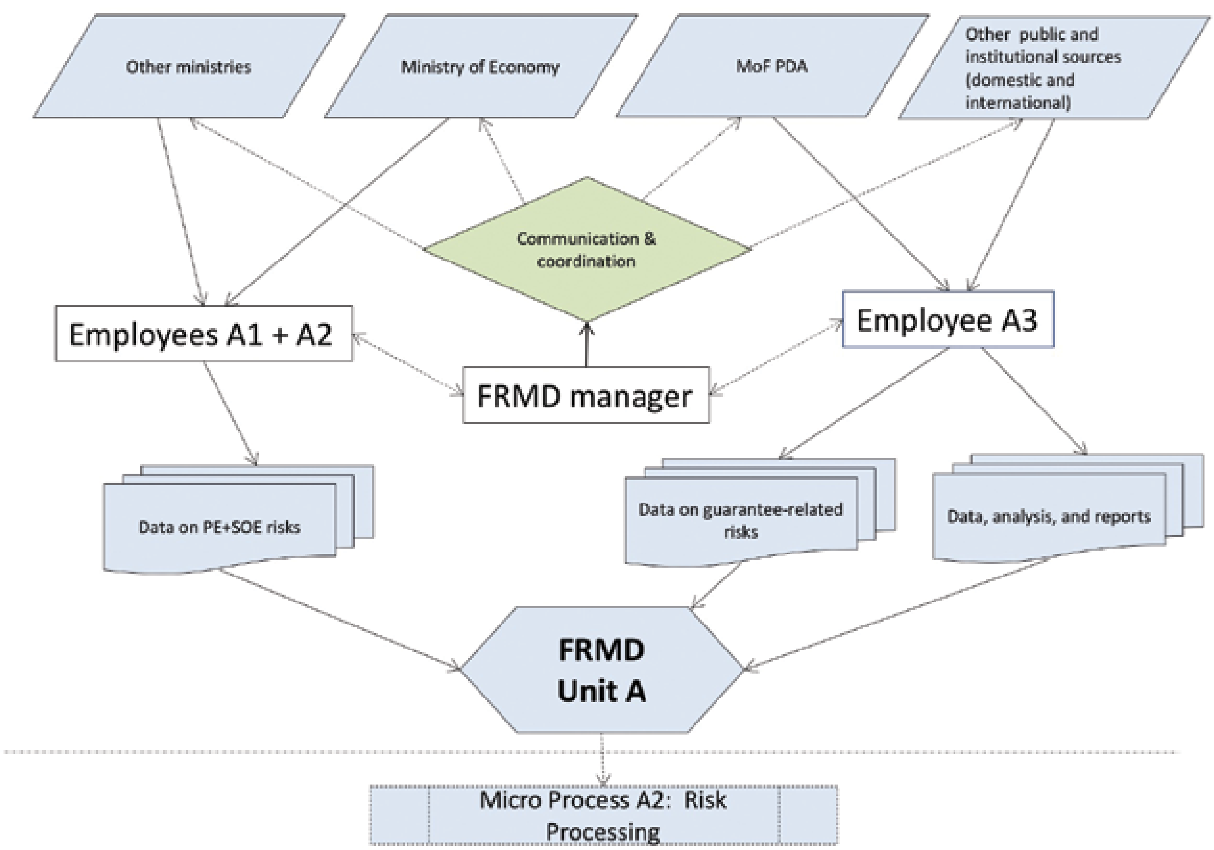


Figure 8. FRMD Unit A: Micro Process 2–Risk Processing

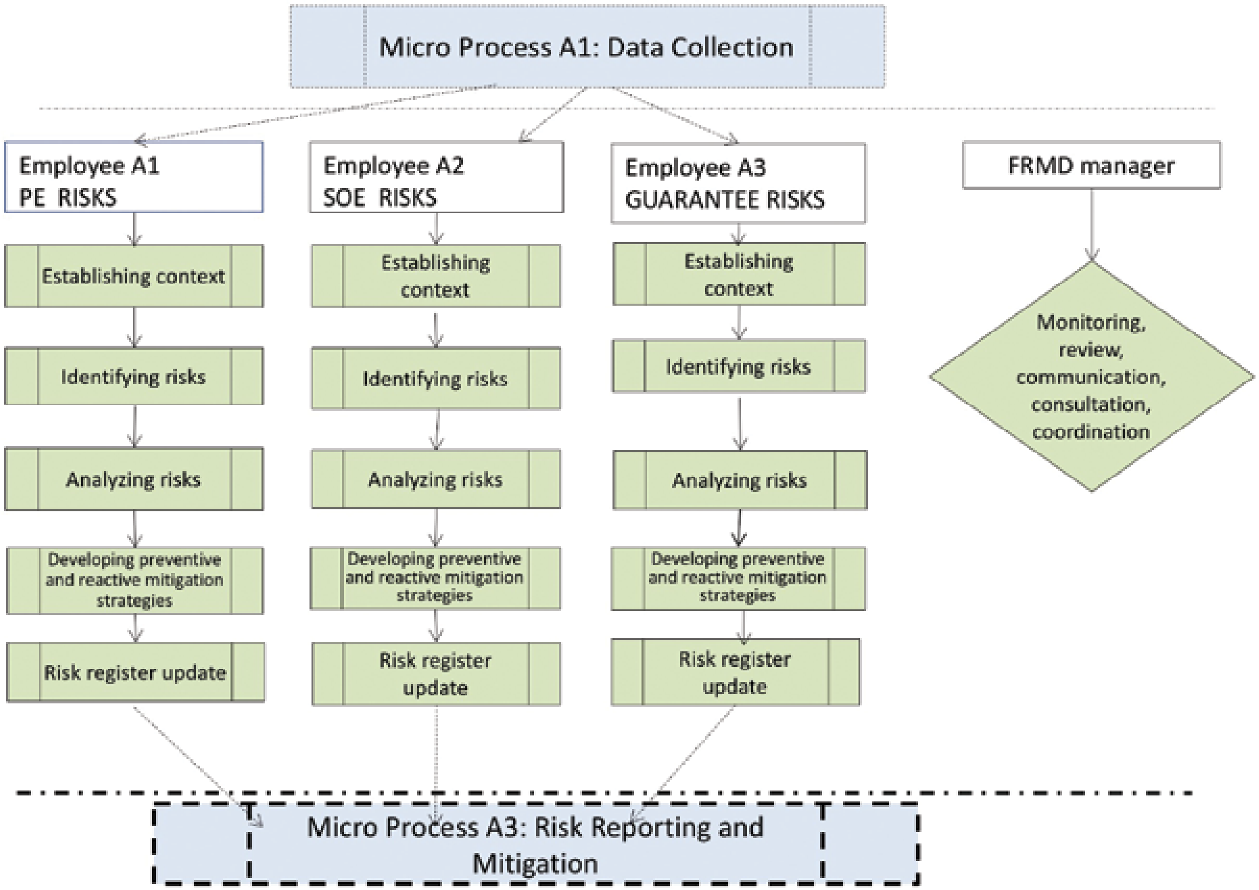
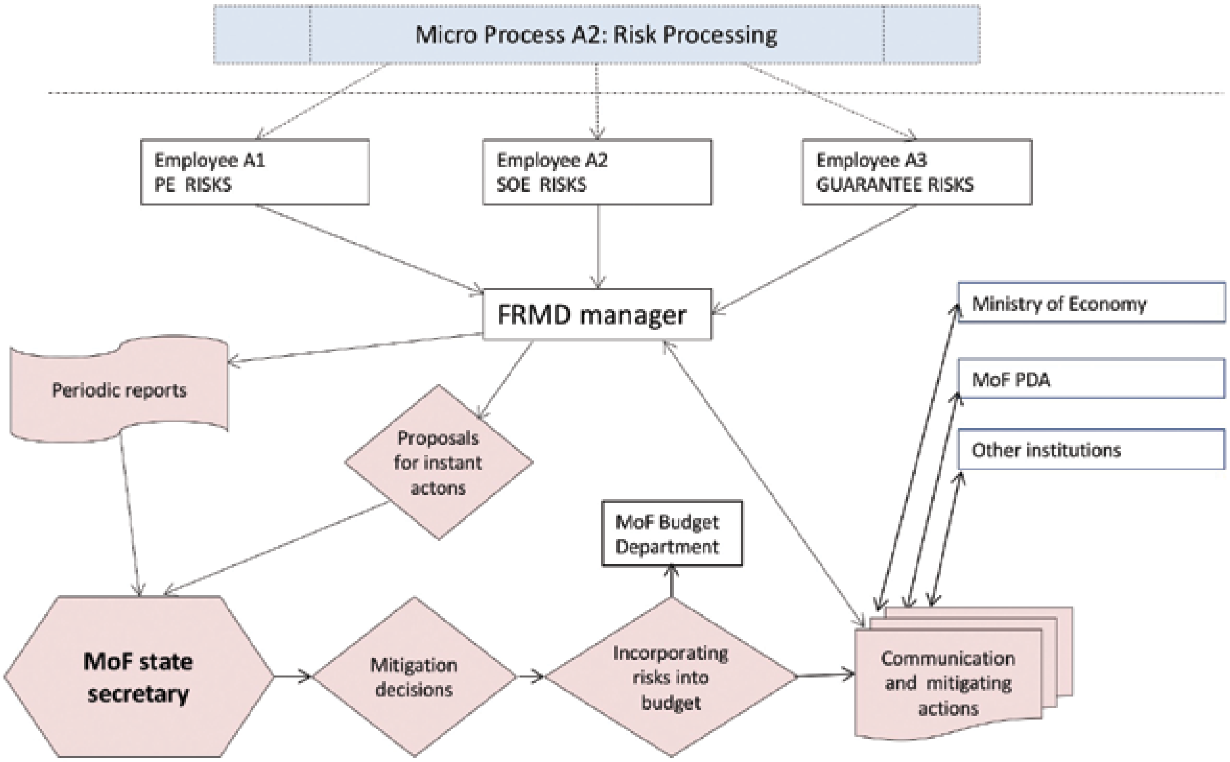


Figure 9. FRMD Unit A: Micro Process 3–Risk Reporting and Mitigation



Micro processes by Unit B are presented in figures 10–12.

Figure 10. FRMD Unit B: Micro Process 1–Data Collection

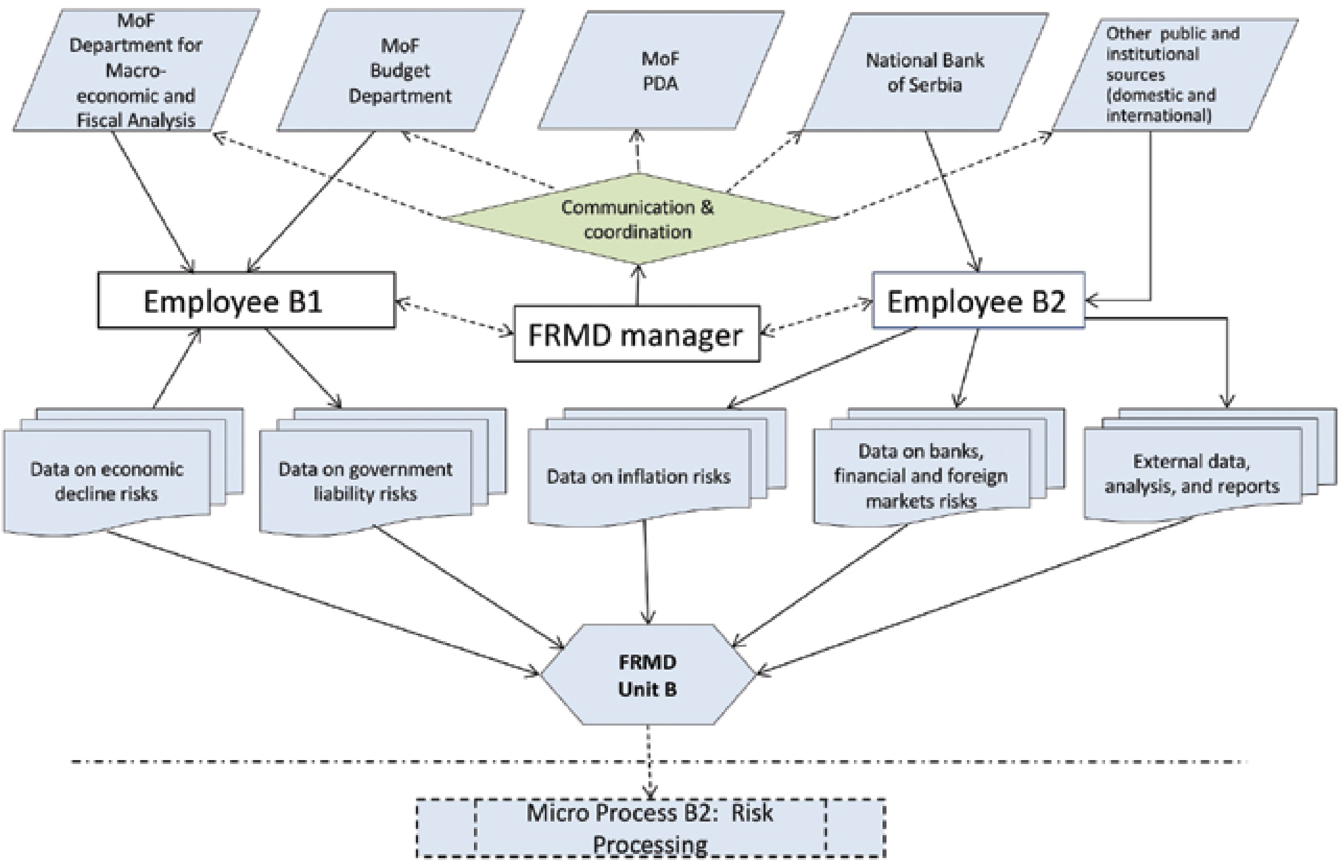


Figure 11. FRMD Unit B: Micro Process 2–Risk Processing

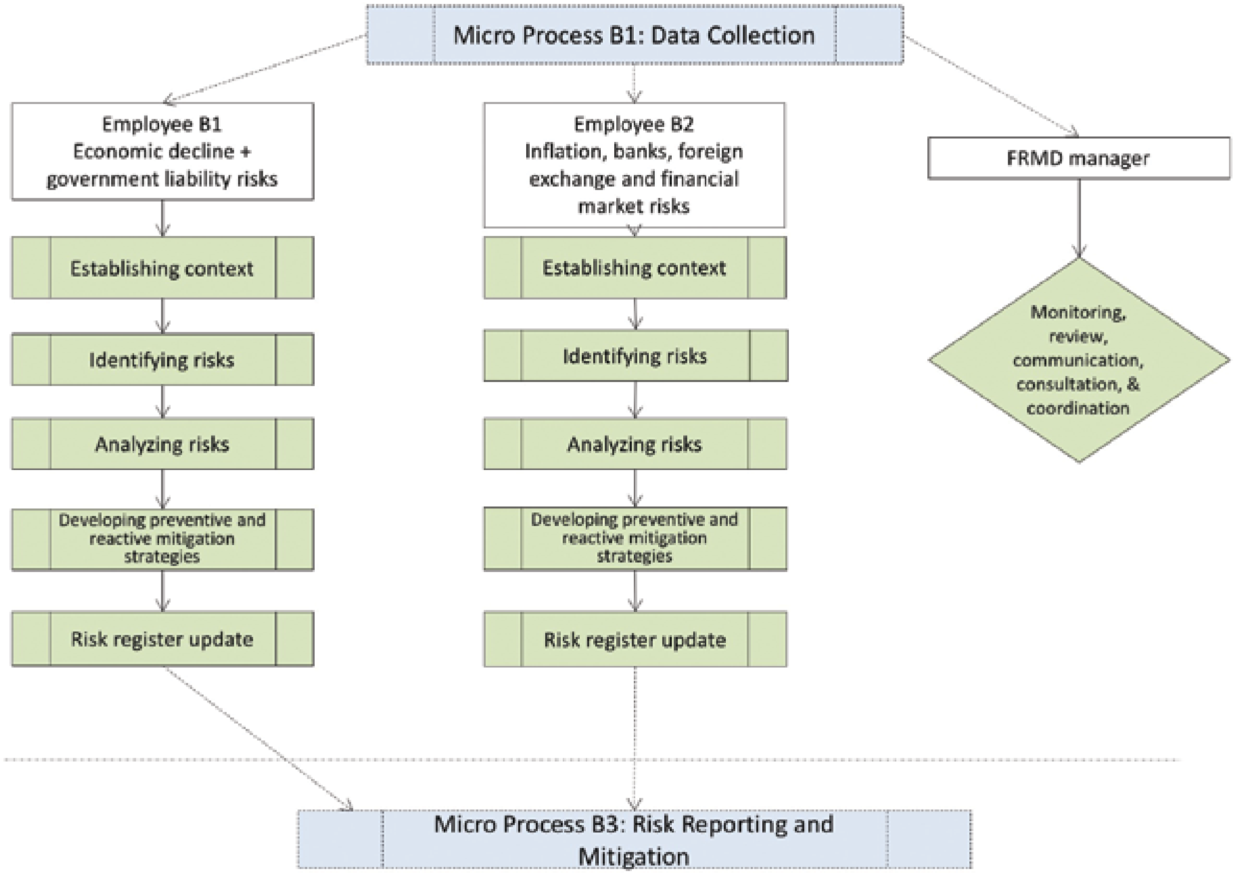
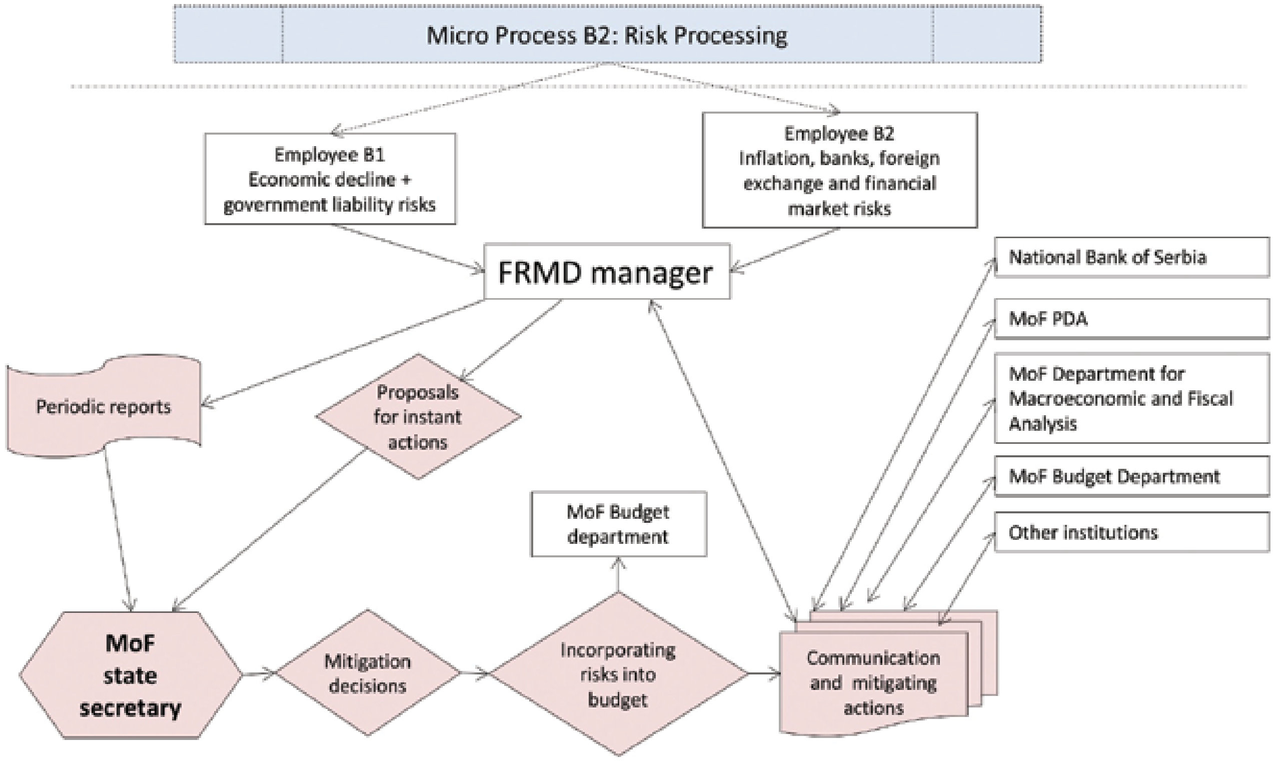


Figure 12. FRMD Unit B: Micro Process 3–Risk Reporting and Mitigation



Micro processes by Unit C are presented in figures 13–15.

Figure 13. FRMD Unit C: Micro Process 1–Data Collection

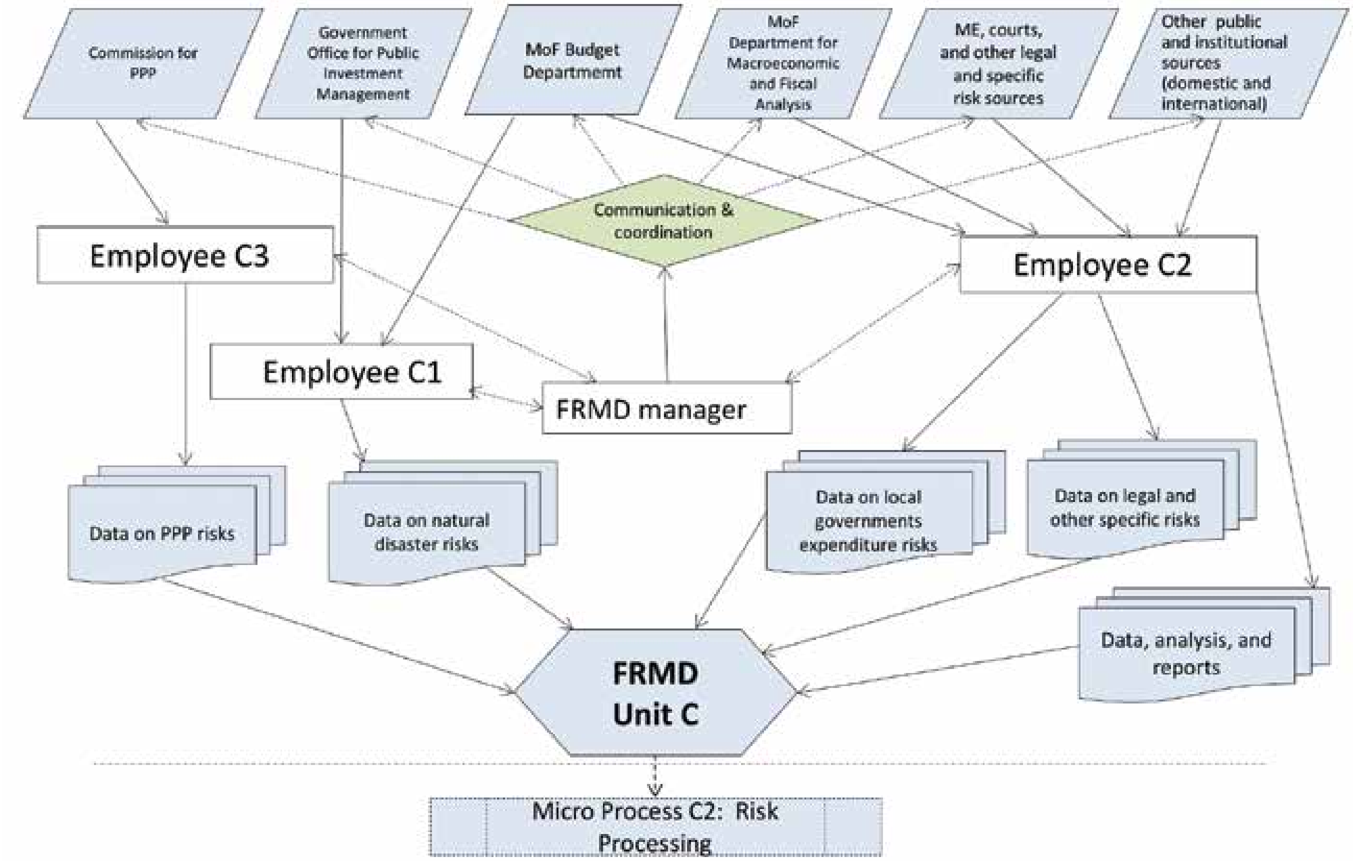


Figure 14. FRMD Unit C: Micro Process 2–Risk Processing

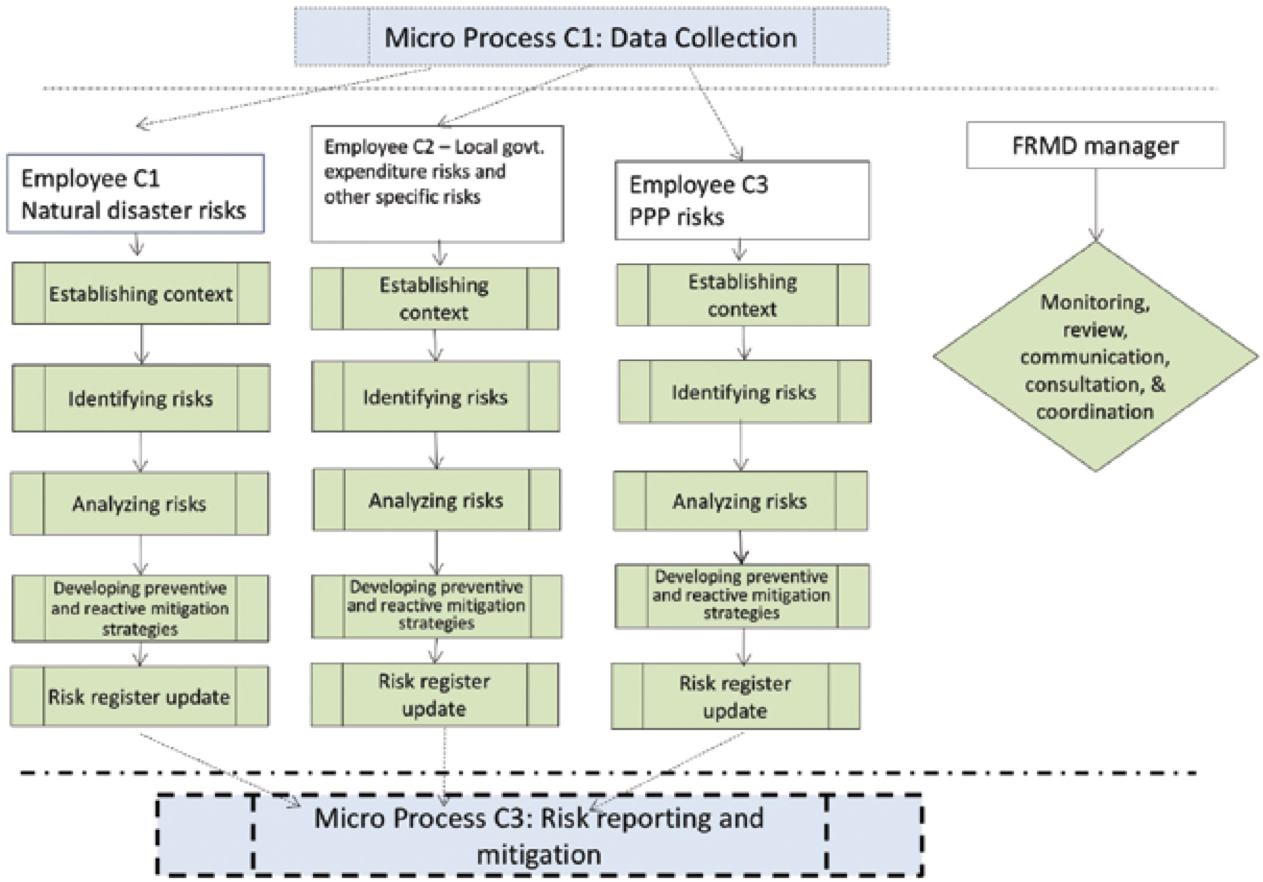
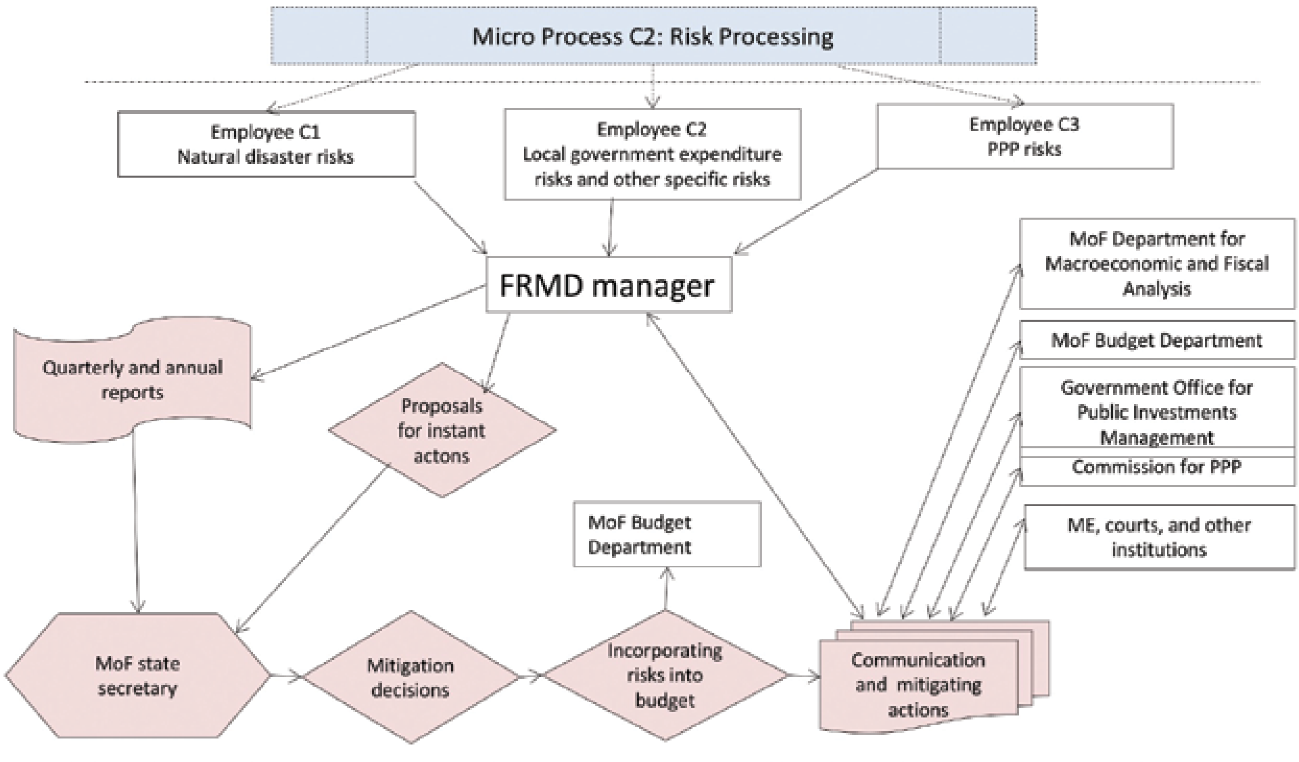


Figure 15. FRMD Unit C: Micro Process 3–Risk Reporting and Mitigation



Appendix D. Policies and Procedures That Could Be Developed and Adopted by the Ministry of Finance to Strengthen Fiscal Risk Management

Document articulating policy	Involved institutions	Content
Policy on Implementation of Integrated Fiscal Risk Management	Government-wide Once created and approved, the policy should be communicated to all the participating bodies and appropriately aligned and integrated with their own policies and procedures	Describes concept of integrated fiscal risk management and explains need for participation by wider group of governmental bodies; lists bodies and departments to be involved and specifies required inputs of each participant; explains lines of communication to and from FRMD, outputs of the fiscal risk management process, expected benefits of new approach, and how these benefits will be monitored and measured
Procedure of Work of Integrated Fiscal Risk Management within the MoF	FRMD and lateral MoF departments related to implementing fiscal risk management	Provides detailed description of relationships and information exchanges between the units and departments; specifies lines of command and control, liaison officer positions, decisions and documents to be included in the system, and macro and micro process maps
Instruction Book for Process of Data Collection	Three units within FRMD	Describes micro process of data collection in granular detail based on RACI matrix distribution of roles and responsibilities
Instruction Book for Process of Risk Processing	Three units within FRMD	Describes micro process of risk processing in granular detail based on RACI matrix distribution of roles and responsibilities
Instruction Book for Process of Risk Reporting and Mitigation	Three units within FRMD	Describes micro process of risk reporting and mitigation in granular detail based on RACI matrix distribution of roles and responsibilities
Instruction Book for Coordination and Management of the FRMD	FRMD manager and MoF state secretary	Describes operative activities of FRMD coordination and management in granular detail, based on RACI matrix distribution of roles and responsibilities

Appendix E. People Interviewed in the Preparation of This Report

People Interviewed within the Ministry of Finance and Fiscal Council

Marko Bekric, Associate, Ministry of Finance

Mirjana Cojbasic, Budget Department, Ministry of Finance

Branko Drcelic, Public Debt Administration, Ministry of Finance

Jelena Miljkovic, Associate, Ministry of Finance

Jelena Racic, Department for Macroeconomic and Fiscal Analysis and Projections, Ministry of Finance

Vladimir Vuckovic, Fiscal Council

People Present at the Disaster Risk Finance and Fiscal Risk Management Workshop, held March 29–30, 2016, in Belgrade, Serbia

Representatives from government departments supporting fiscal risk management in Serbia

Dušan Vujović, Minister, Ministry of Finance

Martina Dalić, Resident Advisor, Public Financial Management, International Monetary Fund

Representatives from the Swiss State Secretariat for Economic Affairs (SECO)

Representatives from the World Bank Disaster Risk Financing and Insurance Program

Representatives from the World Bank Europe and Central Asia Disaster Risk Management Unit

Representatives from the World Bank Treasury

Appendix F. Outcomes of the Workshop on Fiscal Risk Management in Belgrade on March 29-30, 2016

Participants in the workshop discussed the findings of the functional review for the establishment of a fiscal risk department and heard experiences of countries around the world in managing fiscal risks through such dedicated departments. Participants discussed the broad outline such a department could take within the government of Serbia. The department would be established in line with agreements between the government and the International Monetary Fund; it would also be closely aligned with the findings of the World Bank team's overall functional analysis of the MoF.

Participants agreed that

- A dedicated fiscal risk management department in the Ministry of Finance is needed to strengthen fiscal risk management and coordination.
- Such a department must complement existing institutions, functions, and methodologies and should be carefully designed to avoid overlap and duplication.
- This department should have a mandate for coordination, monitoring, information gathering, analysis, and the creation of relevant methodologies. The department could potentially more actively manage risks that are not currently covered.
- Such a department should be situated under a state secretary, but it should report directly to the minister to ensure that it has sufficient weight to carry out its centralized monitoring function. Establishing a risk committee is one possibility for ensuring the involvement of all required stakeholders.
- Given the current budget and hiring constraints, this department should draw as much as possible on existing staff and resources in the MoF, the government, and elsewhere instead of hiring new staff. This approach will be aligned with the findings of the overall functional analysis of the Ministry of Finance currently under preparation.
- To clearly define roles and responsibilities of the various actors in fiscal risk management, and to strengthen overall enforcement of fiscal discipline, amendments to existing laws should be considered.
- Efforts to establish the department will be significantly constrained by the current restrictions on staffing and the budget environment. Another potential challenge to implementation could arise if government departments are reluctant to share information.

Workshop Agenda (Day 2, focused on Fiscal Risk Management)

Wednesday, March 30, 2016: Fiscal Risk Management
Registration
Recap of Day and Introduction to Day 2
Introduction to Fiscal Risk Management
Martina Dalić, Resident Advisor, Public Financial Management, International Monetary Fund
Current Fiscal Risk Management Practices in Serbia
Prof. Dr. Dragan Lončar, Faculty of Economics, University of Belgrade
Representatives from Government Departments supporting current fiscal risk management in the Republic of Serbia
Consultations on current fiscal risk management arrangements and priorities
Lunch
Experiences in Fiscal Risk Management around the World
Prof. Dr. Dragan Lončar, Faculty of Economics, University of Belgrade
Fiscal Risk Management in Colombia, Mexico, Panama, and Peru, Ana Maria Torres, Senior DRF Consultant, World Bank Disaster Risk Financing and Insurance Program
Cigdem Aslan, Lead Financial Officer, World Bank Treasury
Gap Analysis of Fiscal Risk Management practices in Serbia
Prof. Dr. Dragan Lončar, Faculty of Economics, University of Belgrade
Consultations and Recommendations on Improving Fiscal Risk Management
Conclusion and wrap-up

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