



**REPUBLIC OF MACEDONIA**  
**MINISTRY OF FINANCE**

**Public Financial Management**

**Reform Programme**

**2018 - 2021**

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## ACRONYMS AND ABBREVIATIONS

CARM	Customs Administration of the Republic of Macedonia
CHU	Central Harmonization Unit
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ERP	Economic Reform Program
ESPP	Electronic System for Public Procurement
EU	European Union
FMC	Financial Management and Control
GDP	Gross domestic product
GFSM	Government Finance Statistics Methodology
IA	Internal Audit
ICT	Information and communications technology
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IT	Information technology
MDA	Ministry/Department/Agency
MISA	Ministry of Information Society and Administration
MoF	Ministry of Finance
MTBF	Medium-term budget framework
MTEF	Medium-term expenditure framework
NBRM	National Bank of the Republic of Macedonia
OECD	Organisation for Economic Cooperation and Development
PAR	Public administration reform
PEFA	Public Expenditure Financial Accountability
PER	Public Expenditure Review
PFM	Public financial management
PIFC	Public internal financial control
PPB	Public Procurement Bureau
PPC	Public Procurement Council
PPL	Public Procurement Law
PPP	Public private partnership
PRO	Public Revenue Office
SAC	State Appeal Commission on Public Procurement
SAO	State Audit Office
SIGMA	Support for Improvement in Governance and Management
SSO	State Statistical Office
TIS	Treasury Information System
TSA	Treasury Single Account
USAID	United States Agency for International Development

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## Preface

Public financial management is the basis of all efforts that each country makes in order to provide for a stable and sustainable development and promote welfare for its citizens.

Public financial management is a fundamental function of the State to implement its policies, having impact on the economic stance of the country and on its ability to maintain cohesion. Efficiently using public resources and allocating them to policy choices require the systems embodied in Public Financial Management. It requires continuous adjustments to improve efficiency and effective delivery of services, and sometimes reforms to change systems. Public Finance Management is particularly difficult in turbulent economic times. It includes maintaining a stable fiscal over the long run while keeping on delivering better services to the citizens and economic agents in the country.

Improvement of the public financial management is continuously placed among top Government priorities and it is also a priority for accession to the EU.

The need for proper and professional public financial management is increasingly imposing on every Government due to the following facts:

- Public finance is the key factor to all national economies and the social welfare to the citizens;
- Fiscal stability and sustainability are crucial for efficient development of both national and global economy;
- Transparency in budget adoption and execution, or more precisely, how public finances/resources are managed is a matter of mutual trust and reliability.

This Public Finance Management Reform programme is designed to respond to the challenges found in our system to improve efficiency and effectiveness of public spending.

In order to achieve this goal, including fiscal discipline, debt sustainability and an efficient, transparent and modern management of public finance, the Government has decided to guide its effort through a comprehensive public financial management (PFM) reform programme. This reform programme builds on a thorough analysis of the situation and a process that commits all stakeholders, both donors and users, in identifying priorities to address key weaknesses in the public finance sub-systems<sup>1</sup>, determining expected results and resources requirements, and establishing adequate management and coordination of the institutions involved. Its implementation as well as its design will maintain a high level of consultation with non-state actors.

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<sup>1</sup>Priorities cover revenue administration and collection, fiscal forecasting, budget preparation, budget execution, public procurement, accounting and reporting, debt management, public internal financial control and external audit.

# Chapter I: The Background of the PFM Reform Programme in Macedonia

The Budget Law is the basic legal act regulating the overall budget process, as well as the preparation of the Medium-term Fiscal Strategy.

The medium-term planning is reflected through the Fiscal Strategy, which in accordance with the law is adopted for a three-year period and it proposes the guidelines and objectives of the fiscal policy, the basic macroeconomic projections and indicators, it determines the amounts for the main categories of estimated revenues and appropriations for that period, as well as projections for the budget deficit and debt.

## The economic context

New investments, new jobs and better life of the citizens are key socio-economic objectives of the Government promoted by competitive and integrated economy as laid out into Europe 2020 – A strategy for smart, sustainable and inclusive growth.

The Republic of Macedonia has been able to preserve macroeconomic stability during the global financial and economic crisis and euro zone debt crisis. The exchange rate peg to the Euro has successfully supported price stability. Macroeconomic policies have been geared towards keeping the external balance manageable, and monetary policy has responded quickly to any possible threats to the peg. Since the global crisis in 2008, growth has been among the strongest in South East European region, and Macedonia has made impressive progress in reducing unemployment.

Growth of economic activity continued in 2016, and according to the preliminary data from the State Statistical Office real GDP growth amounted to 3,8%<sup>2</sup>, as a result of exports and consumption growth, while gross investment weighed on GDP growth amid domestic political uncertainty. Positive economic trends and active measures for reducing unemployment caused the unemployment rate to decrease to 22.9% in Q1 2017<sup>3</sup>.

Economic growth for 2017 is projected at 2.2%, being revised downwards compared to the initial forecast (3.0%), reflecting the adverse effects of the protracted domestic political uncertainty on the economy, investments in particular. According to the latest regular economic reports of international institutions, economic activity growth in 2017 is forecasted to remain solid, i.e. projected at 3.2% by IMF<sup>4</sup>, at 2.9% by European Commission<sup>5</sup> and 2.8% by World Bank<sup>6</sup>.

Positive economic developments are expected to continue on medium-term with prospects for certain intensification of the real GDP growth.

## The fiscal context

The fiscal policy 2016-2018 aims at maintaining macroeconomic stability and encouraging economic activity through significant capital expenditures and investments in infrastructure. It clearly puts the Government focus on attaining a stronger fiscal discipline and adequate allocation of available funds, in line with the strategic priorities. Both objectives require effective public financial management. The Fiscal

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<sup>2</sup> <http://www.stat.gov.mk/pdf/2017/3.1.17.01.pdf>

<sup>3</sup> <http://www.stat.gov.mk/pdf/2017/2.1.17.24.pdf>

<sup>4</sup> <http://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>

<sup>5</sup> [https://ec.europa.eu/info/publications/economy-finance/european-economic-forecast-spring-2017\\_en](https://ec.europa.eu/info/publications/economy-finance/european-economic-forecast-spring-2017_en)

<sup>6</sup> <https://openknowledge.worldbank.org/handle/10986/26800>

Policy also states the Government determination regarding the uncompromising fight against corruption and crime, efficient law enforcement. Education, innovation and information technology are stated as key priorities for budget allocations towards the creation of a knowledge-based society.

Fundamental to the fiscal stance, the policy recalls that the Public Debt Management Policy imposes the government to act towards prudent public debt management in the medium term. The PFM reform programme will contribute to the Debt Management Policy objectives by supporting its principles<sup>7</sup> through a well functioning and transparent debt management.

In 2016, total budget revenues were realized in the amount of 169.4 billion denars (97.2% of the planned for 2016) and 5.1% higher than realized revenues in the same period in 2015. Tax revenue in 2016 is 7.7% higher compared with taxes in 2015, mostly resulting from VAT, personal income tax and excises. Social security contributions for the whole 2016 amounted to 50.3 billion denars, 5% higher than the social contributions realized in 2015.

Total budget expenditures in 2016 were 185.4 billion denars (93.9% of the annual plan), and 2.6 % higher than budget expenditures realized in 2015. In this context, the current expenditures amounted to 168.4 billion denars (4% higher than last year), while capital expenditures were realized in the amount of 16.9 billion denars or 9.1 % lower than the capital expenditures realized in 2015.

Thus, in 2016, the Central Government Budget deficit reached 16.1 billion denars or 2.6 % of the projected GDP for 2016.

The General government debt of the Republic of Macedonia at 31.03.2017 amounted to 3,888.7 million EUR, or 37.8% of GDP, and public debt amounted to 4,739.7 million EUR, or 46.0% of GDP. As a result of the prudent fiscal policy in recent years, the Republic of Macedonia remains a moderately indebted country.

The medium-term fiscal framework aims at sustainable economic growth, boosting competitiveness of the economy and job creation, as well as better living standard of the population. Real GDP growth is expected to be 2.2% in 2017, 3.5% in 2018 and 4.0% in 2019.

Projections for public finances in the next medium-term period are based on the commitment to their gradual consolidation by reducing the budget deficit. This will require a strong contribution from the PFM reform to maintain a strict adherence to fiscal discipline, starting with planning, costing and commitment control, and keeping the payroll under tight control. In the coming medium term period expenditure side of the Budget will be aimed at realisation of two components: the development component aimed at supporting the growth of the Macedonian economy by investing in major infrastructure projects and the social component aimed at maintaining social stability and improving the living standards of citizens.

Public debt management policy is part of the Fiscal Strategy and it sets the framework for the Government of the Republic of Macedonia to act towards prudent public debt management in the medium run.

Ceilings for the government debt are:

- in the period 2017-2019, the share of euro-denominated debt to be at least 80% of the foreign currency debt portfolio
- In the period 2017-2019, the share of debt with fixed interest rate should be at least 50% of the total debt portfolio.

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<sup>7</sup>Fiscal Strategy 2016 – 2018 defines the following principles:

- the determination of the optimal structure of debt portfolio and its compliance with the national macroeconomic policy;
- harmonization of debt portfolio-related costs with the costs set in the state budget for each year separately and in the medium term, and
- limiting and eliminating the risk effects on public debt medium- and long-term sustainability.

- Limit for refinancing risk in order to protect the central government debt portfolio against the refinancing risk, the minimum level of the "average time to maturity" indicator in 2017 should be 3 years
- In order to protect the central government debt portfolio against the interest rate risk, the minimum level of the "average time to refixing" indicator in 2017 should be 2 years.
- Maximum net borrowing on the basis of general government debt in 2017 to be up to EUR 500 million.
- Maximum net borrowing on the basis of guaranteed debt in 2017 to be up to EUR 180 million.

## External assessments

Macedonia's Public Financial Management has now been analysed independently by three partners of Macedonia:

1. SIGMA<sup>8</sup> using a series of principles and indicators for paving the way towards EU accession
2. A PEFA<sup>9</sup> assessment funded by EU: the PEFA uses an internationally defined set of benchmarks to test how well our PFM delivers on critical functions
3. World Bank: carried out a Public Expenditure Review, oriented towards a PFM analysis and the efficiency of government's spending to achieve growth

In the external assessments and reports, important issues are raised with regard to Macedonia's Public Finance Management:

- Multi annual forecast and planning of the budget
- Link between the policies and the budget
- Transparency and citizens' access and use of budgetary documents
- Efficiency of the Treasury system and its ability to control transactions
- Comprehensiveness and quality of the financial reporting
- Alignment and transparency of public procurement and concession to EU Acquis
- Effectiveness of the financial management controls and Internal Audit
- Scope and impact of the State Audit Office's reports and recommendations

Within each measure there is relevant reference to the following documents:

### PEFA

PEFA framework: in the course of 2015, the public expenditures and the financial accountability in line with PEFA (Public Expenditure Financial Accountability) Methodology were assessed. PEFA assessment is aimed at determining the present condition of the Public Finance Management (PFM) system in the Republic of Macedonia and provided a comprehensive diagnostic of the situation in all PFM sub-systems.

### SIGMA

SIGMA Report: under the Public Administration Reform Project in cooperation with the European Commission, during 2015, SIGMA carried out a mission so as to provide relevant information in the field of public administration and public finance on the basis of collecting data from relevant institutions.

### IMF

Different IMF reports highlight a number of issues and recommendations in their Country Reports, Mission Reports, Assessment Reports and other documents.

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<sup>8</sup>SIGMA is an EU/OECD venture. More information on <http://www.sigmaweb.org>

<sup>9</sup>Public Expenditure and Financial Accountability, see [www.pefa.org](http://www.pefa.org)

**WB**

Public Expenditure Review: a tool used by the World Bank to review Macedonia's PFM system. The analysis covers key PFM areas as budget structure and credibility, budget comprehensiveness and fiscal transparency, medium-term fiscal framework, capital investment management, treasury and cash management, public debt, public procurement, internal financial controls, accounting and external auditing.

**EU**

EU Progress Reports, reports produced by twinning projects, results of Monitoring Missions provide valuable input to this strategy

## Chapter II. Main Priorities, Outcomes, Measures and Activities of the PFM Reform Programme

In spite of much progress made in improving the public finance management in recent years, thanks to reforms that paved the way towards the EU Accession with the support of the European Union (EU), improving human resources, aligning our legal framework on EU Acquis, improving systems, there are still important challenges to be addressed for Macedonia to achieve its objectives of robust economic growth and social inclusiveness. This requires better and modern public finance management tools.

Adopting a credible public finance management reform programme is thus necessary. Our priorities for reform will ensure that the budget deficit can be managed and fiscal discipline maintained. The government remains committed to fiscal consolidation. Our debt will be better managed and more transparent, improving markets rate, thanks to better reporting tools.

The improvement in planning, debt management and fiscal discipline will be complemented by improvements in the quality of the data and reporting of budgetary information. In addition to this, the Government Finance Statistics, National Account and GDP calculation and reporting will be aligned with EU standards (ESA 2010).

Efficiency of public spending will be improved thanks to the modern budget planning that Macedonia adopted, with the support of the EU, based on multi-annual budget, reflecting programs and performance objectives.

All these reforms would not be possible without the further integration of Macedonia into the EU's single market. The Customs Administration will further align with EU customs and facilitate business and the Public Revenue Office will reform its processes to better serve citizens and the business community and ensure a fair and efficient tax and social contributions collection.

This PFM reform programme seeks to strengthen the public finance system, promoting transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. Importantly for the accession process, the PFM reform plan will support the dialogue with the EU and help use EU resources more efficiently throughout Macedonian institutions, on the road to accession.

7 priorities are established for this PFM Reform programme:

- Priority 1: Improved Fiscal Framework
- Priority 2: Revenue Mobilization
- Priority 3: Planning and Budgeting
- Priority 4: Budget Execution
- Priority 5: Transparent Government Reporting
- Priority 6: Internal Control
- Priority 7: External Control and Parliamentary Oversight

Priorities have its objectives, outcomes and outcome indicators to measure the outcomes. Each priority is further divided into a number of measures. For each measure there is a discussion of the measure objective together with references to the external assessments findings; in addition there are listed activities with description for every measure. For each measure it is listed in which year it is to be completed; the deliverables of the measure; its cost implications; the responsible entity/entities, and the risk factors that may impede its execution.

All activities, by priority and measure, are brought together in an Action Plan in Appendix 1 and all priority outcomes with outcome indicators and activity outputs with output indicators are listed in a logframe in Appendix 2.

## Priority 1: Improved Fiscal Framework

### Objective

Creation of reliable and predictable medium term fiscal projections

The objective of this priority will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Formulation, adoption and implementation of fiscal rules</b>
Activity 1:	Designing of fiscal rule and adoption of the fiscal rule legislation
<b>Measure 2:</b>	<b>Strengthening of forecasting</b>
Activity 1:	Reorganization of organisation structure and responsibilities in charge of revenues projections
Activity 2:	Strengthening of capacities for tax revenue planning
Activity 3:	Creating procedures and operational framework for modelling related to tax revenue projections
Activity 4:	Further development of the macroeconomic model
<b>Measure 3:</b>	<b>Increased data availability for better forecasting of GDP</b>
Activity 1:	To continue harmonisation of the statistical methodologies in the area of business and social statistics (monthly and quarterly), providing timely and accurate data for compiling quarterly national accounts
Activity 2:	Exploring the usage of administrative and other data sources in the field of business and social statistics
Activity 3:	Delineation of Gross Capital Formation
Activity 4:	Strengthening of the human capacities that will bear the burden of the activities planned
Activity 5:	ESA 2010 Transmission

### Outcome

- I) Fiscal Council established
- II) Improved planning of revenues
- III) GDP on quarterly level produced by expenditure and production approach

### Outcome indicators

- I) Establishment of Fiscal Council
- II) Variance between total revenue outturn and original budgeted
- III) % of indicators and improved quality of statistical data produced

## P1M1: Formulation, adoption and implementation of fiscal rules

### Measure objective

Fiscal rules will put greater attention to the quality of the medium term fiscal and budget framework and ensure budgetary discipline, long-term stability, predictability and transparency of the public finances.

### Reference to the external assessments findings:

PEFA:	PEFA noted about the intention for the constitutional amendments in order to introduce fiscal rules. They are still not in place
SIGMA:	Fiscal rules strength index ranked 1- The indicator confirm the need for establishment operational fiscal rules The Assembly should adopt the proposed changes to the Constitution to establish binding fiscal rules or, alternatively, the MoF should propose legally binding fiscal rules to the Budget Law.
IMF:	Given that effective implementation of fiscal rule requires supporting institutions in public financial management, the paper (Country report No.15/243) recommends: (i) further development of the MTFS so that it can guide the budget preparation process more effectively; (ii) enforcement of strict expenditure controls as well as implementation of effective cash and debt management to ensure that the budget is executed as planned; (iii) increased robustness of macroeconomic projections to prevent revenue over-

	optimism; and (iv) strengthening both ex-ante and ex-post independent scrutiny including the eventual establishment of a fiscal council.
WB:	One of the recommendations as a short-term measure is implementation of the fiscal rules. In the chapter 4- Fiscal Sustainability, E. Fiscal Rules it is written that fiscal rules provide constraints on fiscal policy. Ideally, they should be clearly defined, transparent, simple, flexible, enforceable, consistent, and supported by sound policies. Establishing a fiscal rule in Macedonia would be in line with what is happening throughout the European Union. As part of the 2011 Enhanced Stability and Growth Pact, EU member states are advised to translate EU fiscal rules into national legislation that has "a sufficiently strong binding and durable nature."
EU:	EU progress report 2016- In the coming year, the country should in particular introduce fiscal rules so as to improve public financial management

### Context / Background

In 2014, the Government of the Republic of Macedonia adopted a Draft Decision to start an initiative for amendments to the Constitution. The amendments to the Constitution propose the introduction of fiscal rules, or limitations of the budget deficit in the amount of maximum up to 3% of the gross domestic product, and to limit the public debt to a level of maximum 60%. The establishment of precise numerical fiscal rules in the Constitution of the Republic of Macedonia will ensure long-term stability, predictability and transparency of the public finances.

### Activity 1: Designing of fiscal rule and adoption of the fiscal rule legislation

Following the example of European countries, it is proposed to introduce fiscal rules ensuring:

- a framework for conducting a sound, predictable and sustainable fiscal policy;
- increasing the budget discipline and responsibility;
- increasing the macroeconomic policy credibility;
- fair and sustainable distribution of expenditures between the present and future generation of public goods users.

This activity includes an analysis of the method for further regulation of the fiscal rules in a law following the example of EU countries and the European Directives for establishing fiscal rules.

This part will particularly address the following:

- 1/ proper design of fiscal rules
- 2/ implementation of fiscal rules
- 3/ monitoring and control of the fiscal rules implementation;
- 4/ mechanisms for determining the fulfilment of fiscal targets;

Preparation and adoption of the fiscal rules legislation will provide legal solution for fiscal rules application and holding public debates with the expert public and stakeholders in order to obtain proposals and comments for improving the law.

Institutionalized independent evaluation of the macroeconomic and fiscal (budget) projections by establishing the Fiscal council.

This activity includes the following sub-activities:

- Analysis of the already given recommendation and data collected for the fiscal rules;
- Consultation with the services of the European Commission and international financial institutions on developing the concept for application and follow-up of fiscal rules;
- Legal changes for institutionalizing the Fiscal council.

### Implementation

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	• Fiscal rule legislation adopted
<b>Cost implications:</b>	Operating costs of the Fiscal Council 165.000 yearly- EUR 660.000
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	• Failure to adopt the legislation (legal solution) by the Assembly • Lack of consensus with regard to setting up an independent body/ Fiscal council

## P1M2: Strengthening of forecasting

### Measure objective

To strengthen tax revenue forecasting.

### Reference to the external assessments findings:

Others:	In accordance with Final Report EU of twinning project „ Strengthening the capacity of the MoF for macroeconomic analysis and policy formulation" in 2013-2015, MoF should take the responsibility over tax revenue predictions and the leadership considering the co-operative work between the actors involved in taxation and data assembling
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### Activity 1: Reorganization of organisation structure and responsibilities in charge of revenues projections

Current organization do not provide clear role of responsibilities for revenue projections between departments. In order to have clear organizational structure for revenue projections it is necessary to adopt a new organization structure with precise roles and responsibilities in the process of revenue projections between relevant departments in MoF.

This activity includes sub-activity:

- Analysis of the current process of revenue projections based on the best practices in the EU member countries and recommendations for their improvements - Twinning project "Strengthening the medium term budgeting for effective public financial management" 2015-2017

### Activity 2: Strengthening the capacities for tax revenue planning

With twinning project "Strengthening the capacity of the MoF for macroeconomic analysis and policy formulation" in 2013-2015, MoF has developed new models for tax revenue projections that also support estimation of fiscal impacts of new policy changes. So in order to continue the development of tax models as well as their maintenance, further support should be allocated in the forms of:

- Ensuring that sufficient number of staff with the relevant technical skills and training are available for the use and development of these models for both revenue baseline projections and analyzing new discretionary measures;
- Adequate IT-software for using the forecasting models.

This activity includes the following sub-activities:

- Recruiting new staff for tax revenue projections;
- Training of new staff on usage and development of tax revenue models and analyzing new discretionary measures;
- Further development and maintenance of current tax revenue models;
- Building up a new tax micro-simulation models for direct and indirect taxation
- Building up a new time series models for direct and indirect taxation

### Activity 3: Creating procedures and operational framework for modelling related to tax revenue projections

To create a sound framework for tax modelling, it is crucial to enact writing procedures for modelling tax revenues. Namely, these procedures should provide adequate using of tax revenue models in order to provide short and medium term projections of tax revenue. In addition to this, here it is also important to provide precise time-frame for data needed for projections and output of the models.

This activity includes the following sub-activities:

- Preparation of tax revenue models for short-term projection for direct and indirect taxation;
- Preparation of tax revenue models for medium-term projection for direct and indirect taxation;

**Activity 4: Further development of the macroeconomic model**

The intention is to improve the supply side block of the macroeconomic model by using a different methodology, as well as new quarterly national accounts time series, such as gross fixed capital formation, changes in inventories, compensation of employees etc. To facilitate the further development of the model, there is a need to purchase additional statistical software.

The macroeconomic model was not proposed as a measure for improvement of PFM within different assessments such as EC PR, PEFA, PER, IMF. On the contrary, the last Assessment Report by the European Commission on ERP 2017 states that the macroeconomic projections in the ERP are plausible and that the risks related to a continuation of the political crisis are clearly acknowledged in the growth projections, which have been revised downwards compared to the previous year's programme. However, having in mind the importance of projections for the real sector, further development of the model is proposed. The risk to a certain extent stems from the availability of new quarterly national account time series that are foreseen to start to be produced within the period 2019-2021.

**Implementation**

<b>Completed in year:</b>	2020
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• New systemization</li> <li>• Guidelines for short-term tax projection</li> <li>• Guidelines for medium-term tax projection</li> <li>• Improved macroeconomic model</li> </ul>
<b>Cost implications:</b>	55.600 Euros total cost (new employed staff, adequate IT-software, training staff)
<b>Responsible entity:</b>	Tax and Customs Policy Department for A1, A2, A3 and Macroeconomic Policy Department for A4
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Availability of the experts</li> <li>• Data availability</li> </ul>

**P1M3: Increased data availability for better forecasting of GDP****Measure objective**

Improved calculations of GDP on quarterly level by expenditure approach at current and constant prices, based on improved basic statistics.

**Reference to the external assessments findings:**

EU:	In the coming year, the country should in particular further align statistics with the European System of Accounts 2010. Further efforts are required to harmonise government finance statistics and produce quarterly sector accounts. The SSO significantly improved the efficiency of data collection but the availability and quality of administrative data sources remains a problem.
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**Context / Background**

GDP is published quarterly, 70 days after the end of the quarter by expenditure approach at current and constant prices. Some of the expenditure categories are published on a very aggregate level. It is expected to improve gross capital formation – to calculate separately gross fixed capital formation and changes in inventories. Also, it is necessary to calculate GFCF by all types of fixed assets. As part of the accountability of statistics towards the society, the activities related to statistics will result in better responding to users' needs, as well as in filling in the tables according to Eurostat's ESA 2010 transmission programme. Additionally, the data on quarterly General Government Accounts and EDP will be of use to the MoF and NBRM for the creation of their monetary and macro-economic policies.

**Activity 1: To continue harmonisation of the statistical methodologies in the area of business and social statistics (monthly and quarterly), providing timely and accurate data for compiling quarterly national accounts**

To improve GDP calculations it will be important for all business and social statistics, which are used in the calculations, to be improved, too. They should be produced on time and with appropriate accuracy. If it is necessary new surveys will be established to cover some activities as an input for GDP calculation on quarterly level.

**Activity 2: Exploring the usage of administrative and other data sources in the field of business and social statistics**

According to the Law on State Statistics, SSO is in a position to use the administrative data sources for statistical purposes and as a user has to be consulted and informed for any change that is planned in the existing data base that serves as a data source. The purpose of this project is to support SSO staff in dealing with problems encountered in the use of administrative data for statistical purposes.

**Activity 3: Delineation of Gross Capital Formation**

SSO produces gross capital formation, but for user needs, it is necessary to produce expenditure categories that are a part of GCF, which means to produce gross fixed capital formation and changes in inventories separately. Gross fixed capital formation will be estimated by type of assets as it is needed for transmission tables and user needs.

**Activity 4: Strengthening the human capacities that will bear the burden of the activities planned**

Activities about GDP calculation cover large number of surveys and data from SSO and administrative sources, so it will be of high importance for the SSO to strengthen the human capacities in the office through recruitment of new staff, as well as through trainings in order to be able to work on these activities and to achieve the planned results.

**Activity 5: ESA 2010 Transmission**

SSO is sending the table 1Q in accordance with ESA 2010 starting with 2000, so it is necessary to transmit main aggregates starting from Q1 1995 onwards. SSO sent the table 1Q, but with gaps, so we should improve the data in order to be able to fulfil the whole table without gaps.

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Improved GDP data</li> </ul>
<b>Cost implications:</b>	Activities will be implemented and financed in the frame of Sector Planning document and Action Document for Public Administration Reform and Statistics. Their e implementation is linked to the activities to be implemented under this programme.
<b>Responsible entity:</b>	State Statistical Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Insufficient staff</li> <li>• Inadequate experts</li> <li>• Unknown quality of administrative data sources</li> </ul>

## Priority 2: Revenue Mobilization

### Objective

To improve the country's performance in collecting revenues, by PRO and CARM and to ensure long term stability of the PFM IT systems in case of crisis.

The objective of this priority will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Improved revenue legislation framework, harmonized with the EU acquis</b>
Activity 1:	Harmonisation of tax and customs legislation in line with relevant EU acquis and best practices
Activity 2:	Amendments in order to support effective tax collection, prevention of tax evasion and fight against tax avoidance
<b>Measure 2:</b>	<b>Improved tax and customs services and procedures</b>
Activity 1:	Implementation of the project activities foreseen in the PROs Modernisation Programme (including reengineering of business processes, new Tax Integrated IT system)
Activity 2:	Strengthening of operational capacities of CARM to increase the quality of controls and responses and introducing further simplification of procedures
Activity 3:	Introducing enhanced models and methods to strengthen the control system to prevent, detect and fight against custom frauds and illegal trafficking of goods while facilitating the trade
Activity 4:	Provision of equipment and tools to implement enhanced models of control, facilitate trade and increase quality of services
<b>Measure 3:</b>	<b>Ensuring stability of the PFM systems in case of crisis</b>
Activity 1:	Ensuring spatial facilities for Disaster Recovery Centre and establishment of Disaster Recovery Centre for PFM System

### Outcome

- IV) Predictable collection of taxes and social contributions
- V) Predictable collection of the revenue within the competences of the Customs Administration

### Outcome indicators

- IV) Actual annual collection of taxes and social contributions / Approved budget estimate for summary of taxes and contributions
- V) Actual annual collection of taxes (within the competence of the Customs Administration) of the approved budget

## P2M1: Improved revenue legislation framework, harmonized with the EU acquis

### Measure objective

The objective is to improve and harmonize legislation in line with the relevant EU acquis and best practices (in the area of direct taxation, indirect taxation, administrative cooperation and mutual assistance).

### Context / Background

In the forthcoming period, the Ministry of Finance in the field of direct and indirect taxes and in the area of administrative cooperation and mutual assistance will continue to analyse all relevant EU acts for the purpose of their transposition in the national legislation, aiming to achieve full harmonization and enable

smooth implementation. Also it will make amendments of relevant legislation in order to support effective tax collection and prevent tax evasion.

### **Activity 1: Harmonisation of tax and customs legislation in line with relevant EU acquis and best practices**

Harmonisation of legislation in line with relevant EU acquis and best practices (in the area of direct taxation, indirect taxation, administrative cooperation and mutual assistance).

Analysis of the current national legislative framework for taxation and customs legislation and its alignment with the EU acquis and drafted amendment of Adjustment of legislation in terms of value added tax, excise tax, customs, personal income tax and corporate tax, aimed at phased harmonization of the Law of Value Added Tax Act, the Law of Excise, the Customs Law, the Personal Income Tax Law and the Tax profit Law and bylaws thereon with the EU in order to complete harmonization before accession of the Republic of Macedonia as a member of the European Union. This activity includes the following sub-activities:

- Analysis of the current national legislative framework on VAT and its alignment with the EU acquis;
- Analysis of the current national legislative framework on Excises and its alignment with the EU acquis;
- Analysis of the current national legislative framework on Customs and its alignment with the EU acquis;
- Analysis of the current national legislative framework on profit tax and its alignment with the EU acquis;
- Analysis of the current national legislative framework on Personal income tax and its alignment with the EU acquis;
- Analysis of the current national legislative framework on Law on tax procedure and its alignment with the EU acquis, especially in the area of Administrative cooperation and mutual assistance.

### **Activity 2: Amendments in order to support effective tax collection, prevention of tax evasion and fight against tax avoidance**

Conduct the analysis of the current national legislative framework for tax procedure law and its alignment with the EU acquis, and best international practice. Based the on analyses, amendments to legislation will be prepared in order to support effective tax collection, prevention of tax evasion and fight against tax avoidance.

#### **Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Amended tax legislation</li> </ul>
<b>Cost implications:</b>	No direct costs but technical assistance required
<b>Responsible entity:</b>	Tax and Customs Policy Department
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Failure to receive expert technical assistance</li> <li>• obtaining unqualified experts</li> <li>• obtain technical support on time</li> </ul>

## **P2M2: Improved tax and customs services and procedures**

### **Measure objective**

Simplify the tax and customs procedures, including declaring and payment, by reducing the administrative procedures and costs, improving tax services to support self-assessment and quality information for all stakeholders.

## Reference to the external assessments findings:

PEFA:	<p>PEFA Assessment Report (October 2015):</p> <ul style="list-style-type: none"> <li>• Predictability and control in budget execution (page 9) – “14. The IT systems applicable to each main tax are over 10 years old, and there are no automatic links between them. Upgrading these systems is a current priority...”;</li> <li>• PI-13 Transparency of Taxpayer Obligations and Liabilities(ii) Taxpayers' access to information on tax liabilities and administrative procedures (page 45)- “...At present in certain aspects there are limited facilities for e-filing, and not all PRO core business processes and assessments are automated; where this is so they are dependent on manual performance/calculations by PRO staff...”;</li> <li>• PI-14 Effectiveness of measures for taxpayer registration and tax assessment (i) Controls in the taxpayer registration system (page 48) – “The databases for the main taxes are not yet integrated, and the links to other databases have yet to be developed.”(iii) Planning and monitoring of tax audit and fraud investigation programmes - “Inspections/audits of VAT payers are largely determined by an IT programme which analyses their returns and other relevant data by reference to risk factors. But the selection of taxpayers for inspections related to other taxes, while reflecting risk factors, is not yet automatic as in the case of VAT.”</li> </ul>
IMF:	<p><b>IMF FAD Mission Report – REVENUE ADMINISTRATION REFORMS 2015-2020 (February, 2015) (page 1 – Executive Summary)</b></p> <ul style="list-style-type: none"> <li>• The PRO faces a significant challenge in maintaining current revenue collections while implementing an ambitious reform agenda.</li> <li>• The PRO also faces a difficult balancing between tax and nontax responsibilities.</li> <li>• A new approach to funding of PRO’s operations and any additional resource requirements is needed.</li> <li>• The PRO needs to establish a formal management and governance structure.</li> <li>• The PRO headquarters structure should be reviewed to ensure a sharper focus on program design, program support and program delivery.</li> <li>• Planned information technology (IT) reforms will undoubtedly contribute to the overall efficiency of the PRO, but IT is only one component of an overall modernization program. The transformation of the PRO will also require streamlining of business processes, realignment of organizational structures, and adoption of new approaches to agency management.</li> <li>• The PRO should not automate obsolete processes, overlaid with unreliable data. Regardless of the strategic choices that are made around the envisaged new system, simply superimposing a new IT system over bad processes, and underpinned with bad data, it is unlikely to result in the types of efficiencies the PRO is hoping to see. In the absence of a real business process engineering focus, the PRO runs the risk of simply automating its current processes, most of which have not been mapped in detail, containing no value adding steps and have not been engineered for efficiency. The organization is unlikely to reap the full benefits from replacing its legacy systems unless it invests heavily in business process reengineering activities upfront, and ensures it has clean data with which to populate the new system (page 16).</li> <li>• The PRO faces the major Human Resource (HR) challenge of an aging workforce.</li> <li>• Compliance-related initiatives in the PRO should be driven by a comprehensive Compliance Risk Management (CRM) strategy.</li> <li>• A fundamental shift is required to balance service engagement and enforcement activities by the PRO.</li> </ul> <p><b>IMF TADAT Assessment Report (July 2016)</b></p> <p>TADAT framework is focused on the nine key performance outcome areas that cover most tax administration functions and processes. It also identifies the relative strengths and weaknesses in tax administration systems, processes, and the monitoring and evaluating reform progress by way of subsequent repeated assessments related to core taxes - corporate income tax (CIT), personal income tax (PIT), value added tax (VAT), Pay As You Earn (PAYE) amounts withheld by employers (which, strictly speaking, are remittances of PIT), social security contributions (SSCs).</p> <p>TADAT assesses the performance of PROs system by reference to nine outcome areas: 1) Integrity of the registered taxpayer base, 2) Effective risk management, 3) Support given to taxpayers to help them comply, 4) On-time filing of declarations, 5) On-time payment of taxes, 6) Accuracy of information reported in tax declarations, 7) Adequacy of dispute resolution processes, 8) Efficient revenue management, 9) Accountability and transparency.</p>
EU:	<p><b>DG TAXUD - General Results of the Monitoring Mission in the assessment of meeting the conditions of interconnectivity and interoperability of EU IT Systems (March 25th – 27th, 2015)</b></p> <p>“The introduction of a new IT Tax system largely expands over the IT area and is leading to a significant reengineering of the tax administration operations and even its organization. It is acknowledged that the PRO is aware of this and is preparing the TO-BE solution, together with the process description and eventually a new re-organization. At the same time, the IT system should enable the PRO to execute its mission transparently, in the real-time and with high quality services to taxpayers, to government and to the whole community. Having the study finalized allows for the PRO to go further...”. (see page 7 and 8, point 10 - Alignment of the PRO with EU Systems - Soft Requirements).</p> <p><b>EU PROGRESS REPORT 2016</b></p>

	<p>The Chapter 16: Taxation, as regards recommendation for PRO, notes “Modernizing the IT system should be a priority and part of an overall modernization strategy.”</p> <p>Despite the achieved progress, the last seven EC Progress Reports (2010-2016) are consecutively notifying that adequate PRO IT system is lacking and the identified weak IT capacity and infrastructure needs to be improved along with the preparations of the tax administration for interconnectivity and interoperability with the EU.</p>
Others:	<p><b>STUDY ON PRO's IT SYSTEM (2014)</b></p> <p>Under IPA 2009 Project “Preparation of Study for the PRO's IT system”, the following recommendations and assessments have been provided:</p> <p>3.1 Planning of new IS - “Primary goals of the PRO IT is replacement of current core tax information system with the new one (nTIS), integrated, reliable, secure and flexible for future enhancement and necessary changes.</p> <p>3.11 Why to implement new system. Investment to nTIS will return with business benefits:</p> <ul style="list-style-type: none"> <li>• Holistic view of taxpayer, enabling equal treatment of all taxpayers beside its nature and residency</li> <li>• Taxpayer service orientation to support self-assessment, speed up processes and increase data quality</li> <li>• Highly IT supported reengineered/optimized core business processes at all organizational levels and for all business functions</li> <li>• Released staff of activities with low added value that can be performed by IS</li> <li>• Secure and accountable use of tax data</li> <li>• Timely and efficiently supported regulatory changes</li> <li>• Fully supported self-assessment taxation and assured powerful compliance management controls with immediate reaction in case of discrepancies, assuring high Return on Investment (RoI)</li> <li>• Well skilled and knowledgeable IT staff, with optimal combination of tax domain and IT knowledge, procurement and supplier management skills.</li> <li>• Quality information service for the PRO's partners (other institutions, associations and organization of public interest) and taxpayers.</li> <li>• Proactive, progressive and advanced contributor in the e-government service community”.</li> </ul> <p>5. IT organization and staffing “Currently in-sourcing oriented IT Sector (SIT), with limited development capacity to carry on large-scale projects like implementation of new TIS, support and maintain current state implementing necessary changes that will appear during the next 3 years of preparation and implementation of the new system, and at the same time, manage project and accept results of the new TIS. Although the number of IT staff in the PRO is lower than 5% of all employees (which is much lower than average in financial institutions). Structure and distribution of staff are far from the optimal and needed for new projects. Capability of IT sector to carry on new projects is one of the key risks and it must be minimized by restructuring of the sector, employment of currently nonexistent or insufficient profiles, retraining of current staff, and engagement of temporary external experts. The PRO has to develop capacities for quality IT governance, including:</p> <ul style="list-style-type: none"> <li>• IT Strategic management, Program/project management, policy development and analysis;</li> <li>• Business process reengineering and application support implementation;</li> <li>• Operation management, service desk and technical support;</li> <li>• Technology infrastructure and security management.”</li> </ul>

**Activity 1: Implementation of the project activities foreseen in the PROs Modernisation Programme (including reengineering of business processes, new Tax Integrated IT system)**

The Program for Modernization of the Public Revenue Office was developed for creation of cost effective and effective institutional mechanism for collection of the public revenues and in order to identify optimal solutions for business operation of the Public Revenue Office.

The expectations from the successful modernization of the Public Revenue Office will result in a higher voluntary compliance levels and improved collection of the public revenues. The increased operational efficiency and effectiveness of the Public Revenue Office will increase the confidence the citizens and the business community have in the implementation of the Government policies.

The Modernization Program would be implemented towards achievement of the strategic objectives pertaining to finalization of the process of institutional building through reorganization of the organization and building of a change management structure; Promoting of the efficiency and effectiveness of the core business processes and improved collection rates; Raising of service quality; Implementation of new safe and secure Tax Information System (DIS) and establishment of tax administration in the international area.

In order for the Public Revenue Office to be fundamentally reformed and in order to remove / mitigate the identified weaknesses, it needs a comprehensive and clearly defined modernization agenda, established around the following key strategic areas:

- Institutional strengthening through reorganization of the institution and establishment of a change management structure, featuring employees with strong personal capacities,
- Building of a new IT system and implementation of technical and technological modernization of the business processes, full automation of the in-house processes and taxpayer services,
- Interoperability and connection with other institutions in the Republic of Macedonia and with the EU institutions.

This activity includes the following sub-activities:

- Introducing E-submission of the “Calculation for all personal income payments (except the payments of salary)“;
- Introducing Pre-populated Annual Tax Return by PRO
- Improving the Contact Centre and Tax Counters Services (introducing new CC web page, Appointment System, Informa - Knowledge Base, Queuing System, PIN24, integrated CC IT System, Mobile Tax Counters etc.)
- Development and re-engineering of business processes for the new tax integrated IT system
- Introducing new PRO’s integrated IT system HARDWARE requirements which will further allow PRO to develop its IT system in compliance with the EU standards and requirements
- Introducing PRO’s integrated IT system SOFTWARE requirements
- Introducing Quality Assurance methodology for the new integrated IT system including risk management process support (Functional and Non-functional risk, Deployment Risk and Compliance Risk)
- Development and introducing Risk Evaluation System – RES in PRO.

### ***Activity 2: Strengthening operational capacities of CARM to increase the quality of controls and responses and introducing further simplification of procedures***

Strengthen the institutional and administrative capacity of the CARM and to meet the EU requirements in the enforcement of the Acquis in the area of customs to hinder illegal trading of goods, to facilitate trade and to introduce further improvements in the area of organization and management through the implementation of adopted strategies for further development of customs operations and procedures. This will result in more efficient methods of simplification, facilitation and equal application of the customs procedures and responses.

This activity includes the following sub-activities:

- Analysis of the national customs legislation and procedures in view of the New Union Customs Code which entered into force on 1 May 2016 and Analyses of gaps and needs to increase the quality of services and responses regarding controls of economic operators throughout the country;
- Prepare a Master Plan to overcome gaps and needs, Action Plan and technical specification for the equipment needed, based on detailed Analysis of gaps and needs;
- Procurement of the equipment based on the Technical Specification, as a result of Activities above;
- Strengthening the operational capacities and introduction of best EU practices through awareness campaigns, workshops and trainings of the customs officers and trade in line with the Plan

### ***Activity 3: Introducing enhanced models and methods to strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade***

Introducing Enhanced models and methods to strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade. Strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade.

This activity includes the following sub-activities:

- Analyses of gaps, needs to increase the quality of controls and responses throughout the country;
- Preparation of a Plan to overcome gaps and needs analysis;
- Support in defying and drafting and developments of models and methods by using appropriate techniques including Business Process Modelling as applied in the EU Customs Union;
- Support in the strengthening the operational capacities and introduction and implementation of enhanced models and methods of controls;
- Upgrade of the equipment and tools used by the customs officers to implement and enforce enhanced models and methods of controls.

**Activity 4: Provision of equipment and tools to implement enhanced models of control, facilitate trade and increase quality of services**

This activity is provision of equipment and tools for A3. Introducing enhanced models and methods to strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade.

This activity includes the following sub-activities:

- Preparation of the technical specification based on detailed technical Assessment and the Needs;
- Preparation of detailed requirements for the design, maintenance and operational support of the equipment, to be included in the specification;
- Procurement of the equipment based on the Technical Specification;
- Training and putting into operation

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• New software</li> <li>• New hardware</li> </ul>
<b>Cost implications:</b>	Over 10 million € mostly funded by TA and other sources
<b>Responsible entity:</b>	PRO for A1 and CARM for A2, A3, A4
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Full commitment and awareness of all parties involved in implementation of PROs Modernization Programme</li> <li>• Internal resistance to modernization processes and lack of commitment by PRO`s high-level management and staff</li> <li>• Limited capability of PROs IT Department to carry on new projects (continuous outflow of IT staff, currently nonexistent or insufficient IT profiles) and vacant high and middle level management staff positions expected to manage the modernization processes.</li> <li>• Secured IPA Support</li> <li>• Delay in meeting SAA requirements</li> </ul>

**P2M3: Ensuring stability of the PFM systems in case of crisis**

**Measure objective**

Ensuring long-term financial stability of the PFM system in case of crisis.

### Reference to the external assessments findings:

EU:	<p><b>General Results of IIS – DG TAXUD Monitoring Mission in Skopje (March 2015):</b> There is no Disaster Recovery Centre (DRC) foreseen neither for Customs, nor for the PRO. Taking into account the former history of Skopje and the good practices recommended for any governmental IT solution, a recovery centre must be operated to ensure any Business Continuity. Ongoing discussions at government level are taking place, but the issue does not seem to advance for a couple of years. Recommendation 18. "A Common DRC should be established for the Ministry of Finance, Customs and for the PRO (possibly other bodies) in a distant location outside Skopje" (Page 11).</p> <p><b>General Results of DG TAXUD Monitoring Mission in Skopje (October 2013):</b> Both administrations should also consider using the EU assistance programmes for establishment of Data Recovery Centres. Joint investments should be considered then to maintain reasonable costs of overall infrastructure adequately sized. (Page 9)</p>
Others:	<p><b>STUDY ON PRO's IT SYSTEM (2014)</b></p> <p>Under IPA 2009 Project "Preparation of Study for the PRO's IT system", the following recommendations and assessments have been provided:</p> <ul style="list-style-type: none"> <li>- point 3.1.4. states that the installation of hardware and software at the production Data Centre with replication in the Disaster Recovery site should be included in the project for implementation of new PRO system (page 24).</li> <li>- point 1.3 Proposed Future State notes that the Plan of new system should include hardware infrastructure necessary for operation of new system and plan of resources for its implementation and operation. Nowadays governments around the world consolidate their information infrastructure in dedicated (internal or external) data centres, reducing overall cost of information management and optimizing use of IT resources on core business support. If GoM IT plans include such initiatives it is recommended to support them. Otherwise, new data centre together with disaster recovery centre should be established and operationally managed (page 11).</li> </ul>

### Context / Background

In accordance with the EU standards in this area, and having regard for the importance and meaning of the PFM systems, sensitivity and ownership of data and their exchange with other EU systems (already established by CARM and interconnected and interoperable with the EU IT systems), ensuring their protection and recovery, a reliable computer-data centre at a remote location has to be established. It will enable establishing of replica of the current ICT systems and databases, which will ensure the business continuity of the core operations of the PFM systems (MoF, Public Revenue Office and Customs Administration) in case of crisis (disasters). The modernization of the IT tools and the optimization of the business processes remain a priority along with achieving interconnectivity and interoperability of the customs and tax IT systems with the EU systems and ensuring business continuity and disaster recovery facilities.

The PFM Disaster Recovery Centre is a necessity for ensuring business continuity and securing revenues/tax data in case of crises and natural disasters, taking into account the former history of Skopje and the good practices recommended for any governmental IT solution.

### Activity 1: Ensuring spatial facilities for Disaster Recovery Centre and establishment of Disaster Recovery Centre for PFM System

This activity is expected to ensure uninterrupted functioning of the tax and customs system and state institutions dependent on the data and systems administered by the Public Revenue Office and Customs Administration, in case of crisis (disasters). Better quality services by providing unobstructed services for customs and tax procedures supported by ICT systems, both for economic operators and for ensuring uninterrupted communication with taxpayers, the Government and other stakeholders represent a priority.

Due to the complex requirements, determined and set by the EU, and having regard to the adopted programmes for further development of EU's IT systems until 2020, the introduction of paperless work (e-customs and e-tax) for the operations of customs clearance and tax operations, and increasing the quality of services which are completely dependent on IT support is a strategic objective. Ensuring their non-stop (24/7) availability is of fundamental importance. In view of the increasing dependence of the customs and tax operations on information and communication technologies, consolidation and improved functionality and interoperability of the different

customs and tax IT systems, as well as ensuring their continuous functioning and sustainability is a priority.

In accordance with the EU standards in this area, and having regard to the importance and meaning of the systems, sensitivity and ownership of data managed by PRO and the Customs Administration, and their exchange with other EU systems, ensuring their protection and recovery, a reliable computer-data centre at a remote location has to be provided which will enable unobstructed recovery of the critical ICT systems, or which will ensure the business continuity of the Public Revenue Office and Customs Administration. This activity includes the following sub-activities:

- Introducing Quality Assurance methodology and technical support for establishing Disaster Recovery Centre
- Introducing of the Disaster Recovery Centre HARDWARE requirements for uninterrupted functioning of the tax systems in case of crisis (disasters)
- Introducing of the Disaster Recovery Centre SOFTWARE requirements for uninterrupted functioning of the tax systems in case of crisis (disasters)
- Development of procedures (operational and maintenance) and testing of systems
- Preparation of a Disaster Recovery Plan with procedures, rules and training.

### Implementation

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	• Disaster Recovery Centre
<b>Cost implications:</b>	2 million Euro
<b>Responsible entity:</b>	MoF (with PRO and CARM)
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Delay in meeting the infrastructural needs - premises in the National Disaster Recovery Centre.</li> <li>• High level of complexity, connection with other institutions and projects and dependence on the financing model</li> <li>• Secured IPA Support</li> </ul>

## Priority 3: Planning and Budgeting

### Objective

Maintain overall fiscal discipline in the medium term.

The objective of this priority will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Upgraded programme based budget approach and improved project information</b>
Activity 1:	Implementation of the proposed program based budgeting approach
Activity 2:	Conduct Public Investment Management Assessment (in collaboration with IMF)
Activity 3:	Improvement of the information on the projects included in the budget
<b>Measure 2:</b>	<b>Improving the medium-term budget planning</b>
Activity 1:	Introduction of comprehensive Medium-term Budget Framework (MTBF) and linking ERP preparation to it
Activity 2:	Improvement of budget forecasting tools (introduction of the baseline scenario, new initiatives)
Activity 3:	Upgraded capacities of the employees in MoF and budget users on the new tools and planning process introduced
<b>Measure 3:</b>	<b>Revised organic budget law in line with the improvements of the PFM system</b>
Activity 1:	Preparation and adoption of new/revised organic budget law
<b>Measure 4:</b>	<b>Ensure adequate IT system support for budget preparation process</b>
Activity 1:	Improvement of IT system/software support for budget preparation process
<b>Measure 5:</b>	<b>Developed capacities for compilation of EDP notification tables</b>
Activity 1:	Strengthening the human capacities that will bear the burden of the activities planned
Activity 2:	Development of a methodological knowledge for preparation of EDP notification tables
Activity 3:	Preparation of ESA 2010 based EDP Inventory

### Outcome

- VI) Medium term fiscal consolidation.
- VII) Increased predictability of public spending.
- VIII) Allocation of resources is programme based & programme indicators included
- IX) MTBF is a reliable guide to future budget allocation for each budget user
- X) Capacities built for preparation of EDP notification tables

### Outcome indicators

- VI) Budget deficit reduction as a % from previous year
- VII) Variance in expenditure composition
- VIII) Share of first level budget organisations that provide comprehensive performance information and programme indicators with their annual budget requests
- IX) % deviation between annual budget of year N+1 with MTBF projections year N
- IX) % deviation between annual budget of year N+2 with MTBF projections year N
- X) EDP notification tables prepared in accordance with ESA 2010

## P3M1: Upgraded programme based budget approach and improved project information

### Measure objective

Programme based budget will enable budget holders to manage their budgets in line with the policies and priorities in their institutions.

Unifying approaches for appraisal and selection of proposals for public investment projects and improving organizational aspects to make project implementation more transparent.

*Reference to the external assessments findings:*

PEFA:	<p>Development strategies have been prepared by some Ministries in the context of the introduction of programme budgeting, but these have not been agreed with MoF, while the planning of public investments does not consistently take into account the full current expenditure implications over the lifetime of the investments.</p> <p>The annual budget is prepared according to administrative, economic, functional and sub-functional classifications and the records of every transaction include all these classifications. Programme classifications are also being developed.- Score A - P15</p> <p>PI12- Multiyear perspective in fiscal planning, expenditure policy and budgeting -Score C+</p> <p>- Sectoral strategies / development programs are produced in some ministries but not consistent with overall fiscal framework.(Forward estimates for projects for two subsequent years to the budget year are provided in the Development Program Part of the budget. These are not yet derived from sector development strategies directed towards clear policy objectives and endorsed by the government as a whole.)</p> <p>-Some investment decisions have a weak link to sector strategies.</p> <p>PI-11 Public Investment Management- new methodology Score C</p> <p>-Application of objective economic analysis score -C The highest rating for this dimension requires all major capital investment projects to be appraised according to the economic analysis as specified in established national guidelines, and for this analysis to be validated by an entity other than the sponsoring Ministry or Agency. No generally applicable rules for the appraisal of investment projects have been promulgated, and there are no procedures in place to ensure that the economic case for each project is validated by a body other than the project sponsor.</p> <p>-Costing over the project life cycle- score D The highest rating for this dimension requires Regulations or Guidelines to be in place which prescribe that the full life-cycle costs (including subsequent recurrent costs of operating or using the assets to be created) are included in the plans submitted for each investment project. No Regulations or Guidelines have been established to ensure that the full life-cycle costs involved in the operation or use of new assets are fully taken into consideration in investment decisions.</p> <p>-Project monitoring and reporting- score D- While there is no consolidated database of approved projects which would enable progress, physical and financial, in their implementation to be regularly monitored from a central viewpoint, the sponsors of major investments have arrangements in place which enable progress on individual projects to be monitored regularly by the managements concerned.</p>
SIGMA:	<p>The budget appropriations are comprehensive and cover programmes as well as administrative units. The budget documentation includes a description of new Government policies, but no indication of the related spending. Performance objectives are described for every budget organisation, but the indicators are not usable to monitor the performance of the organisation.</p>
IMF:	<p>Recent IMF report finds the economic and social impact of public investment to critically depend on its efficiency (IMF, 2015). A study by Era Dabla-Norris et al. in 2011 shows Macedonia ranks somewhere in the middle among 31 middle income countries in public investment efficiency. A close look at sub indices of public investment efficiency—notably project appraisal, selection, management, and evaluation— shows that the project appraisal stage in FYR Macedonia lags the most in comparison to middle income peers</p>
WB:	<p>2.27. The Government should identify ways to build the investment management capacity of the Ministry of Finance and of line ministries. Recent decline in the quality of public investments raise concern about the selection criteria applied. Budget users could benefit from an increased capacity to analyze and prioritize public investment, so that more consideration is given to the socio-economic aspect of the investment. Ideally, additional resources should be directed to the investment-preparation function and considered in the allocation of investment funds so that organizations with major public investment responsibilities, such as the Ministry of Finance’s review function, have staff resources commensurate with those responsibilities. The need for additional practical guidance and training on analytical techniques should also be considered.</p> <p>One of the short term measures proposed in the Report is to Strengthen capital investment management and to Prioritize investment projects with high economic returns, and medium term measure is to Link public capital investment projects with the MTFS and the annual budgets documentation and to Prioritize investment projects on the basis of economic and social returns</p>
EU:	<p>EU Progress Report 2016 - Prioritise public investments against clear policy objectives and identify the needs to which they respond. Increase the transparency on the selection criteria for the investments and on their impact on economic growth and on the fiscal path.</p>
Others:	<p>Draft Joint conclusions of the economic and financial dialogue between the EU and the Western Balkans and Turkey: Recommendation for Macedonia</p> <p>-Prioritise public investments against clear policy objectives. Increase the transparency on the selection criteria for investments and on their impact on the economic growth and the fiscal path</p>

### *Context / Background*

Pursuant to the Budget Law, the appropriations broken down by budget users and determined purposes pertaining to funding the current, capital and other expenditures of the budget users and their spending units for performing the activities are shown as programmes and sub-programmes. The programmes (budget, government and development), in principle, are defined by the budget users and they do not reflect group activities aimed at meeting a particular objective. Since the programmes are not prescribed by a bylaw and are not adequately defined, they often change (one-year projects are presented as programmes), resulting in a real problem for continuous follow-up and comparison between the programmes per years and achieved results thereof. At the same time, when there is a non-defined programme classification, the establishing of a system for defining and monitoring of the programme indicators and results from the use of budget funds arises as an issue.

#### ***Activity 1: Implementation of the proposed program based budgeting approach***

On the basis of the data for new programme structure of the budget, developed procedures for defining, monitoring and reporting on the programme indicators delivered by the Twinning Project for “Strengthening the Medium Term Budgeting for Effective Public Financial Management”, MoF should start with implementation of the proposed program based budgeting approach.

Project activities are aimed to define a structure for comprehensive programme budgeting. This includes developing and defining a structure of programmes and sub-programmes with key results thereof. This activity includes following sub-activities:

- Strengthening the capacities of the Ministry of Finance and the budget users for appropriate implementation of budget programmes.
- Process analysis, monitoring and control of programme budgeting
- Identify recommendations for improvement programme base budget.

#### ***Activity 2: Conduct Public Investment Management Assessment (in collaboration with IMF)***

The IMF’s new Public Investment Management Assessment (PIMA) framework helps countries evaluate the strength of their PIM practices. The PIMA evaluates 15 institutions that shape decision-making at the three key stages of the public investment cycle:

- Planning sustainable investment across the public sector;
- Allocating investment to the right sectors and projects
- Implementing projects on time and on budget.

The PIMA provides the most comprehensive diagnostic of a country’s PIM system. Within this activity the findings of the assessment are set out in a concise report. The report estimates the efficiency of the country’s public investment, outlines the relative institutional strengths and weaknesses, and provides practical recommendations to enhance the efficiency and impact of public investment. This activity includes following sub-activities:

- Engagement of the team for the assessment.
- Meetings and cooperation with all relevant institutions
- Providing data and documents.

#### ***Activity 3: Improvement of the information on the projects included in the budget***

On the basis of the PIMA report which will estimate the efficiency of the country’s public investment, outline the relative institutional strengths and weaknesses, and provide practical recommendations to enhance the efficiency, information on the projects included in the budget should be improved. This activity includes the following sub-activities:

- Analysis of the recommendations given in the report.
- Preparation of implementation plan for short and medium term period
- Distinguish who should be in charge of eliminating the weaknesses
- Strengthening the capacities of the Ministry of Finance and relevant institution
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*Implementation*

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	• PIMA Report
<b>Cost implications:</b>	PIMA Report will be done by TA - 300.000 EUR
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	• Limited knowledge of the budget users staff

**P3M2: Improving the medium-term budget planning***Measure objective*

Reliable budget forecasting aligned with needs of medium term budget planning process. MTBF is a reliable guide to future budget allocation for each budget user.

*Reference to the external assessments findings:*

PEFA:	<p>Budget preparation is an orderly process, and budgets have regularly been approved by the National Assembly before the beginning of the new financial year. But the Government's fiscal strategy has not always been approved before the issue of the Budget Circular calling for submissions from budget users, and the ceilings within which budget users have been required by MoF to work have not previously been agreed by the Government collectively. As to the medium term, although the Government has published aggregate projections of revenue and expenditure for three years ahead, and Ministries and other budget users have been required to prepare forward plans for this period, no consolidated Medium-Term Budget Framework has been produced in which the plans of budget users are fitted within the overall envelope of available resources set out in the fiscal strategy.</p> <p>PI-1 Aggregate expenditure out-turn compared to original approved budget (score B). The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budget expenditures to be similar to initially approved budgets, and requires appropriate fiscal discipline to be in place.</p> <p>PI-12-Multiyear perspective in fiscal planning, expenditure policy and budgeting (score C+). The Fiscal Strategy includes three-year fiscal projections on a rolling annual basis. Forecasts of revenue or expenditure are not broken down by any classification. There are no direct and transparent links between the macro-fiscal framework and subsequent budget allocations. Forward estimates for projects for two subsequent years to the budget year are provided in the Development Program Part of the budget. These are not yet derived from sector development strategies directed towards clear policy objectives and endorsed by the government as a whole.</p> <p>PI-14- Credible fiscal strategy (score B). A high rating requires the preparation of a medium-term budget based on macro-economic projections which assess the impact of risks to the fiscal variables (revenue, expenditure and debt) from the macro-economic environment, and consider pessimistic and optimistic scenarios. In the case of Macedonia only an annual budget is presented, and alternative scenarios are not considered in the projections, which take into account only the risks to debt sustainability.</p> <p>PI-16 Medium-term perspective in expenditure budgeting (score D+). As noted in relation to PI-12(iii) in the main report, sector strategies including projections of current and capital expenditures have been prepared by some budget users, which are taken into account in the preparation of subsequent budget proposals. Only a top-down framework has been produced: no attempt has yet been made to produce a medium-term budget framework which reconciles detailed bottom-up figures with the overall top-down framework. A high rating requires that there are clear links between the amounts projected in sector strategies for expenditure in the next year after the budget year, and the subsequent provision for the same elements of expenditure when that year becomes the budget year. There is no overall reconciliation between top-down and bottom-up approaches to medium-term fiscal planning</p>
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SIGMA:	<p>MTBF strength index- score 2. The indicators confirm the need for improvement in the medium-term budget planning documents. The Fiscal Strategy 2015-2017 does not fulfil the requirements of the EU Directive on Budgetary Frameworks. In 2014, the Strategy was adopted by the Government over three months after the legally established deadline. The links to sectoral policy plans are not presented, although the existence of strategic development plans for all ministries provides good potential for linking sector policy planning and medium-term financial planning.</p> <p>Key recommendations</p> <ul style="list-style-type: none"> <li>- The MoF should scrutinise the proposals by budget organisations in order to establish more realistic revenue and expenditure forecasts, particularly on donated funds, and thus provide a more realistic and credible picture of available budget funding.</li> <li>- The MoF should publish bi-annual macroeconomic and fiscal forecasts in advance of, and independently from, the Fiscal Strategy and the draft budget bill submitted to the Government.</li> <li>- The MoF should provide additional information on relevant topics for the interpretation of the draft budget (e.g. cost and benefits of new government policies, contingent liabilities, and long-term projections of revenues and expenditures in key sectors).</li> <li>- The MoF should establish sector-specific (e.g. for each ministry) spending ceilings in the Fiscal Strategy to increase transparency in resource planning and guide the preparations of the annual budget. Sectoral ceilings for a smaller number of organisations should be consolidated, allowing line ministries to steer budget planning in their sectors.</li> </ul>
IMF:	<p>The government of Macedonia first introduced a medium-term Fiscal Strategy (MTFS) in 2005. It provides projections of macroeconomic and fiscal aggregates at the general government level, broken down by major budget users—central government, funds, and local government. While the MTFS provides a snapshot of the government's overall fiscal policy intentions for a given budget year, there is no reconciliation with the previous years' projections nor with actual outturns. This lack of reconciliation undermines the credibility of the medium-term fiscal planning process, and would need to be addressed as part of the action plan to implement the fiscal rules. While the MTFS includes fiscal policy changes over the medium-term, these are not costed. The MTFS does not include detailed medium-term budgetary estimates for central government institution. The government does issue spending limits along with its annual budget circular, although it is unclear to what degree line ministries respect these limits in their budget submissions. The MTFS needs to be further developed to qualify as a medium-term budgetary framework which effectively guides the budget preparation process. In addition to the reconciliation mentioned above, these improvements include a more detailed analysis of sectoral/ministerial budgets, separated between on-going policy and new initiatives.</p> <p>The measures that should be implemented are: Improve the credibility of the MTFS (systematically evaluate the cost of all new policy measures, including investments, and include these costs in the medium-term projections of the MTFS, expand the detail of medium-term projections to main budget institutions, adopt the MTFS, with binding ministerial ceilings for the budget year, prior to the start of budget preparation) and Strengthen the budget preparation process (strengthen the capacities of line ministries to prepare costed strategic plans and to design and manage public investment projects, strengthen the analytical capacity in the Ministry of Finance to review line ministry budget proposals and to manage the public investment program and develop the methodology to separate on-going policies from new initiatives in budget proposals)</p>
WB:	<p>WB has proposal for the Government to consider improvement in the following areas:</p> <ol style="list-style-type: none"> <li>1. Inclusion of macro and fiscal policy changes that are expected during the medium-term framework could improve the quality of the MTFS. It is desirable to add relevant costing of these policy measures.</li> <li>2. Inclusion of indicative institutional budget ceilings could improve its guidance role to the line agencies.</li> <li>3. The timing of the issuance of MTFS needs to be reconsidered in order to be more functional in the budget preparation process.</li> <li>4. Including an explanation for any macro and fiscal framework targets compared to the previous MTFS could improve the credibility of the document.</li> </ol>
EU:	<p>EU Progress Report 2016 -In line with the ERP recommendations and in order to support long-term growth, Macedonia should pay particular attention to: - underpinning fiscal consolidation by identifying concrete revenue and expenditure measures, moving towards a better targeting of transfer spending and improving the growth-friendliness of public finance and improving fiscal transparency and budget planning capacity.</p> <p>In the coming year, the country should in particular set up a medium-term budgetary framework, and report on arrears so as to improve fiscal discipline and transparency.</p> <p>ERP policy guidance: "Improve fiscal transparency and budget planning capacity by the swift introduction of a medium-term expenditure framework; by providing multi-annual projections of detailed revenue and expenditure components in the medium-term strategy.</p>

### Context / Background

The Budget Law is the basic legal act regulating the overall budget process, including the main participants in the budget process, the procedure for preparation and adoption of the budget, execution of the budget and Final Account, management of the budget allocations and preparation of a Medium-term Fiscal Strategy.

The medium-term planning is reflected through the Fiscal Strategy, which in accordance with the law is adopted for a three-year period and it proposes the guidelines and objectives of the fiscal policy, the basic macroeconomic projections and indicators, it determines the amounts for the main categories of the estimated revenues and appropriations for that period, as well as projections for the public debt.

The fiscal strategy projections are indicative (fluctuating) and non-binding, which leaves room to revise them every year. Simultaneously, despite the fact that the Ministry of Finance determines limits on the expenditures for budget users, most of the budget users when proposing the draft budgets to the Ministry of Finance do not adhere to the given limit.

In general, the budget users when preparing the budget requests are guided from the historically realised funds in previous periods, and insufficient attention is given to the interconnection of sector priorities, planned and undertaken activities for the next period with proper quantification of the necessary funds.

The current budget planning process does not make a distinction between the existing (basic) mandatory expenditures and the new initiatives.

Shift towards the medium-term expenditure planning, improving the public expenditure management, and thereby also the responsibility for adopting decisions on implementation of programmes and projects that would have an impact in the medium-term/long-term, will actually mean enhancing and connecting the existing budget system with the decision-making process for specific projects.

The medium-term expenditure framework will be aimed at integrating the policies with the decisions on allocation of resources, in a multiannual context, in order to achieve better efficiency in the use of public finance and to adopt better policy decisions.

Hence, the annual budget preparation should also be in compliance with the provisions of the medium-term budget framework.

#### ***Activity 1: Introduction of comprehensive Medium-term Budget Framework (MTBF) and linking ERP preparation to it***

Fiscal policy making needs well defined process, timetables, procedures and structure, so that it is clear for all stakeholders what should happen and when. This sets efficient framework for the political decision making.

Introduction of comprehensive Medium-term Budget Framework (MTBF) is the key planning tool to link medium term budgetary decisions to those deficit and debt targets that have been set. It should also provide binding basis for the annual Budget preparation.

Fiscal strategy will be a crucial instrument for medium term budget planning, including assessment of new initiatives for financing.

Within the framework a strategic forward looking approach is taken to establish priorities and to allocate resources in multiannual expenditure planning. It requires policy makers to look across the sectors, programs and projects to see how spending can be restructured to best serve established policy objectives

With introduction of a comprehensive Medium-term Budget Framework (MTBF), the quality and stability of fiscal policy and budget decision making should increase.

This activity includes the following sub-activities:

- Analyses of the current data, documents, guidelines and proposals provided by the IPA project
- Strengthening of budget expenditures planning
- Introduction of the Medium-term Budget Framework (MTBF) according to the new guidelines

#### ***Activity 2: Improvement of budget forecasting tools (introduction of the baseline scenario, new initiatives)***

Reliable medium term budget planning is of key importance in medium term fiscal policy making. First thing needed is a reliable medium term baseline scenario so that fiscal space for new initiatives for financing or possible cuts can be estimated.

The main focus in this activity is how to make medium term budget projections in two categories:

- the baseline (compulsory/non-discretionary changes)
- the new policies for financing (discretionary / new requests).

**Activity 3: Upgraded capacities of the employees in MoF and budget users on the new tools and planning process introduced**

The objective of this activity is to improve the capacities of the employees in MoF and budget users in line with new tools, budget planning process and overall medium term budget reform. The objective is to provide each target group with sufficient trainings considering their knowledge needs. The trainings will be as practical- oriented as possible.

**Implementation**

<b>Completed in year:</b>	Middle 2018
<b>Deliverables:</b>	• Updated Fiscal Strategy document based on updated Medium-term Budget Framework
<b>Cost implications:</b>	Twinning / Service, 1 MEUR, IPA 2019- Potential donor financing
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	• Insufficient human resources capacities at the first-line budget users

**P3M3: Revised Organic Budget Law in line with the improvements of the PFM system**

**Measure objective**

Revised organic budget law/ new law should be in line with the improvements of the PFM system, aiming to ensure framework for conducting a sound, predictable and sustainable fiscal policy and increasing the budget discipline and responsibility.

**Reference to the external assessments findings:**

PEFA:	The Budget Law provides a detailed framework for the budget process.PI-27 Legislative scrutiny of the annual budget law- score D+. The PEFA criteria require consideration of whether the scope of the legislature’s examination extends to fiscal policies, the medium-term fiscal framework and medium-term priorities as well as details of revenue and expenditure. In addition to the Budget Law the Government's Fiscal Strategy is available to the National Assembly for discussion. The discussion in the Finance and Budget Committee and other interested sectoral committees is concentrated on the coming year and it does not extend to the medium-term fiscal framework and medium-term priorities.
SIGMA:	The process for the preparation of the annual budget is set out in the Budget Law, but the relationship between Fiscal strategy and strategic plans of the budget users remains unclear in the Budget Law. The existing legislation covers aspects of good budgeting practice, including the Assembly's role, although the time envisaged for the Assembly to debate the budget is limited.
IMF:	Amend the PFM legal framework to support fiscal rules. Prepare revisions to existing provisions aimed at strengthening the MTFs, improving the budget preparation process, and enhancing expenditure controls.
WB:	The annual budget law includes a considerable amount of fiscal information, though significant gaps remain. One of the recommended short term measures in the PFM area is - Review and revise the Organic Budget Law

**Context / Background**

The Budget law is the framework legislation that defines public financial management system in Macedonia– it is the main legislation that defines the scope of the central and general government in the country. The Budget Law is the basic legal act regulating the overall budget process, including the main participants in the budget process, the procedure for preparation and adoption of the budget, execution of the budget and Final Account, management of the budget allocations and preparation of a Medium-term Fiscal Strategy.

**Activity 1: Preparation and adoption of new/revised organic budget law**

With a view to successful implementation of the previously mentioned activities in this priority, the need to include programme structure of the budget and comprehensive medium-term budget planning in a legal framework, make annual budget preparation to be in compliance with the provisions of the medium-term budget framework, include transparency issue in the legal framework, arises as a necessity, either through an amendment to the existing Budget Law or by drafting a completely new legal solution.

This activity refers to analyzing of the documentation about the draft budget law provided by the IPA project, consultation with relevant departments in the MoF about the given proposals, preparation of new/revised organic budget law and its adoption. This activity includes the following sub-activities:

- Analyses of the current data, documents and proposals provided by the IPA project
- Preparation of a new/revised organic budget law
- Consultation with all relevant departments in the MoF
- Adoption of a new/revised organic budget law

**Implementation**

<b>Completed in year:</b>	2018
<b>Deliverables:</b>	• New organic budget law
<b>Cost implications:</b>	None besides the time involved in designing the law.
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	• Failure to adopt the law (legal solution) by the Assembly

**P3M4: Ensure adequate IT system support for budget preparation process****Measure objective**

Providing IT support to the budget preparation process

**Reference to the external assessments findings:**

PEFA:	The needs are also recognised to replace the present Budget and Treasury IT systems with an integrated Financial Management Information System, and to develop a new integrated system to replace the existing IT systems covering each main tax.
WB:	In fact, the development and upgrading of all information systems with a view to enhance the efficiency of operational processes is a strategic goal of the Ministry of Finance (MoF). As part of this renewal process, the Government should carefully review available options to integrate the present rather fragmented IT systems. As the Government plans to scale up public investment, strengthening Public Investment Management should be given particular importance. More in-depth diagnostics, in particular, on cash management, Public Investment Management and IT systems could be helpful inputs for any PFM reform program.

**Context / Background**

Current e-Budget software consists of the following modules: registries (code tables), budget cycle, budgets, Reporting and Administration of users. The software is used for budget preparation of Central government institutions on the 1st level, and compulsory funds. The task of budget institutions on the 1st level is to collect budget proposals from their institutions on the 2nd level, prepare consolidated proposals and submit them to the budget and funds department.

Also e- budget module is used for the flexibility of the budget; it means preparation of the reallocation and extension of the budget according to the law.

**Activity 1: Improvement of IT system/software support for budget preparation process**

Improvement of IT system/software support for budget preparation process will be part of the integrated information system for public financial management. This new module should be aligned with all previous activities and measures implemented in the budget and fiscal area. According to the proposals given from the experts changes should introduce MT(B)EF cycle with

spending limits, involvement of BBs on the 1st and 2nd level in budget preparation software and introducing programme and sub- programme budgeting. This activity includes the following sub-activities:

- Introducing the new rulebook according to new business procedures
- Capacity building/ trainings for software use
- Budget users should be trained to understand programme budgeting principles and use software tool for budget preparation

### Implementation

<b>Completed in year:</b>	2020
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• New software for budget planning</li> <li>• New rulebook according to new business procedures</li> </ul>
<b>Cost implications:</b>	Cost for this measure will be presented in the Priority 4, as a total cost of new FMIS.
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• The risk to the implementation of the project's results is the degree to which the government of the day, and foreign donors, are prepared to commit sufficient funds to fund the new system.</li> </ul>

## P3M5: Developed capacities for compilation of EDP notification tables

### Measure objective

To prepare EDP notification tables in accordance with ESA 2010.

### Reference to the external assessments findings:

EU:	The country should in particular transmit a full set of tables for the Excessive Deficit Procedure (EDP) to Eurostat. Excessive deficit procedure notifications are only partially transmitted and financial accounts are not yet produced.
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### Context / Background

In relation to EDP, SSO and MoF started cooperation for preparation of EDP notification tables. In April 2016, tables 1 and 2 were transmitted to Eurostat for 2012 and 2013. The data was experimental and it was prepared in accordance with ESA 95. In the coming period, it is expected to intensify the cooperation with the National Bank as well, since they are responsible for the financial account. Also, the financial and the non-financial account should be consolidated. It is necessary for all institutions concerned to put more effort in order to obtain quality EDP tables.

#### Activity 1: Strengthening the human capacities that will bear the burden of the activities planned

Activities about establishment of EDP notification tables are related to an area that is in very initial phase of development in SSO. For this purpose it will be of high importance for the SSO initially to strengthen the human capacities in the office through recruitment of new staff, as well as through trainings in order to be able to work on these activities and to achieve the planned results.

#### Activity 2: Development of a methodological knowledge for preparation of EDP notification tables

EDP notification tables are a joint responsibility of the SSO, Ministry of Finance and National Bank of RM based on a working group established. For the government deficit, the data, including the working balances in EDP tables, on a cash basis, are obtained from the Ministry of Finance (the Treasury) as well as from the Central Register and National Bank of RM. A statistical survey is used to compile the data on investment. The SSO compiles the government net lending/net borrowing, on a cash basis. Due to the joint activities related to this area, development of a methodological knowledge for preparation of EDP notification tables will be necessary for all relevant institutions included in the activities.

**Activity 3: Preparation of ESA 2010 based EDP Inventory**

SSO is required to prepare an EDP Inventory in accordance with ESA 2010. This EDP inventory is a detailed and comprehensive representation of the methods, procedures and sources used by the statistical authorities for the compilation of deficit and debt data and the underlying government sector accounts. Through this activity SSO should prepare an EDP inventory based on the currently available information, using the new template of the EDP Inventory made available by Eurostat

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• EDP notification tables</li> </ul>
<b>Cost implications:</b>	Activities will be implemented and financed in the frame of Sector Planning document and Action Document for Public Administration Reform and Statistics. Their e implementation is linked to the activities to be implemented under this programme.
<b>Responsible entity:</b>	State Statistical Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Insufficient staff</li> <li>• Inadequate experts</li> </ul>

## Priority 4- Budget Execution

### Objective

Improved efficiency of budget execution and strengthened financial discipline.

The objective of the Budget Execution priority will be achieved through the following measures and activities:

- |                   |  |
|-------------------|--|
| <b>Measure 1:</b> | <b>Implementation of new financial management information system (FMIS)</b>  |
| Activity 1:       | Introduction of IBAN accounts  |
| Activity 2:       | Registering commitments, invoices and financial plans electronically   |
| Activity 3:       | Introducing Accounts Receivables module and Liquidity planning module  |
| Activity 4:       | Handling forced collection payments  |
| Activity 5:       | Introduction of General Ledger   |
| Activity 6:       | Introduction of user friendly creation of reports  |
| Activity 7:       | Introduction of Fixed Assets module  |
| <b>Measure 2:</b> | <b>Strengthening commitment controls</b>   |
| Activity 1:       | Preparation of the report on the timeliness of entering the commitment data  |
| <b>Measure 3:</b> | <b>Strengthening debt management</b>   |
| Activity 1:       | Revision of the debt legislation   |
| Activity 2:       | Preparation of the Debt Management Strategy as separate document   |
| Activity 3:       | Supplementing current risk indicators for refinancing and interest rate risk   |
| Activity 4:       | Strengthening human capacities   |
| Activity 5:       | Improving MTDS framework and coordination with Debt Sustainability Analysis  |
| Activity 6:       | Improvement of IT system/software support for debt management process  |
| Activity 7:       | Strengthening the Management of Foreign Assistance   |
| <b>Measure 4:</b> | <b>Strengthening public procurement system</b>   |
| Activity 1:       | Streamlining (revision) of the mandate and responsibilities of the institutions involved in the public procurement system  |
| Activity 2:       | Harmonisation of the Public Procurement legal framework with the acquis  |
| Activity 3:       | Institutional strengthening of the public procurement system, including the review set-up  |
| Activity 4:       | Introduction of an E-Appeal system   |
| Activity 5:       | Development of Integrity-related reports with procurement performance indicators and governance (anti-corruption) red flags                                      |
| Activity 6:       | Introducing obligation for publishing of the annual public procurement plans   |
| Activity 7:       | Publishing of the concluded public contracts and their amendments  |
| <b>Measure 5:</b> | <b>Effective PPP and concessions system</b>  |
| Activity 1:       | Establish/upgrade/unify and publish register of PPPs   |
| Activity 2:       | Establish/upgrade/unify and publish register of concessions  |
| Activity 3:       | Harmonisation of legislation in line with relevant EU acquis   |
| <b>Measure 6:</b> | <b>General Government Accounts established in accordance with ESA 2010 and made available for policy makers</b>  |
| Activity 1:       | Strengthening of human capacities that will bear the burden of the activities planned  |
| Activity 2:       | Assessment of the availability and quality of data necessary for production of Government Finance Statistics on quarterly level                                  |
| Activity 3:       | Development of a capacity for implementing of methodology for calculation of General Government Accounts   |
| Activity 4:       | Comprehensive, timely, and reliable reporting of quarterly general government accounts   |
| Activity 5:       | Calculation of quarterly General Government Accounts   |
| Activity 6:       | To make quarterly General Government Accounts available for users  |
| <b>Measure 7:</b> | <b>Strengthening statistical services</b>  |
| Activity 1:       | Development of the textual content of statistical releases and other publications in ways that would facilitate and foster their use by a broader range of users |

Activity 2:	Development of interactive data visualisation tools and applications in order to promote a quick and easy-understandable overview of the presented statistics
Activity 3:	Strengthened capacity on using standard IT tools for data processing of survey data
Activity 4:	Technical assistance for defining the business requirements of different parts of the re-engineered IT system for statistical production
Activity 5:	Outsourced software development of IT system, maintenance and support
Activity 6:	Acts on organisation and systematisation that will support the re-engineered production environment
Activity 7:	Upgrade IT infrastructure (hardware and software) and putting the new IT system into production, maintenance and support
Activity 8:	Strengthening of the human capacities (number of staff and skills) that will bear the burden of the activities planned

### Outcome

- XI) Improved efficiency of budget execution
- XII) Strengthened financial discipline, control and transparency through improved internal Audit, FMCs and EU Acquis aligned procurement system
- XIII) Developed effective procurement system in line with EU law
- XIV) EU compliant macroeconomic indicators that serve the needs of the Policy makers
- XV) General Government Accounts on quarterly level established
- XVI) Statistical business process standardization based on re-engineered IT system for statistical production

### Outcome indicators

- XI) Introduction of new modules
- XI) % of budget users electronically connected to the new IT system
- XII) Extent of alignment of the PPL to EU Acquis and Directives
- XII) Percentage of first line budget users audited by SAO with irregularities detected on non compliance with the PP regulations
- XII) Ratio of solved out of received appeals
- XIII) Extent of use of modern procurement techniques and methods
- XIII) Percentage of complaints rejected by SAC
- XIII) % of procedures conducted fully electronically
- XIV) % of available EU compliant macroeconomic indicators
- XV) % of indicators produced
- XVI) % of statistical processes covered by re-engineered IT system for statistical production

## **P4M1: Implementation of new financial management information system (FMIS)**

### Measure objective

Implementation of contemporary integrated information system for public financial management, with the aim of improving the efficiency of the working processes. The objective is to transform the existing Public Financial Management (PFM) systems from their current semi-independent modular components into an integrated modern Financial Management information system capable of satisfying the requirements of a future world.

*Reference to the external assessments findings:*

PEFA:	<p>P-4 Stock and monitoring of expenditure payment arrears (D+) Although the annual financial statements submitted to the RM Central Registry by each budget user contain details of financial liabilities, including expenditure payment arrears, this information has not been consolidated,</p> <p>P-24 Quality and timeliness of reports on the budget during the year. Namely, according to PI- 24 indicator (Quality and timeliness of reports on the budget during the year) even though the monthly reports produced and published on the MoF website providing data on payments do exist there is actually no information about the extent of outstanding commitments</p>
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**Activity 1: Introduction of IBAN accounts**

Sub-Accounts in Single Treasury Account do not follow structure of accounts in payment system of RM. In this regard, there is a need for harmonisation and unification of payment operations initiated by Budget Beneficiaries in Macedonia with the EU, so to achieve a higher degree of compliance with SEPA standards.

The business logic should remain mostly the same for the Treasury, the current software processes all payments and receipts through the internal set of accounts whose format will change and will be visible through the payment system. The logic behind is to fully utilise the rapid and secure financial transfers offered by the IBAN payment systems, and that all PFM subsystems should be fully digitally interlinked. This activity includes the following sub-activities:

- Set up joint teams to oversee the development and introduction of the changes affecting each institution
- Define new rulebook with forms and procedures
- Modify own software to process collection of revenues and payments
- Introduce IBAN accounts gradually

**Activity 2: Registering commitments, invoices and financial plans electronically**

The new system should set basis for verifying if budget users adequately allocate commitments on appropriate due dates signifying the impossibility of using commitments for precise financial planning and registering the liabilities in potential (modified) accrual based accounting. In addition, the system should allow input of financial plans and all data related to invoices: supplier, amount, bank account, purpose, reference on budget classifications. This activity includes the following sub-activities:

- Introduction of new rulebook and manuals
- Modifying existing e-commitments module
- Introduction of module for invoice recording
- Submission of Financial plans by budget beneficiaries via web application

**Activity 3: Introducing Accounts Receivables module and Liquidity planning module**

Budget Beneficiaries who expect receivables based on issued documents (invoices, decisions, declarations) should register those receivables in the system. The module for liquidity planning should enable collecting information about all expected incomes and outcomes. Liquidity planning will be performed through a user interface enabling historical data and aggregated data from financial plans, commitments, payments (submitted by BBs), forecasts and actual disbursements and payments (from e-debt module), forecasts of revenues (by PRO and Customs) and forecasts from Social funds to be shown to liquidity users in order to prepare better liquidity plans.

Some Budget Beneficiaries should be trained to process receivables.

This activity includes the following sub-activities:

- Defining the receivables (Commonly agreed interface between PRO, Customs, Social Funds for collecting the receivables)
- New procedures in place
- Providing proper training for employees for receivables recording

**Activity 4: Handling forced collection payments**

The new module should enable all treasury accounts which are subject to forced collection to be executed automatically via interface agreed by stakeholders. This activity includes the following sub-activities:

- The rulebook of the forced collection should be adjusted
- Providing proper trainings for employees
- Introduction of new module related to forced collection which will enable payments to be automatically executed by the system

**Activity 5: Introduction of General Ledger**

The new module should enable registering of accounting transactions of the financial management system (liabilities, claims, expenditures, revenues, capital and financial incomes and outcomes, assets) and produce balance sheet, profit and loss report, trial balance, reports on cash based and modifying accrual budget execution. The new system will create automatic posting to the GL based on selected transactions (registering of accts payables, receivables, bank statement report, payroll payments, etc.). This activity includes the following sub-activities:

- Preparation and adoption of a new rulebook
- Creation of booking schemes
- Design of a new system which will create automatic posting to the GL based on selected transactions

**Activity 6: Introduction of user friendly creation of reports**

Budget beneficiaries, especially MoF central office, should have the use of user-friendly reporting tools such that, after a short training period a user is able to produce new reports according to needs and authorisation level. This activity includes the following sub-activities:

- Design and introduction of user-friendly reporting tools
- Staff training

**Activity 7: Introduction of Fixed Assets module**

The module for registering Fixed Assets of the State should be part of the PFM Integrated System with appropriate booking schemes for postings of their financial values to the GL. The system should enable registration of each particular Fixed Asset to appropriate group of FA and adjustments of their statuses. This activity includes the following sub-activities:

- Creation of booking schemes
- Fixed assets measurement and valuation per each Budget beneficiary
- Design of a new module for registering FA

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• New rulebook (for using IBAN accounts)</li> <li>• New rulebook (for registering commitments, invoices and financial plans)</li> <li>• Updated rulebook (forced collection payments)</li> <li>• New rulebook (general ledger)</li> </ul>
<b>Cost implications:</b>	12.970.000 <sup>10</sup>

<sup>10</sup> The introduction of a new IFMIS will rely on: using an High Level Design to build on the knowledge and experience accumulated to create a core system and building the new IFMIS on newly selected and purchased hardware. The Solution would be created in several phases:

1. Introduction of the IBAN account codes (estimated cost of EUR 300.000)

(footnote continued)

<b>Responsible entity:</b>	Treasury
<b>Risk:</b>	<p>1. Technical documentation is the precondition for project implementation and should be prepared prior to start of the project, which requires technical assistance for preparation. 2. Extensive staff (especially of the ones directly involved in the project implementation) trainings required 3. Risks for the entire project completion: Delay in the project commencement; Unsettled financial framework prior to project beginning; Staff capacity to carry out the required changes is insufficient.</p> <ul style="list-style-type: none"> <li>• The problems in communication with other IT systems in use in other banks, PRO, Customs, Social funds and NBRM</li> <li>• Partial implementation can hinder current treasury processes</li> <li>• Risk of payments being incorrectly routed</li> <li>• Budget beneficiaries have problems in carrying out standard daily activities</li> <li>• Incorrectly defined receivables</li> <li>• The number of un-reconciled revenues exceeding some percentage</li> <li>• The problems occurred in data exchange between institutions</li> <li>• Booking schemes set on wrong basis</li> <li>• Uncompleted or incorrectly defined reporting tools</li> <li>• Low staff IT literacy to use advanced tools</li> </ul>

## P4M2: Strengthening commitment controls

### Measure objective

The rationale behind this measure is to avoid the practice by budget users not to register commitments on a timely manner.

### Reference to the external assessments findings:

PEFA:	P-24 Quality and timeliness of reports on the budget during the year. Namely, according to PI- 24 indicator (Quality and timeliness of reports on the budget during the year) even though the monthly reports produced and published on the MoF website providing data on payments do exist there is actually no information about the extent of outstanding commitments
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### Activity 1: Preparation of the report on the timeliness of entering the commitment data

Recent PEFA assessment framework, carried on public finances of Macedonia, found that no information about the extent of outstanding commitments exists. Namely, according to PI- 24 indicator (Quality and timeliness of reports on the budget during the year) even though the

2. Design of core Budget System for the new Platform including General Ledger, Budget Execution (TrIS + e-Commitments) and Budget Preparation (estimated cost of EUR 300.000)

3. Tender and Development of new IFMIS on the Development Platform which means that MoF should purchase its own ICT servers, storage and networking equipment for MoF and DRC; and select and purchase associated OS and industry-standard relational database (RDBMS) licences as the foundation of the new IFMIS (estimated cost of EUR 4.750.000).

4. IFMIS Rollout and Development of Remaining Modules. Following Final Acceptance of the core functionality of the IFMIS, the system can 'go live' to replace TrIS. Public debt management, FAMA, Liquidity Planning modules should be added gradually to the core IFMIS system (estimated cost of 7.500.000)

5. Organisational Changes Required for a Successful IFMIS using an in-House Platform. In order to implement, operate and enhance the IFMIS Solution, essential changes must be made within, and surrounding, the MoF IT Department. Specifically, the Department must be radically restructured to accommodate a significant increase in the numbers and technical qualifications of the IT staff; failure to achieve this will directly affect the operational status of the PFM systems. Alongside the Department's increased size and importance, comes the need for closer integration of its performance through the establishment of an IT Governance Committee (estimated cost EUR 120.000).

monthly reports produced and published on the MoF website providing data on payments do exist there is actually no information about the extent of outstanding commitments.

In this regard, there is a need for introduction of proper reports on expenditure commitments (annual and multi-annual). The rationale behind this is to avoid the practice by budget users not to register commitments in a timely manner. This means that budget users failing to provide data on expenditure commitments should be penalized appropriately. This activity includes the following sub-activities:

- Creating register of Budget users who failed to report expenditure arrears in a timely manner
- Preparing quarterly reports on budget users who failed to report expenditure arrears in a timely manner and publishing them on the Ministry's website

### Implementation

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	• Quarterly report on budget users who failed to report expenditure commitments in a timely manner
<b>Cost implications:</b>	No immediate costs besides time involved.
<b>Responsible entity:</b>	Treasury
<b>Risk:</b>	• /

## P4M3: Strengthening debt management

### Measure objective

Objective is to strengthen debt management.

### Reference to the external assessments findings:

WB	<p>Between 2006 and 2011, the medium-term debt management strategy was a stand-alone document. While integrating fiscal policies, macroeconomic projections, and debt management in one document has the advantage of offering an integral overview of all medium-term public finance strategies, the intertwined presentation of the policy targets of the government may blur the division of responsibilities of each department within the MoF.</p> <p>In line with best practices, the DMO drafts and executes the debt management strategy and monitors the development of the government debt portfolio, but it should not be held accountable for the size of the debt since this variable is not under its control.</p>
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### Activity 1: Revision of the debt legislation

This activity will enable the separation of the public debt management strategy from the fiscal strategy. The legal framework also sets out the overall objectives for debt management, clarifies the accountability, and outlines the desired reporting and audit requirements.

### Activity 2: Preparation of the Debt Management Strategy as separate document

Debt Management Strategy as a separate document will provide the framework for formulating and implementing a debt management strategy that raises the required amount of funding while achieving the government's risk and cost objectives, consistent with maintaining debt sustainability. It is primarily focused on determining the appropriate composition of the debt portfolio, taking into account the macroeconomic and market environment, and related vulnerabilities. It will determine the government's plans to achieve its desired portfolio composition over the medium term.

### Activity 3: Supplementing current risk indicators for refinancing and interest rate risk

Strengthen the analytical foundation of the debt management strategy and focus strategic targets on what is under control of the debt management office. This analysis would be based on

additional risk indicators to reflect more accurately the different dimensions of medium term risk exposure of the debt portfolio.

The refinancing risk associated with the issuance of relatively large sized securities with a bullet repayment structures in the international markets needs to be addressed well in advance.

**Activity 4: Strengthening human capacities**

Human resources are needed to achieve the goal of improving the public debt strategy. In doing so, they should be highly qualified individuals who will have knowledge in the international capital market, risk management and public debt management

**Activity 5: Improving MTDS framework and coordination with Debt Sustainability Analysis**

The debt managers need to recognize that MTDS analysis may have important consequences for the DSA. Where testing of the alternative debt management strategies under the various stress tests suggests that key debt sustainability indicators may be at risk, this should be discussed with the fiscal authorities. At this point, the preferred strategy, and its associated cost and risk implications, could be fed into an updated DSA.

**Activity 6: Improvement of IT system/software support for debt management process**

Improvement of IT system/software support for debt management will be part of the integrated information system for public financial management. This new module should be aligned with all previous activities for implementation of new financial management information system (IFMIS). This activity includes the following sub-activities:

- Introducing submission of reports by project implementors with data needed by DIFRPDM (Public Debt Department)
- Payments of principles and interest through NBRM interface
- Submitting ND forms to NBRM's Statistics Department, the method of electronic exchange of data and dynamics of implementation to be agreed additionally in cooperation with NBRM
- Automatic update of SDR rate from NBRM interface

**Activity 7: Strengthening the Management of Foreign Assistance**

Improvement of IT system/software support for FAMA will be part of the integrated Financial Management Information System of Ministry of Finance (FMIS). This new module should be aligned with all previous activities that FAMA application performs:

1. Registering of government projects financed by credits and grants
2. Registering of actual monthly loan and grant disbursements
3. Registering of disbursement plans
4. Monitoring on activities in projects

The new FAMA module should be upgraded with following changes

- Users from Unit for Multilateral and Unit for Bilateral and European Financial Cooperation should have access to TrIS module on accounts of institutions that are in charge for project implementation to monitor disbursements and executions
- Data on estimated executions of disbursed funds for projects should be visible to Budget Department users
- Data regarding expected disbursements and their execution should be available to the liquidity management sub-module
- Periodical reports entered to FAMA module by "reporters" should contain data needed for Department for International Financial Relations & Public Debt Management

### Implementation

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	• Debt Management Strategy and operational FMIS
<b>Cost implications:</b>	TA provided by WB and IMF + FMIS costs.
<b>Responsible entity:</b>	Debt Department
<b>Risk:</b>	• Low level of human capacities • Outflow of educated employees

## P4M4: Strengthening public procurement system

### Measure objective

To develop effective procurement system in line with EU legislation.

### Reference to the external assessments findings:

PEFA:	The PEFA 2015 identified the lack of mandatory requirement to publish procurement plans as a weakness.
SIGMA:	SIGMA Measurement 2015 assessed that the 2014 PPL does not conform to the EU Directives on public contracts and utilities, e.g. in the form of the compulsory use of e-auctions for practically all procurement and mandatory publication of negative references on the ESPP. "Black-listing" procedures are also not in line with the EU Acquis. The Defence Directive has not yet been transposed.  SIGMA noted that the institutional set-up and the procedural regulations introduced in 2014 concerning the Public Procurement Council, market research prescriptions and requirements for prior approvals have no basis in the EU Public Procurement Directives.
WB	Remarks of WB are that the LPP (with supporting manuals, codes and rule books) follows the logic of the EU Directives and regulates the procurement process from planning to conclusion of contract, but it does not supervise contract implementation.
EU:	The PPB Council has added additional time and cost in reviewing the technical requirements to the procurement process.  Regulatory and institutional framework on integrity and conflict of interest exist, but despite this, the number of integrity related reports remained low.  The country is yet to align with the EU Directive on Defence and Sensitive Security Procurement and the 2014 EU rules on public procurement.

### Activity 1: Streamlining (revision) of the mandate and responsibilities of the institutions involved in the public procurement system

This activity will provide grounds for amendments of the law on public procurement to comply with the recommendations prescribed in the EC Progress Reports, SAO audit report and PPB analysis. For this purpose, an analysis of the institutions involved in the public procurement system will be conducted. All institutions involved in the public procurement system could get new competencies, as well as reviewing existing ones.

### Activity 2: Harmonisation of the Public Procurement legal framework with the acquis

This activity aims to harmonise the Law on Public Procurement with Directive 2014/24/EU, Directive 2014/25/EU, Remedies Directive 2007/66/EC and EU Directive on Defence and Security Procurement. Namely, the existing review procedure system prescribed by the Law on Public Procurement is based on, and implements, certain elements of the Remedies Directives, but several additional elements remain to be implemented, such as alternative penalties. Amending the Law on Public Procurement with Directive 2014/24/EU, Directive 2014/25/EU, and the Remedies Directive 2007/66/EC, based on approved concept note, in 2018.

This activity includes the following sub-activities:

- Drafting a proposed concept for amending the Law on Public Procurement
- Drafting new LPP harmonised with new EU directives
- Adoption of the new LPP

**Activity 3: Institutional strengthening of the public procurement system, including the review set-up**

This activity is aimed at strengthening the institutional capacities of the public procurement system including State Appeals Commission in the process of continuous strengthening of human capacities and professional development of all institutions involved in the public procurement system especially in terms of the overall review procedures in the implementation of public procurement, concessions, and public private partnerships. The strengthening of the human capacities in this field in cooperation with SIGMA will continue.

**Activity 4: Introduction of an E-Appeal system**

Under the funds provided by the WB/EU Grant, PPB will develop and implement sustainable solution for e-appeals on the ESPP. The e-Appeal system will be a comprehensive module which integrates contracting authorities and economic operators, as well as the State Appeals Committee. This activity will contribute to full conducting of the appeal procedure in public procurement by electronic means via ESPP. The Deadline for implementation of this activity as part of the project funded by the World Bank is 2018. This activity includes the following sub-activities:

- Preparing the draft and final specifications by PPB and hired local consultant - Phase 1
- Adopting the specifications - Phase 1
- Implementing the necessary changes in Law and bylaws - Phase 2
- Development of new modules - Phase 2
- Implementation of the new modules on the ESPP - Phase 2

**Activity 5: Development of Integrity-related reports with procurement performance indicators and governance (anti-corruption) red flags**

The PPB has comprehensive database of all procurement procedures. This data is also well presented in PPB's annual reports. However, under the funds provided by the WB/EU Grant, PPB will develop (with assistance from international consultant) performance indicators and governance red flags by making various cross-references of this data, so that future trends and patterns could be projected. Furthermore, this data has a strong anticorruption potential that is currently not being used, and therefore governance (anti-corruption) red flags need to be integrated in the e-procurement system. Based on the data provided mostly from ESPP, a public procurement compliance monitoring system and a methodology will be established to monitor the compliance and measure performance of the procuring entities with the public procurement system in the country. Two different modules will be developed and implemented on ESPP – a) upgraded procurement compliance monitoring system with established methodology and b) governance “red flags indicators” that could be integrated in the e-procurement system. As a result of these indicators, Integrity-related reports will be developed in cooperation with other competent authorities. The Deadline for implementation of this activity as part of the project funded by the World Bank is 2018. This activity includes the following sub-activities:

- Preparing the draft and final specifications by PPB and hired local consultant - Phase 1
- Adopting the specifications - Phase 1
- Development of new modules - Phase 2
- Implementation of the new modules on the ESPP - Phase 2

**Activity 6: Introducing the obligation to publish the annual public procurement plans**

For the purposes of transparency improvement, activity shall be envisaged for publishing of the annual public procurement plans. Also updated versions of the annual public procurement plans will have to be published. The realisation of the activity is preconditioned with the adoption of a new legislation. As regards the strengthening of capacities of the contracting authorities and the economic operators for application of the law, the systemic approach shall be continued in terms of organising education and certification of public procurement officers, and measures shall be undertaken for improvement of the certification system. This activity includes the following sub-activities:

- Adoption of a new legislation which will introduce the legal requirement to publish the annual procurement plans
- Publishing of the updated versions of annual procurement plans
- Education of public procurement officers for requirements introduced with the new legislation

#### Activity 7: Publishing of the concluded public contracts and their amendments

This activity shall ensure a new transparency and accountability level in the realisation of public contracts, and it represents continuity of the previous activities within this priority in the long-term. The implementation of a tool for publication of awarded public contracts on the ESPP is envisaged in the long-term. The publishing of contracts shall provide the entire public with insight in these contracts, and it will be possible to compare whether the contract provisions are identical to the requirements from the tender documentations and technical specifications, or whether there are any changes in the procurement conditions. This publishing is envisaged to be implemented as a structural solution, a module incorporated in the system where data will be entered and contracts will be uploaded. This activity includes the following sub-activities:

- Publication of awarded public contracts
- Publication of amendments of the concluded public contracts
- Introduction of a system for data entrance and upload of concluded contracts

#### Implementation

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	• New Law on Public Procurement
<b>Cost implications:</b>	1 mil € for development, implementation of modules and staff. The cost of required assistance (WB 250. 000 €);(SIGMA 50.000 €), Twinning, (2 mil €) Not estimated cost of additional staff and IT development.
<b>Responsible entity:</b>	Public Procurement Bureau
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Recommendations deriving from the analysis for streamlining the mandate of competent institutions may not be accepted by the GoM</li> <li>• Level of harmonisation will depend on approved concept for amending the Law on Public Procurement</li> <li>• A3 depends on approval of the Proposed SPD 2018</li> <li>• Some contracting authorities may continue not to publish their procurement plans</li> <li>• Some contracting authorities may still not publish their concluded contracts and their amendments</li> </ul>

## P4M5: Effective PPP and concessions system

#### Measure objective

Prepare a legal framework that will be in compliance with the EU legislation and improvement of efficiency of the public-private partnership system and concessions system.

#### Reference to the external assessments findings:

PEFA:	
SIGMA:	
WB	
EU:	EU Progress Report
Others	

**Activity 1: Establish/upgrade/unify and publish register of PPPs**

Within the Ministry of Economy, a single registry for awarding contracts for the establishment of a public private partnership in paper and electronic form (Excel) is maintained. The Register contains data on all types of awarded contracts for establishing a public private partnership (public works concession, public service concession, public works contract and public service concession), which have been submitted to the Ministry of Economy by the competent authority (public partner).

Given that the registry of contracts awarded for the establishment of a public-private partnership is run in Excel, in order to ensure greater transparency in the conclusion of public private partnership agreements, this activity aims to be established within the Ministry of Economy Single electronic public-private partnership system that will summarize data on all awarded public-private partnership contracts from the announcement of the advertisement until the conclusion of the contract.

**Activity 2: Establish/upgrade/unify and publish register of concessions**

Concessions for public work / public service and concessions of goods of general interest are awarded by competent authorities that have data on the concluded contracts (Registry).

In order provide accurate data, Ministry of Finance will commence keeping registry of awarded concessions. Tax and Customs Department within the Ministry of Finance will be assigned the obligation to manage the respective registry through a new unit to be established therein.

To the end of ensuring greater transparency and simplifying the process of gathering data from the competent institutions, it is necessary for an electronic system to be established. In addition, legislative amendments will be needed so as to harmonize the legal requirement to report all concessions in the Registry with the existing legislation.

**Activity 3: Harmonisation of legislation in line with relevant EU acquis**

This activity aims to harmonize the Law on Concessions and Public-Private Partnerships with the 2014/23 / EU Directive for awarding concession contracts.

**Implementation**

<b>Completed in year:</b>	2020
<b>Deliverables:</b>	• Amended Law on Concessions and Public Private Partnership
<b>Cost implications:</b>	50.000 eur establishment of a single electronic system for public-private partnership, 50.000 eur establishment of a single electronic system for concessions and cost of new employed staff 150.000 eur
<b>Responsible entity:</b>	Ministry of Economy and Ministry of Finance
<b>Risk:</b>	• The level of harmonization will depend on the previous analysis regarding the concept of amending and supplementing the Law on Concessions and Public Private Partnership and the provided technical assistance in the realization of this activity

**P4M6: General Government Accounts established in accordance with ESA 2010 and made available for policy makers****Measure objective**

To establish quarterly General Government Accounts in accordance with ESA 2010.

*Reference to the external assessments findings:*

EU:	Further efforts are required to harmonise government finance statistics and produce quarterly sector accounts.
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*Context / Background*

In order to be harmonised with EU standards on statistics in the area of national accounts, and with the ESA 2010, cooperation was initiated with SSO and the Ministry of Finance. For the compilation of the non-financial account for the Government sector, SSO started to use fiscal data from treasury department for all revenues and expenditures for central and local government and social security funds, at the level of accounts and at the level of institutional units. The data on non-financial account for Government sector are used to calculate the net lending according to ESA 2010 on the level of sub-sectors - for central and local government and social security funds. The data is being collected annually and quarterly, in July for the previous year. In 2013, a working group for sector classification was established between SSO, MoF, NBRM and the Central Register. The working group works on a regular basis to decide on borderline cases. The data from Government accounts are the basis for compilation of EDP notification tables.

*Activity 1: Strengthening of human capacities that will bear the burden of the activities planned*

Activities about establishment of General Government Accounts on Quarterly level are related to an area that is in a very initial phase of development in SSO. For this purpose it will be of high importance for the SSO to initially strengthen the human capacities in the office through recruitment of new staff, as well as through insurance of trainings in order to be able to work on these activities and to achieve the planned results.

*Activity 2: Assessment of the availability and quality of data necessary for production of Government Finance Statistics on quarterly level*

Assessment of the availability and quality of data necessary for production of GFS/GGA on quarterly level is necessary to further build or improve the data sources (development of new data sources, identification of existing gaps in data sources) and the methodology (for example as regards sector delineation or the assessment of the recording of any large operations in the reporting period) to compile GFS/GGA statistics, including back series, according to ESA guidelines

*Activity 3: Development of a capacity for implementing of methodology for calculation of General Government Accounts*

Due to the fact that in the SSO an appropriate methodological knowledge is needed in order to compile data sets on quarterly General Government Accounts in line with ESA 2010, there is a need of expert support in this area. The support will be needed for compilation of the indicators from the tables in accordance with ESA 2010 Transmission Program.

*Activity 4: Comprehensive, timely, and reliable reporting of quarterly general government accounts*

Compilation of quarterly general government accounts.

*Activity 5: Calculation of quarterly General Government Accounts*

Through this activity it will be enabled to develop and further harmonize the statistical methodologies related to main aggregates of general government, detailed tax and social contribution receipts by type of tax or social contribution and receiving sub-sector, expenditure of general government by function and to start developing direct data sources for the reporting of quarterly non-financial accounts for the general government. A development and subsequent regular compilation of the National Tax List as well as methods used to approximate the accrual of taxes and social contributions should be provided too.

*Activity 6: To make quarterly General Government Accounts available for users*

Publication of the quarterly General Government Accounts i.e. preparation of tables in accordance with the ESA 2010 Transmission Programme

### Implementation

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Quarterly general government accounts</li> </ul>
<b>Cost implications:</b>	Activities will be implemented and financed in the frame of Sector Planning document and Action Document for Public Administration Reform and Statistics. Their e implementation is linked to the activities to be implemented under this programme.
<b>Responsible entity:</b>	State Statistical Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Insufficient staff and new employments not approved</li> <li>• Inadequate experts</li> </ul>

## P4M7: Strengthening statistical services

### Measure objective

This measure will enable SSO to develop and implement more efficient data production system which will improve timeliness, coherence and accuracy of statistical data. Statistical services will be strengthened by more robust and innovative approach in the dissemination processes, development of interesting and easy to understand products for different target groups that will offer meaningful and understandable statistical data by using the latest technologies. The products will be at the fingertip of all users with possibility for different ways of extraction and analysis.

### Context / Background

SSO together with the Ministry of Finance is currently working on data sources and methodology for production of government account. Besides the sound methodology for compilation of statistical data it is necessary to improve the current statistical production system that is mainly based on numerous independent production systems for every statistical area. Currently only data collection is based on integrated metadata driven on-line data collection system. SSO strives to switch to process oriented integrated metadata driven data production system where standard IT tools will be made available through the tailor made software for data processing and for dissemination. In addition, obsolete IT equipment has to be replaced in order to be able to use the developed IT tools. SSO has recently placed huge efforts in creating a user-friendly data tools through its website that has been very well accepted by the users, but still not enough to satisfy different needs of different target groups. What is necessary is to offer new digital products but also to offer more innovative and creative services.

### Activity 1: Development of the textual content of statistical releases and other publications in ways that would facilitate and foster their use by a broader range of users

So far, the SSO has placed a huge effort in creating a user friendly data tools through its website that has been very well accepted by the users but still not enough in order to move on with the development of digital publications which are available for some time in other statistical offices around the world.

Our current hardware and software is almost obsolete and creates a huge productivity, reliability and punctuality issues in producing quality and innovative publications for different target market (users). So much so, that staff resources are stretched beyond maximum to keep in line with the current calendar of publications. It also creates an issue in producing quality infographics, which are nowadays important short type publications that inform users of important milestones of produced statistical data. In order to achieve this and keep up to date with the latest drive from Eurostat on dissemination of digital products it is almost imperative that the SSO Department for dissemination receives the much needed assistance with up to date hardware and software,

expert advice for developing new technologies (tools- software), outsources developer to develop, implement and possibly maintain such technology. This does not eliminate the opportunity for SSO to also take the lead in maintaining its technology resources by itself providing that all necessary licences are obtained through this program.

We are also in need to produce special visual dissemination materials that will be used to educate the users on all available products and their use. This is also an extremely important aspect if we are to reach even further towards our customers and educate them on the importance of the statistical data and its meaning.

This will also require an expert advice for pre and post implementation as well as outsources developer that can develop the necessary tools for producing such visual materials in the future.

**Activity 2: *Development of interactive data visualisation tools and applications in order to promote a quick and easy-understandable overview of the presented statistics***

Our current hardware and software is almost obsolete and creates a huge productivity, reliability and punctuality issues in producing quality and innovative publications for different target market (users). SSO human resources on developing and new technologies including software for digitalisation of data and publications is somewhat limited from many aspects including but not limited to expert advice on developing proper evaluation on current resources and capacities, pre and post implementation plans as well as process that will determine the sustainability of such technologies in the future. This also includes proper training of staff on all the above aspects as well as visual and hands on demonstration of such technologies in statistical offices around Europe. In order to achieve this and keep up to date with the latest drive from Eurostat on dissemination of digital products it is almost imperative that the SSO Department for dissemination receives the much needed assistance with up to date hardware and software, expert advice for developing new technologies (tools- software), outsources developers to develop, implement and possibly maintain such technology. This does not eliminate the opportunity for SSO to also take the lead in maintaining its technology resources by itself, providing that all necessary licences are obtained through this program. We are also in need to produce special visual dissemination materials that will be used to educate the users on all available products and its use. This is also an extremely important aspect if we are to reach even further to our customers and educate them on the importance of the statistical data and its meaning.

This will also require an expert advice for pre and post implementation as well as outsources developer that can develop the necessary tools for producing such visual materials in the future. SSO will also develop plans to inform and educate users on its new products through visual presentations that can be also available from any place at any time through mobile devices

**Activity 3: *Strengthened capacity on using standard IT tools for data processing of survey data***

Strengthened capacity on using standard IT tools for data processing of survey data has been initiated some years ago by gradual implementation of IT tools already developed in the European statistical system, the pace of implementation will be enhanced in the current Twinning project and should continue over years for the majority of the sub-processes of the SBPM.

**Activity 4: *Technical assistance for defining the business requirements of different parts of the re-engineered IT system for statistical production***

Technical assistance for defining the business requirements of different parts of the re-engineered IT system for statistical production is aimed to analyze business requirements and preparation of technical specification of different parts of the IT system that support re-engineering production environment. Analysis should be done and specifications prepared for: Integrated data collection system, Metadata driven systems for data processing (editing, imputation, validation, aggregation, analysis), IT system for classification management and data warehouse for business statistics and quarterly national accounts.

**Activity 5: *Outsourced software development of IT system, maintenance and support***

Outsourced software development of IT system, maintenance and support is the service procurement that will provide integrated metadata driven production environment:

**Activity 6: Acts on organisation and systematisation that will support the re-engineered production environment**

Acts on organisation and systematisation that will support the re-engineered production environment is the necessary step in the process of transition from survey oriented (stovepipe) production environment to process oriented. The new production environment should be supported by adequate organizational structure that supports process oriented approach. Also the description of certain working post should be changed and new working post descriptions created.

**Activity 7: Upgrading of the IT infrastructure (hardware and software) and putting the new IT system into production, maintenance and support**

Upgrade IT infrastructure (hardware and software) and putting the new IT system into production, maintenance and support. For putting the IT system in a daily operation it will be necessary to ensure adequate IT infrastructure to install the system and to support access for all data users from their work stations. This activity includes the following sub-activities:

- Assessment of needs and drafting technical specification
- Conducting tendering procedure

**Activity 8: Strengthening of the human capacities (number of staff and skills) that will bear the burden of the activities planned**

Strengthening of the human capacities that will bear the burden of the re-engineering the production environment. As far as the process of re-engineering production environment includes development of different modules of IT system, certain number of IT persons with adequate IT skills should be involved in the process of implementation the outsourced software development in order to have ownership over the results of the project and to be able to support the users of the system in the daily work.

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• New software</li> <li>• New hardware</li> <li>•</li> </ul>
<b>Cost implications:</b>	Activities will be implemented and financed in the frame of Sector Planning document and Action Document for Public Administration Reform and Statistics. Their e implementation is linked to the activities to be implemented under this programme.
<b>Responsible entity:</b>	State Statistical Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Insufficient staff including late announcement of job vacancies and not enough qualified candidates</li> <li>• New employments not approved</li> <li>• Inadequate experts</li> <li>• Lack of vital software and hardware</li> <li>• Not enough detailed description of the system requirements</li> </ul>

## Priority 5: Transparent Government Reporting

### Objective

Objective is to increase the level of transparency in PFM.

The objective of the improved transparency will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Improved transparency through government reporting</b>
Activity 1:	Development and implementation of transparency standards for PFM reporting
Activity 2:	Publishing of Citizen's Budget

### Outcome

XVII) Improved fiscal transparency

### Outcome indicators

XVII) Higher rank in the Open Budget Index

XVII) Citizen budget published

## P5M1: Improved transparency through government reporting

### Measure objective

Improving transparency in PFM through producing better quality information, making it available to the wider audience in a more user- friendly manner.

### Reference to the external assessments findings:

PEFA:	<p>PI 6- Comprehensiveness of information included in Budget documentation - score B- Five of nine benchmarks are satisfied (No cash balances or other financial assets and projected movements are shown in budget documentation, Prior year's budget out-turn is not presented either in the Fiscal Strategy or in the Budget 2015 and as result the National Assembly is not able to compare previous year's budget out-turn to the proposed budget, no summarized budget data for both revenue and expenditure according to the main heads of the classifications used, no explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes)</p> <p>PI10- Public access to key fiscal information- score A</p> <p>PI 25- Quality and timeliness of annual financial statements, score D+- Article 25 of the Law on Accountancy of the Budget and Budget Beneficiaries requires MoF to present only consolidated information about revenue and expenditure. Although budget institutions are also required to report details of their financial assets and liabilities, this information is not included in the consolidated statements produced by MoF.</p>
SIGMA:	<p>Extent to which the annual budget proposal includes full information at the time of presentation to the Parliament- score 2,</p> <p>Extent to which in-year financial reporting provides full information and is made publicly available score 1,</p> <p>Extent to which the annual financial report includes full information and is made available in time to the Parliament- score 4</p> <p>The MoF should provide additional information on relevant topics for the interpretation of the draft budget (e.g. cost and benefits of new government policies, contingent liabilities, and long-term projections of revenues and expenditures in key sectors)</p> <p>The 2013 annual financial report, which was audited by the SAO, does not contain information on contingent liabilities or non-financial performance of the Government.</p>
WB	<p>Budget comprehensiveness and transparency- 2.12. The annual budget law includes a considerable amount of fiscal information, though significant gaps remain.2.13. Some significant gaps in the budget documentation are identified. These include (a) a lack of information on deficit financing, (b) no information on financial assets, (c) lack of comparative data on the prior year's outturn, (d) breakdown of the current year's budget by functional and administrative classification and (e) No estimates of the budgetary impact of major revenue policy changes and/or some major changes to expenditure programs are presented.2.6. The Ministry of Finance provides very detailed information on the annual budget and its final accounts for the central government, but the presentation and format of the data is not easy to follow.</p>

EU:	Recommendation for improvement of the fiscal transparency- Budget transparency is not ensured, because clear, comprehensive, timely and reliable budgetary and statistical information is not publicly available.
Others	According to the latest Open budget survey 2015 one of the given recommendation for improving budget transparency is producing and publishing Citizens Budget.  Production of a Citizen Budget is also a commitment and recommendation for the fiscal transparency issue in the OGP National Action Plans proposed by Open Government Partnership (OGP) working group.

### Activity 1: Development and implementation of transparency standards for PFM reporting

Extension of information and data in the budget/fiscal documents means identification of the required additional data to be contained in the Budget of the Republic of Macedonia, Final Account and Fiscal Strategy in accordance with the recommendations provided in the SIGMA and PEFA reports. In accordance with the available data and the opportunities for providing the relevant information and parameters in the budget preparation process and final account, it is planned to create additional reviews, annexes, and explanations on individual segments of the planned fiscal projections and additional data on the budget realisation. In this context, the existing document, Fiscal Strategy of the Republic of Macedonia, shall be upgraded and further developed with more detailed data, explanations, scenarios, etc., which shall also ensure higher credibility of the medium-term projections and increased transparency of the medium-term fiscal policy guidelines.

For example MoF should improve the annual budget presentation to include information on deficit financing, financial assets, data on the prior year's outturn, estimates of the budgetary impact of major revenue policy changes and/or some major changes to expenditure programs are presented. This activity includes the following sub-activities:

- Additional data in budget document
- Additional data in Final Account of the Budget
- Additional data in Fiscal strategy
- Additional data published on the MoF web site

### Activity 2: Publishing of Citizen's Budget

European practices regarding the availability of policies and projects financed through the budget to the citizens shall represent a part of the budget process in the Republic of Macedonia. In that respect, the Citizens Budget shall regularly and continuously provide data and information closer to the citizens regarding all budget-financed items. In that respect, the manners and forms of disclosing the Citizens Budget in other countries shall be reviewed and relevant solution shall be created. This activity will not only increase the public finance transparency, but it is also expected to increase the citizens' interest about the importance of public finances. This document should present key public finance information to a general audience and should ensure citizens have a firm understanding of the many ways the budget affects their lives and foster greater understanding of how public money is being managed. This activity includes the following sub-activities:

- Preparation and design of the document
- Prepare all procedures for producing and printing the document
- Publishing the document

### Implementation

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Budget documents, Final Account of the Budget and Fiscal Strategy amended with additional data</li> <li>• Reports</li> <li>• Citizen's Budget</li> </ul>
<b>Cost implications:</b>	Costs of publishing Citizen's Budget —EUR 5.000 yearly- EUR 20.000
<b>Responsible entity:</b>	Budget and Funds Department
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Insufficient knowledge and coordination of budget users for estimating costs of policies, project and measures</li> </ul>

## Priority 6: Internal Control

### Objective

To establish sound financial management and control system.

The objective of the Internal Control priority will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Improved PIFC (FMC and IA) legislation and methodological framework</b>
Activity 1:	Amendment of PIFC legislation
Activity 2:	Promoting the concept of public internal financial control to the managers of the entities of the central and local level
<b>Measure 2:</b>	<b>Strengthened administrative capacities on central and local level on FMC and IA</b>
Activity 1:	Establishing system of continuous training and on the job training
Activity 2:	Establishing system for supervision of IA and FMC units

### Outcome

- XVIII) Improved compliance with accountability rules and regulations (in support of fiscal discipline and transparency)
- XIX) Improved Financial Management and Controls as defined in PIFC (Chapter 32)
- XX) Increased transparency for citizens
- XXI) Improved Internal Audit Effectiveness

### Outcome indicators

- XVIII) % of implemented internal audit recommendations
- XIX) % of risk based internal audit coverage of CG+LG
- XX) Positive Internal audit opinion on performance information submitted by institutions of CG and LG on their programmes (% coverage)
- XXI) % of programmes audited annually

## P6M1: Improved PIFC (FMC and IA) legislation and methodological framework

### Measure objective

Ensuring development of the public internal financial control by developing sound and efficient system of financial management and control and internal audit in the public sector entities. In the area of financial management and control in the Law on Public Internal Financial Control it will expand the scope of implementation of the provisions related to financial management and control and ensure simplification of the organization and operation of smaller budget accounts in the financial management and control.

### Reference to the external assessments findings:

PEFA:	Substantial efforts have been made since 2009 to institute effective Public Internal Financial Control (PIFC) arrangements on the EU model throughout the government. Commitments now have to be registered with the Treasury when contracts are placed, and will be rejected if they are not consistent with available budget provision. But it is not clear whether these requirements are fully respected. Other aspects of financial management and control have been reorganized in all main budget user institutions in accordance with the PIFC Law, although these are not yet fully operational throughout the government, and coverage remains limited at local level. The arrangements in a number of large Ministries, whereby the Minister continues to sign all payment orders, are not consistent with the separation of functions required by the PIFC Law or with the arrangements prescribed in the 2010 Rulebook for General Financial Processes. They also carry the implication of continuing political involvement in determining who receives government funds. Internal audit is now operational in all main budget user institutions in accordance with the PIFC Law, and works to international standards, although it needs to focus more on the improvement of systems rather than simply
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	<p>on providing assurance. However, available staffing resources are limited, and not all managers yet respond appropriately to recommendations. The work is coordinated by the Central Harmonisation Unit (CHU) in MoF; copies of reports are given to CHU and the State Audit Office (SAO).</p>
SIGMA:	<p>Both the Law on Public Internal Financial Control and the Financial Management and Control Manual refer to the five elements of the COSO framework. In addition, there are several rulebooks to regulate general financial processes in the budget organisations, the manner of delegation of authority, and to provide requirements for the financial affairs departments. These rulebooks were prepared in 2010 and 2011 but have not been updated since. Overall the operational framework for FMC is well established but many budget organisations have not taken action to apply the rules and have not reported to the MoF on progress made. Therefore the value of the indicator regarding completeness of the operational framework for FMC is 4 (out of 5).</p> <p>Other legislation does not specifically support FMC, e.g. the Budget Law makes no specific reference to the delegation decision making authority. The Rulebook for the Manner of Performing Activities of the Financial Affairs Units provides a useful basis for larger budget organisations, but it is too complicated as a guide for smaller organisations to organise their internal financial processes.</p> <p>A comprehensive PIFC Policy Paper for 2015-2017 was approved by the Government in December 2014. The current Strategy focuses on weaknesses in implementation and sets out the necessary actions to cover all areas of the PIFC Policy. It has a comprehensive coverage including actions in the area of budget management, but the links with wider public administration reform priorities are not presented.</p> <p>The Central Harmonisation Unit (CHU) prepares an annual report to the Government on the progress regarding the implementation of FMC, which is largely based on the self-assessment of all budget organisations required to implement FMC. This report is considered by the Government and it includes detailed statistics about all budget organisations and is supported by detailed Government conclusions to address shortcomings in individual budget organisations. However, the report is prepared very late after the end of the year and only summary statistics were made publicly available in 2014. Supervision of the quality of FMC in budget organisations is not carried out by the MoF.</p> <p>The management structures responsible for the management of the Instrument of Pre-Accession (IPA) programmes are in place and operational and there has been some effort to introduce IPA specific procedures to the national programmes (e.g. the procedure for reporting on irregularities). However, the IPA and FMC procedures are still disconnected, although both are based on COSO.</p> <p>A financial inspection service was established in the MoF under the Law on Financial Inspection in the Public Sector and it started its work in 2014. The first cases concentrate on individual cases of possible financial mismanagement and so the current practice does not conflict with the work of internal audit.</p> <p>Implementation of FMC at an institutional level is lagging behind the development of the policy framework. The common weaknesses in ensuring internal control include the following: key positions required by the FMC regulation are not filled, FMC action plans are not always developed, risk management procedures are not implemented, lack of delegation of decision making authority in financial management beyond the level of the minister and the state secretary.</p> <p>Most central government organisations have in place detailed written procedures for the key processes due to the Government policy of implementing quality management programmes. A good level of alignment (67%) exists between budget structure and management structures in those organisations that have adopted decisions for the distribution of annual budget funds within the organisation.</p> <p>Delegation of decision-making authority in financial management and control is permitted but rarely applied and it is common that the minister signs all procurement contracts of the ministry and often also individual payment requests before these are submitted to the MoF.</p> <p>The functioning of internal audit(IA) is examined through two qualitative indicators, one covering nine critical elements for an effective IA framework as defined in the Principles of Public Administration and the other covering the quality of IA reports prepared by public organisations. These are complemented by three numerical indicators to deal with levels of staffing and training as well as compliance with national planning requirements. For precise methodology and scales please see the methodological annex.</p> <p>The overall legal and policy framework for internal audit is in place but implementation is not ensured by all budget organisations that are required to implement IA. Many organisations have not met the requirements in establishing IA units or ensuring minimum staffing, training needs are not taken into account when planning central training and the share of internal auditors with IA certificates is low. The indicator regarding the operational framework for IA is 3 (out of 5).</p> <p>The internal audit requirements of the PIFC Law apply to the users of the state budget, budgets of municipalities, state funds, independent regulatory bodies, shareholder companies and other legal entities in which the Government or municipalities have a controlling stake. Even small organisations (with an annual budget of less than EUR 1 million) are required to establish IA.</p> <p>The PIFC Law also specifies that internal audit should be carried out in accordance with the International Standards of the Institute of Internal Auditors. The PIFC Law is supported by rulebooks consistent with the Law and extensive guidance material is available for internal auditors, including the Internal Audit Manual. The IA manual does not however include detailed guidance on audit planning. Moreover, audit methodologies have been described only for systems audits.</p>

	<p>The PIFC Strategy includes the plans to strengthen IA in the public sector and its two year Action Plan focuses on persistent weaknesses, such as staffing, training and quality assurance. The CHU prepares detailed statistics about the work of IA in the public sector within the annual report on PIFC, which is presented to the Government. These statistics provide information on staff, audit plans, numbers of audits carried out etc. both at central and local level. However, there is no focus on the quality of IA work other than the statistics about the rate of implementation of IA recommendations.</p> <p>For better co-ordination of IA across the public administration an Audit Committee was established and is chaired by the State Secretary of the MoF and composed of the heads of the IA units of all the ministries. In 2014 this committee met twice.</p>
EU:	<p>The country is moderately prepared in this area. No progress was made in the past year with implementation of the Commission's recommendations in the 2015 report. Considerable further efforts are needed to ensure effective implementation of public internal financial control (PIFC) legislation. Improved internal control over public funds, in line with a sound anti-corruption policy and follow-up of audit recommendations, has yet to be pursued. The independence of the State Audit Office in the constitution is not yet enshrined in the constitution. In the coming year the country should in particular:</p> <ul style="list-style-type: none"> <li>→ ensure that there is a more systematic follow-up to government recommendations following the annual PIFC implementation report;</li> <li>→ ensure effective implementation of risk assessment and other tools and techniques in public-sector organisations' management processes;</li> <li>→ adopt and implement the national anti-fraud strategy, strengthen the coordination role of the Anti-fraud Coordination (AFCOS) Unit and improve management of irregularities through the Irregularity Management System.</li> </ul>

### Activity 1: Amendment of PIFC legislation

The adoption of changing and amending the Law on Public Internal Financial Control stems from the need for harmonization of legislation with international standards for internal control and internal audit, and to strengthen the system of public internal financial control in the country. This activity includes the following sub-activities:

- Establishing of working group
- Implementation of twinning or bilateral project

### Activity 2: Promoting the concept of public internal financial control to the managers of the entities of the central and local level

Organising annual PIFC Conferences in which "state institutions" will be selected and promoted in the implementation of the system of internal financial controls and a network of institutions to exchange experiences will be created. This activity includes the following sub-activities:

- Selection and promoting "state institutions" in the implementation of the system of internal financial controls
- Creation of network of institutions for exchange of experiences.

### Implementation

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Amended PIFC Law</li> <li>• Amended rulebooks for Financial Management and Control (FMC)</li> <li>• Amended rulebooks for Internal Audit (IA)</li> <li>• Amended FMC Manual</li> <li>• Amended IA Manual</li> </ul>
<b>Cost implications:</b>	3.300.000 EUR from budget and support from SIGMA
<b>Responsible entity:</b>	Central Harmonization Unit
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Finding twinning or bilateral partner</li> <li>• Not sufficient interest from management</li> </ul>

## P6M2: Strengthened administrative capacities on central and local level on FMC and IA

### Measure objective

To strengthen administrative capacities on central and local level on FMC and IA that would provide effective, efficient and economic public funds spending.

### Reference to the external assessments findings:

PEFA:	<p>The concept of Internal Audit (IA) as an advisory service to management was unknown in the country until the enactment of the PIFC law. Rulebooks had to be issued to provide for an Internal Audit Charter in each budget institution concerned, to prescribe internal audit methods, procedures and reporting arrangements, to lay down a Code of Ethics, and to define audit standards in line with international practice. Internal auditors had to be trained to undertake the work correctly, and appropriate structures established in each budget institution. The development of IA thus remains a work in progress, with progress measured and charted by the Central Harmonisation Unit at MoF, which takes the lead in the development of policy and regulation and makes an annual report to the government. As at July 2015 IA units had been established in 81 of 93 first level budget users, employing 144 auditors, and each producing up to 5 reports a year on aspects of the operation of systems in accordance with plans agreed with the heads of the institutions concerned. The further extension of IA in smaller institutions without the resources to establish their own dedicated units depends to an extent on the establishment of cooperative arrangements with their larger neighbours. SAO carried out a performance audit of the operation of PIFC across the government in 2014, which confirmed that IA was operating satisfactorily in most parts of central government. Overall resources for IA remain limited, and there is a need for more auditors; this is addressed by the provision of professional training so that more auditors can become qualified. Work is generally carried out in accordance with international standards, although the CHU Policy Paper for the development of PIFC 2015-17 noted that efforts were directed more to providing assurance about the reliability of systems than to providing advice on how they could be improved. Rating for this dimension: B</p> <p>(ii) Frequency and distribution of reports</p> <p>The CHU annual reports confirm that IA reports are produced in accordance with plans previously agreed with the heads of the institutions concerned, and submitted to CHU and SAO as well as the auditees concerned. Rating for this dimension: A</p> <p>(iii) Extent of management response to internal audit findings</p> <p>CHU keeps statistics of the number of recommendations issued and implemented by management. Up to the end of 2014 51.2 per cent of recommendations were recorded as being implemented in central government. The percentage where IA was functioning in local government is 54. In the absence of further information about the content and significance of recommendations, such aggregate statistics are difficult to interpret. For the time being it seems reasonable to conclude that a fair degree of action is taken by many managers in response to recommendations, but that there remains much scope for increasing the impact of IA work. Rating for this dimension: C</p>
SIGMA:	<p>Currently, no systematic quality assurance is undertaken either by the IA units or by the CHU .</p> <p>Overall, 186 organisations have established an IA function but only a few of them meet minimum staffing levels, showing a lack of commitment to IA through lack of funding for the necessary posts and/or a lack of suitably qualified staff for appointment. Only 25% of all organisations have prepared annual internal audit plans according to national requirements.</p> <p>Not all of the IA units are fully operational, and only a third have approved an annual IA work plan in line with the legislation. In total there are 211 internal auditors in place with an average number of just over one internal auditor per unit, which further underlines weaknesses in staffing. It is difficult to recruit and retain staff of suitable ability and provide appropriate experience and training within small units. In particular, international standards envisage a level of review and supervision within the IA structure which is not possible within these units. Most IA units do not meet the minimum staffing requirements, although in two out of the three sample ministries analysed by SIGMA, the minimum staffing requirements were met .</p> <p>The CHU has commenced the second round of training in co-operation with the Centre of Excellence in Finance and the Chartered Institute of Public Finance and Accountancy. Currently 37 internal auditors have passed this international certificate training which represented at the end of 2014 18% of the total number of internal auditors. The ongoing second round of this certificate training is likely to double this number.</p> <p>Most of the IA work focussed on basic system based audits although in practice these are mostly compliance oriented, testing if the procedures are applied rather than challenging the rules and procedures themselves. A full sample of 10 IA reports issued in 2014 has not yet been provided, so there is no evidence that at least 9 out of 10 organisations have prepared audit reports.</p>

EU:	<p>The country is moderately prepared in this area. No progress was made in the past year with implementation of the Commission’s recommendations in the 2015 report. Considerable further efforts are needed to ensure effective implementation of public internal financial control (PIFC) legislation. Improved internal control over public funds, in line with a sound anti-corruption policy and follow-up of audit recommendations, has yet to be pursued. The independence of the State Audit Office in the constitution is not yet enshrined in the constitution. In the coming year the country should in particular:</p> <ul style="list-style-type: none"> <li>→ ensure that there is a more systematic follow-up to government recommendations following the annual PIFC implementation report;</li> <li>→ ensure effective implementation of risk assessment and other tools and techniques in public-sector organisations’ management processes;</li> <li>→ adopt and implement the national anti-fraud strategy, strengthen the coordination role of the Anti-fraud Coordination (AFCOS) Unit and improve management of irregularities through the Irregularity Management System.</li> </ul>
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**Activity 1: Establishing system of continuous training and on the job training**

Strengthening administrative capacities on central and local level on FMC and IA should be provided with establishing system of continuous training and job training and establishing system for supervision of IA and FMC units. This activity includes the following sub-activities:

- Establishing the Public Finance Academy body within Ministry of Finance
- Adopting Rulebooks for continuous trainings for FMC and IA
- Adopting Rulebook for training and exam for certification of internal auditors
- Organising training and exam

**Activity 2: Establishing system for supervision of IA and FMC units**

Within this activity the rulebook for organisation and systematisation of job positions in MF will be amended. This activity includes the following sub-activities:

- Staffing of the Unit for supervision
- Conducting training of the staff
- Quality assurance through implementation supervisions on FMC and IA units

**Implementation**

<b>Completed in year:</b>	2021
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Adopted Public Finance Academy Law</li> <li>• Adopted Rulebooks for continuous trainings for FMC and IA</li> <li>• Adopted Rulebook for training and exam for certification of internal auditors</li> <li>• Trainings</li> </ul>
<b>Cost implications:</b>	3.300.000 EUR from budget and support from SIGMA
<b>Responsible entity:</b>	Central Harmonization Unit
<b>Risk:</b>	• Insufficient human resources capacities

## Priority 7: External Control and Parliamentary Oversight

### Objective

To enhance public funds management and to ensure accountability and transparency in the use of public funds through

- improvement of regularity and performance audits of SAO in line with ISSAI and SAO's Strategies,
- establishing mechanism for pro-active role in understanding and discussion of audit reports by the Parliament and
- strengthening the institutional and human resources capacity of SAO.

The objective of the External Control and Parliamentary Oversight priority will be achieved through the following measures and activities:

<b>Measure 1:</b>	<b>Improved strategic planning and external audit process in line with the ISSAIs</b>
Activity 1:	Development and implementation of Strategic Plan of SAO
Activity 2:	Assessment of institutional and human resources capacity of SAO in order to maintain high quality of audits, in accordance with the relevant legal framework
Activity 3:	Improved administrative capacity for performance audit
<b>Measure 2:</b>	<b>Improved scrutiny over the budget by the Parliament</b>
Activity 1:	Analysis of existing legal and institutional framework with regard to mutual cooperation between SAO and Parliament benchmarked to SAO-Parliament cooperation best practices in EU
Activity 2:	Training Needs Assessment (TNA) carried out and Training Plan elaborated for members of Parliament

### Outcome

- XXII) Improved impact of audit & reporting.
- XXIII) Increased accountability of public resources.

### Outcome indicators

- XXII) % of external audit recommendations leading to corrective measures.
- XXIII) % of audit coverage of the total public expenditure.

## P7M1: Improved strategic planning and external audit process in line with the ISSAIs

### Measure objective

To enhance SAO as sustainable institution capable to apply the most modern and up to date methodologies and guidance on how to plan the process of external audit and thus deliver its core competence as embedded in the provisions in the State Audit Law and other relevant legal framework.

### Reference to the external assessments findings:

PEFA:	In section 3.6 External scrutiny and audit referring to the State Audit Office, the Dimension "(i) Scope/nature of audit performed", was rated as "D" as stated that: "SAO does not have the resources needed to carry out a full financial and compliance audit of all its auditees every year, and therefore aims to cover most of them in detail over a period of several years" and further summarizes that "less than 50 per cent of the expenditure of central government entities is audited each year". Also, it was noted that "While the SAO publishes all audit reports on its website and puts efforts on producing an easy to read and easy to understand annual report, it does not pro-actively communicate with the media, the Parliament or the wider public through press conferences, press releases or other means."
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SIGMA:	"The SAO should develop a multi-annual audit strategy to prioritise its work, taking into account the need to maintain quality and ensure adequate audit coverage over the years and SAO should take further measures to improve the annual audit coverage", and also "SAO should communicate more proactively with the media and the wider public in order to explain audit results and further explain its role on the basis of concrete audit examples."
EU:	"The SAO has sufficient institutional capacity to perform its tasks, with 70 of its 85 auditors being certified public auditors. It carries out a compliance audit on the final government accounts of the core budget by June each year. The audit coverage of the total audit expenditure was 45 % in 2016. The SAO has carried out training of staff in international accounting standards, regularity and performance audit, public procurement and ethics. It also continued to implement its 2013-2017 strategy plan. The quality of audit work improved in line with the INTOSAI standards, as the SAO is implementing the revised regularity and performance audit manuals. Performance auditing need to be further developed."

### **Activity 1: Development and implementation of Strategic Plan of SAO**

Developing and implementation of the Strategic Plan of SAO is essential condition for successful audit execution and reporting by using all of SAI's capacity and resources on the most effective and efficient manner. This activity includes the following sub-activities:

- Assessment on improvement of audit process as per ISSAI in view of strategic audit planning process
- Amending Guidelines on suggesting audits for planning as regards strategic audit planning process in line with SAO priorities and resources available
- Training of SAO staff in strategic audit planning
- Development of Multi-annual Audit Plan 2020-2022

### **Activity 2: Assessment of institutional and human resources capacity of SAO in order to maintain high quality of audits, in accordance with the relevant legal framework**

SAO continuously build itself as a professional institution that maintains high quality work and is appreciated and respected by the primary users of the results of its operation (the Parliament, the Government, the auditees and the public). Therefore, the assessment of institutional and human resources capacity of SAO will be performed in order to maintain high quality of audits, it will detect eventual gaps and give recommendations for improvement of SAO resources in order to increase audit coverage of the budget, but also to ensure continuous quality operation, high integrity of staff and fulfilment of the relevant legal requirements for audit.

### **Activity 3: Improved administrative capacity for performance audit**

In order to support the human resources capacity building of external auditors, a set of training in performance audit will be performed in the areas such as EU funds, ICT, public financial internal control, public procurement, leading to qualitative improvement of the performance audit process as such.

Pilot performance audits in the areas such as EU funds, ICT, public financial internal control, public procurement, will be conducted with expertise support under the Twinning Project, in order to improve audit practice in such audits based on ISSAI's and EU best practices. This activity includes the following sub-activities:

- Training of SAO staff in performance audit will be performed in the areas such as EU funds, ICT, public financial internal control, public procurement.
- Pilot performance audits conducted in the areas such as EU funds, ICT, public financial internal control, public procurement.

### **Implementation**

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Assessment Report on improvement of audit process prepared</li> <li>• Guidelines on suggesting audits for annual programme amended as regards strategic audit planning process</li> <li>• 15 SAO staff trained in strategic planning of audit</li> <li>• Multi-annual Audit Plan 2020-2022 prepared</li> <li>• Report with recommendations on improving the institutional and</li> </ul>

	human resources capacity of SAO prepared <ul style="list-style-type: none"> <li>• 15 SAO staff trained in performance audit</li> <li>• Audit Reports on performance audits issued</li> </ul>
<b>Cost implications:</b>	No immediate costs besides the time involved. Cost of TA borne by EU (Twinning project) Total 547.075€ Donor: 534.175 National: 12.900 Activity 1 Donor: 285.914 €+ 5100 € national (SAO) Activity 2 Donor: 20 760 € + 200 € national (SAO) Activity 3 Donor: 227 501 € + 7600 € national (SAO)
<b>Responsible entity:</b>	State Audit Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Strong commitment by the highest ranked SAO management</li> <li>• Good cooperation and commitment of auditors for participating in the activities</li> </ul>

## P7M2: Improved scrutiny over the budget by the Parliament

### Measure objective

Improved institutional and/or legal mechanism for anticipation of audit reports by the Parliament

### Reference to the external assessments findings:

PEFA:	"National Assembly reviews the SAO consolidated annual report every year, and sends its resulting Resolution to the Government. But little attention is paid to any of the other reports, and no detailed hearings have been held in recent years with representatives of budget institutions subject to audit criticism."
SIGMA:	<p>"SAO publishes audit reports that meet international standards and impact, to some extent, the functioning of the public sector. Nevertheless, the SAO audits have limited impact as many of its recommendations are not implemented and the Assembly does not use the audit reports to their full extent in order to hold the Government to account."</p> <p>"SAO should continue its efforts to co-operate with the Assembly in order to increase the impact of its audit work, especially with regard to raising the interest and understanding of members of Parliament concerning performance audit results."</p>
EU:	"As concerns the impact of audit work, the SAO's recommendations are not often efficiently implemented by the auditees. The follow-up of SAO's recommendations needs close parliamentary supervision as parliament still does not debate audit reports. Improved parliamentary follow-up of the SAO's recommendations would enhance scrutiny of the executive and ensure that public funds are used more transparently and with greater accountability."

### Activity 1: Analysis of existing legal and institutional framework in regard to mutual cooperation between SAO and Parliament benchmarked to SAO-Parliament cooperation best practices in EU

Analysis of existing legal and institutional framework with regard to mutual cooperation between SAO and Parliament shall thoroughly focus its scope on assessment of the ongoing relation between SAO and the Parliament benchmarked to best EU practices, delivering recommendations on the best case scenarios for improving such relationship.

### Activity 2: Training needs assessment (TNA) carried out and Training plan elaborated for members of Parliament

Strengthening human capacities of the Parliament is vital, having in mind that permanent staff is responsible for putting together agenda related to draft legislative acts, resolutions, information, or other proposal documents for the Parliamentary commissions and committee's meetings,

gathering necessary documentation and reporting to the outcome of the debates and plays vital role in the legislation process and other parliament procedures. Among these is the management of the process of reviewing the annual report and audit reports of the SAO. In order to ensure the effective and rapid deliberation of legislation, parliamentary staff, especially the staff responsible for the processing of budget and financial related acts, proposals and documents, should be provided with adequate training and access to information relevant for external audit to be able to properly manage and coordinate the preparation process and the debates by the parliamentary representatives. Therefore, training needs assessment (TNA) would be carried out and Training plan would be elaborated for members of Parliament, that would result in several trainings of parliament administration and MPs in assessing the audit reports (findings and recommendations) and facilitating the parliamentary discussions. This activity includes following sub-activities:

- Training needs assessment (TNA) parliament administration and MPs in assessing the audit reports (findings and recommendations) carried out
- Training plan elaborated for members of Parliament

### Implementation

<b>Completed in year:</b>	2019
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Report with recommendations for improved transparency of the legislative scrutiny function of the Parliament prepared</li> <li>• Report on training needs assessment for parliament administration and MP's prepared</li> <li>• Training plan for members of Parliament elaborated</li> </ul>
<b>Cost implications:</b>	<p>No immediate besides the time involved. Cost of TA borne by EU (Twinning project)</p> <p>Total 50 301 €</p> <p>Donor: 49.301 € National: 1000€</p> <p>Activity 1</p> <p>Donor :36830 €+ 500€ National (SAO)</p> <p>Activity 2</p> <p>12471€ National (SAO) + 500€ National (SAO)</p>
<b>Responsible entity:</b>	State Audit Office
<b>Risk:</b>	<ul style="list-style-type: none"> <li>• Strong commitment by the highest ranked SAO and Parliament management</li> <li>• Good cooperation and commitment of parliament administration and MP's for participating in the activities</li> </ul>

## Chapter III: Roles and Responsibilities for Implementing, Monitoring and Updating the Strategy

The technical responsibility for the oversight of implementation of the reform rests with the Ministry of Finance, except for external scrutiny by the State Audit Office and oversight by the Parliament (those are independent institutions, although their reform endeavour is reflected in this document, thanks to coordination).

However PFM and a strategy for its reform span well beyond the Ministry of Finance and involve the entire government sector, including line ministries, public enterprises and local governments. The overall responsibility for the successful implementation of the strategy is shared among all these public sector stakeholders, and thus requires a high-level oversight and guidance.

The PFM reform management and coordination framework will consist of the following structures:

Economic Council of the Government of the Republic of Macedonia

This is a high-level council comprised of the economic ministers of the Government chaired by the Prime Minister or in its absence by the Deputy Prime Minister for Economic Issues/Minister of Finance, which may invite also other state stakeholders for specific economic issues. For the purpose of PFM Reform Program implementation, it will meet at least twice per year to direct and monitor PFM reform activities. Its main responsibilities will include:

- Provide overall guidance to measures' manager in delivering their reform objectives;
- Monitor the implementation of the action plan against targets and outcome indicators;
- Resolve any coordination issues arising between stakeholders;
- Review progress reports from the PFM Working Group;
- Dialogue with Donors on the reform progress, support and scope.

### PFM Working Group

A PFM working group composed of members from all relevant MoF departments and institutions involved in PFM issues (including SAO and Parliament was necessary) was established for the preparation of PFM Reform Program and other related **PFM budget support planning documents**. This working group was established with the Decision of the Minister of Finance No. 04-7053/1, dated 10th June 2015.

The same working Group will be maintained for implementation. Its function will cover:

- I. Management of the relationships and sequencing between the measures
- II. Managing the rollout of the reform effort to the line ministries
- III. Monitoring the implementation of the activities under the different measures
- IV. Convening regularly (monthly or quarterly) measures's managers meeting to assess progresses and review obstacles,
- V. Coordinating donors' support to the reform, especially those in the form of specific projects and technical assistance
- VI. Taking stock of progresses and reporting to the donors and the public,
- VII. Addressing difficulties, risks and delays.
- VIII. Provide technical support to the Economic Council of the Government and ensure decisions of the Council are implemented

## Role of the Measures

Each of the measures of the PFM Reform Programme is assigned to a lead/responsible entity to manage the delivery of the measure's activity plans outlined in the Logframes.

Each measure is assigned a Measure Manager whose role shall be to serve as the focal point to the PFM Reform Working Group. This manager has already coordinated the design of the reform effort for the component and the production of a logframe in close coordination with all key senior management. During the implementation process they shall take day-to-day responsibility for managing implementation activities within their components and coordinating the roll out of reformed activities within their institution or to all of the spending units.

## Measure Leaders

For coordination and monitoring of the implementation of the reforms within each priority area, measure leaders will be appointed by the Minister of Finance from the members of the PFM working group.

The measure leaders will compile work-plans detailing deliverables and deadlines and prepare summary reports on reform execution. They will be accountable to the Chairman of the PFM Working Group.

## Consulting Group

The roll out of the reform effort involves many budget entities and budget users. This requires working with them to ensure they are able to integrate new procedures and processes in their every day operations. This is the rollout of the reform that will take time and will require managing the change. In order to have a regular and dedicated framework, the PFM Reform Working Group will consult with a wider Consulting Group at least twice a year to manage the pace of the reform and decide on the necessary capacity development activities.

## External partners

Future external technical reviews, such as those underlying the Article IV consultations with the IMF, Public Finance Reviews and other relevant reviews by the World Bank, the monitoring reports by SIGMA, and possible future PEFA reviews will provide input to the dialogue in the PFM WG.

An important input into the PFM reform strategy and the action plan 2018-2021 will be the public consultations to be conducted during the summer/autumn of 2017.

## Chapter IV: Financing of the PFM Reform Programme

The PFM Reform Programme will be funded through two main sources: the state budget and the donors' funded capacity development projects or technical assistance. Each component has developed its costs analysis for activities and outputs. They include existing donors' support contributed to the PFM Reform effort. This mainly concerns the European Union donations under the Instrument for Pre-Accession. In addition, the EU may grant resources under budget support to Macedonia, indirectly contributing to this effort.

The table below provides a synopsis of the known estimated costs for the programme at the time of preparation of this document. As it is mainly funded through the national budget, the recurrent costs implications are directly factored into the planning, and thanks to the reform they will be reflected into the multiannual programmes budgets.

Priority & Entity	Total	National	Donors
<b>Priority 1: Improved Fiscal Framework</b>	715.600	708.600	7.000.
Budget and Funds Department	660.000	660.000	
Tax and Customs Policy Department	42.000	42.000	
Macroeconomic Policy Department	13.600	6.600	7.000
State Statistical Office	2.050.000 <sup>11</sup>		
<b>Priority 2: Revenue Mobilization</b>	15.902.440	2.482.440	13.420.000
Tax and Customs Policy Department	1.500.000		1.500.000
Public Revenue Office	8.402.440	2.402.440	6.000.000
Customs Administration of the RM	6.000.000	80.000	5.920.000
<b>Priority 3: Planning and Budgeting</b>	1.300.000		1.300.000
Budget and Funds Department <sup>12</sup>	1.300.000		1.300.000
State Statistical Office	Please refer to footnote no.11		
<b>Priority 4: Budget Execution</b>	16.609.000	1.269.000	15.340.000
Treasury	12.970.000		12.970.000

<sup>11</sup> The estimated costs for SSO are included only for informative purposes and should be not included in the estimated cost for this PFM programme. All the measures and activities are included in the Sector Planning document and Action Document for Public Administration Reform and Statistics because the projects are financed from the budget of that sector and will be implemented in the Sector PAR and Statistics.

<sup>12</sup> Cost for measure 4 under Priority 3 – Ensure adequate IT system support for budget preparation process will be presented in the Priority 4, as a total cost of new FMIS

Debt Department	166.000	96.000	70.000 <sup>13</sup>
Public Procurement Bureau	3.300.000	1.000.000	2.300.000
Ministry of Economy – (1)	50.000	50.000	
Ministry of finance –(2)	123.000	123.000	
	total (1+2) 173.000	total (1+2) 173.000	
State Statistical Office	(Please refer to footnote no.11)		
<b>Priority 5 Transparent Government Reporting</b>	20.000	20.000	
Budget and Funds Department	20.000	20.000	
<b>Priority 6: Internal Control</b>	6.600.000	3.300.000	3.300.000
Central Harmonization Unit	6.600.000	3.300.000	3.300.000
<b>Priority 7: External Control and Parliamentary Oversight</b>	597.376	13.900	583.476
State Audit Office	597.376	13.900	583.476
<b>TOTAL</b>	<b>41.744.416</b>	<b>7.793.940</b>	<b>33.950.476</b>

<sup>13</sup> Funds for IT software for debt management presented as a total cost for implementation of new financial management information system (IFMIS)





## Appendix 2 – Logframe table

<b>PRIORITY 1 (P1): IMPROVED FISCAL FRAMEWORK</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
I) Fiscal Council established	Establishment of Fiscal Council	Legislation		Fiscal council established			
II) Improved planning of tax revenues	Variance between tax revenue outturn and original budgeted	Annual budget	tbd	less than 9%	less than 9%	less than 9%	less than 7%
III) GDP on quarterly level produced by expenditure and production approach	% of indicators and improved quality of statistical data produced	Project reports quarterly/final (SSO), SSO website, Eurostat	75% available indicators, 10 days time lag, missing data series 1995 - 1999	80%	85%	90% available indicators, no time lag, data series 1995-1999 available	95% available indicators (2022)
<b>MEASURE 1 (P1M1): FORMULATION, ADOPTION AND IMPLEMENTATION OF FISCAL RULES</b>							
	<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
	<b>Activity 1 (P1M1A1): Designing of fiscal rule and adoption of the fiscal rule legislation</b>	a) Draft Fiscal rules design		Fiscal rules designed			
		b) Adoption of the fiscal rule legislation			Fiscal rules legislation adopted		
<b>MEASURE 2 (P1M2): STRENGTHENING OF FORECASTING</b>							
	<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
	<b>Activity 1 (P1M2A1): Reorganization of organisation structure and responsibilities in charge of revenues projections</b>	a) Adoption of new systematization with clear role of responsibilities for tax and non-tax revenue projections		Systematization adopted			
	<b>Activity 2 (P1M2A2): Strengthening the capacities for tax revenue planning</b>	a) Employment of sufficient staff for tax revenue projections			Staff employed (number of staff to be determined)		
		b) Acquiring licenses for adequate econometric software			Software acquired		
		c) Improved analytical tool for tax revenue projections				Analytical tool improved	

<b>Activity 3 (P1M2A3): Creating procedures and operational framework for modelling related to tax revenue projections</b>	a) Preparation of guidelines for short-term projection for direct and indirect taxation				Guidelines prepared	
	b) Preparation of guidelines for medium-term projection for direct and indirect taxation				Guidelines prepared	
	c) Adoption of procedures for data exchange between departments in the Ministry of Finance and data provider institutions				Procedure adopted.	
<b>Activity 4 (P1M2A4): Further development of the macroeconomic model</b>	a) Revision of methodology of the model's supply side		Methodology revised.			
	b) Inclusion of new quarterly national accounts time series in the model			New quarterly national accounts time series included in the model		

**MEASURE 3 (P1M3): INCREASED DATA AVAILABILITY FOR BETTER FORECASTING OF GDP**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P1M3A1): To continue harmonisation of the statistical methodologies in the area of business and social statistics (monthly and quarterly), providing timely and accurate data for compiling quarterly national accounts</b>	a) % of statistics aligned with EU acquis (social, business and national accounts)	55	65	75	85	
<b>Activity 2 (P1M3A2): Exploring the usage of administrative and other data sources in the field of business and social statistics</b>	a) % of usage of administrative data sources statistical data compilation	40	45	50	60	70
<b>Activity 3 (P1M3A3): Delineation of Gross Capital Formation</b>	a) % of delineation of GCF	60	70	85	95	100

<b>Activity 4 (P1M3A4): Strengthening the human capacities that will bear the burden of the activities planned</b>	a) Number of persons employed in the relevant area	0	2			
<b>Activity 5 (P1M3A5): ESA 2010 Transmission</b>	a) % of data transmitted to Eurostat in accordance to ESA 2010 Transmission Programme	75% available indicators, 10 days time lag, missing data series 1995 – 1999	80	85	90% available indicators, no time lag, data series 1995-1999 available	95% available indicators (2022)

<b>PRIORITY 2 (P2): REVENUE MOBILIZATION</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
IV) Predictable collection of taxes and social contributions	Actual annual collection of taxes and social contributions / Approved budget estimate for summary of taxes and contributions	PRO	% of Collection/ Plan in the previous years (2015, 2014, 2013, 2012) (FY15)	+/-3%	+/-3%	+/-3%	+/-3%
V) Predictable collection of the revenue within the competences of the Customs Administration	Actual annual collection of taxes (within the competence of the Customs Administration) of the approved budget	Customs Reports (quarterly)	% of Collection/ Plan in the previous years (2015, 2014, 2013, 2012) (FY15)	+/-5%	+/-5%	+/-5%	+/-5%
<b>MEASURE 1 (P2M1): IMPROVED REVENUE LEGISLATION FRAMEWORK, HARMONIZED WITH THE EU ACQUIS</b>							
<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>	
<b>Activity 1 (P2M1A1): Harmonisation of tax and customs legislation in line with relevant EU acquis and best practices</b>	a) Analysis of current national legislative framework on taxations and its alignment with the EU acquis				- Analyses on VAT done. - Analyses on excises duties done. - Analyses on profit tax done. - Analyses on personal income tax done. - Analyses on current national legislative framework on Law on tax procedure and its alignment with EU acquis especially in the area of administrative cooperation and mutual assistance done.		

	b) Report with recommendations for improvement of the current national legislative framework for taxations			Report with recommendations based on analyses above prepared.	Report with recommendations based on analyses above prepared.	
	c) Drafted amendments ( or new laws) of tax and customs legislation				To be determined	To be determined
	d) Number of workshops for implementation of the amended legislation organized for the MoF and the PRO				To be determined	To be determined
	e) Number of adopted legislations				To be determined	To be determined
<b>Activity 2 (P2M1A2): Amendments in order to support effective tax collection, prevention of tax evasion and fight against tax avoidance</b>	a) Analysis of current national tax procedural legislative framework and its alignment with the EU acquis			Analyses done.		
	b) Report with recommendation for improvement of the current national legislative framework for taxations in the area of effective tax collection, prevention of tax evasion and fight against tax avoidance			Report with recommendations based on analyses above prepared	Report with recommendations based on analyses above prepared	
	c) Drafted amendments to the Law on Tax Procedure or other law if needed				To be determined	To be determined
	d) Number of workshops for implementation of the amended legislation organized for the MoF and the PRO				To be determined	To be determined
	e) Number of adopted legislations				To be determined	To be determined

**MEASURE 2 (P3M2): IMPROVED TAX AND CUSTOMS SERVICES AND PROCEDURES**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P2M2A1): Implementation of the project activities foreseen in the PROs Modernisation Programme (including reengineering of business processes, new Tax Integrated IT system)</b>	a) E-submission of the "Calculation for all personal income payments (except the payments of salary)"		"To-Be" business process and new software, developed, tested and introduced			
	b) Issuing pre-populated Annual Tax Return by PRO			"To-Be" business process and new software, developed, tested and introduced		
	c) Improved Contact Centre and Tax Counters Services (new CC web page, Appointment System, Informa - Knowledge Base, Queuing System, integrated CC IT System, Mobile Tax Counters etc.)		Operational procedures and rules for new services developed	Improved Contact Centre and Tax Counters Services available for taxpayers		
	d) Re-engineered business processes for the new tax integrated IT system	Terms of reference for Technical assistance, prepared		PRO processes identified and analyzed, BPM1 and BPM2 delivered, Detailed functional specification (System Specification Phase) with workflow diagrams delivered		
	e) New tax integrated IT system HARDWARE		Technical Specification prepared		Contract signed Integrated IT system HARDWARE requirements, delivered	Transition phase ongoing

	f) New tax integrated IT system SOFTWARE		Technical Specification prepared	Contract signed	Integrated IT system SOFTWARE requirements, implementation	Integrated IT system SOFTWARE requirements, implementation Transition phase ongoing
	g) Quality Assurance technical support for implementation of the new integrated IT system, provided for PRO		Technical Specification prepared	Contract signed	Technical support, ongoing	Technical support, ongoing
	h) Risk Evaluation System – RES for tax audit		Risk Evaluation System – RES Software developed and implemented	Risk tax audit assessment according to RES available		
<b>Activity 2 (P2M2A2): Strengthening operational capacities of CARM to increase the quality of controls and responses and introducing further simplification of procedures</b>	a) Number of decisions to use simplified procedures increased	228			5 % increase	10% increase
	b) Number of post-clearance controls and audits performed		3%	3%	3%	
<b>Activity 3 (P2M2A3): Introducing enhanced models and methods to strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade</b>	a) Financial investigations carried out in case of illegal goods trafficking detection	baseline + 50% increase				baseline + 100% increase
	b) Detection of illegal trafficking of goods	baseline + 30% increase				baseline + 60% increase
<b>Activity 4 (P2M2A4): Provision of equipment and tools to implement enhanced models of control, facilitate trade and increase quality of services</b>	a) Preparation of technical specification		Technical specification prepared			
	b) Procuring equipment				Equipment procured and operational	

**MEASURE 3 (P3M3): ENSURING STABILITY OF THE PFM SYSTEMS IN CASE OF CRISIS**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P2M3A1): Ensuring spatial facilities for Disaster Recovery Centre and establishment of Disaster Recovery Centre for PFM System</b>	a) Quality Assurance technical support for establishing PROs Disaster Recovery Centre			Technical Specification prepared	Contract signed	Project activities ongoing
	b) Disaster Recovery Centre HARDWARE			Technical Specification prepared	Contract signed	DRC HARDWARE delivered
	c) PFM Disaster Recovery Centre SOFTWARE			Technical Specification prepared	Contract signed	DRC SOFTWARE delivered
	d) Procedures (operational and maintenance)					Draft procedures (operational and maintenance) prepared
	e) PROs Disaster Recovery Plan and staff trained					Draft Disaster Recovery Plan prepared

<b>PRIORITY 3 (P3): PLANNING AND BUDGETING</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
VI) Medium term fiscal consolidation	Budget deficit reduction as % from previous year	Documentation and evidence provided by MoF, Medium term fiscal strategy			10% reduction	10% reduction	10% reduction
VII) Increased predictability of public spending	Variance in expenditure composition (PEFA PI-2, (i))	Budget documentation and MoF calculations	4,9% (FY14)	less than 9,0%	less than 8,0%	less than 7,0%	less than 6,0%
VIII) Allocation of resources is programme based & programme indicators included	Share of first level budget organisations that provide comprehensive performance information and programme indicators with their annual budget requests	Annual budget	0%	0%	30%	50% more than in 2019	50% more than in 2020
IX) MTBF is a reliable guide to future budget allocation for each budget user	% deviation between annual budget of year N+1 with MTBF projections year N	Medium term fiscal strategy + annual budget	tbd	up to 10%	up to 10%	up to 9%	up to 7%
	% deviation between annual budget of year N+2 with MTBF projections year N	Medium term fiscal strategy + annual budget	tbd	up to 15%	up to 15%	up to 12%	up to 10%
X) Capacities built for preparation of EDP notification tables	EDP notification tables prepared in accordance to ESA 2010	Project reports quarterly/final (SSO)	0%	25%	50%	70%	95% (2022)
<b>MEASURE 1 (P3M1): UPGRADED PROGRAMME BASED BUDGET APPROACH AND IMPROVED PROJECT INFORMATION</b>							
<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>	
<b>Activity 1 (P3M1A1): Implementation of the proposed program based budgeting approach</b>	a) Improvement of methodology and guidelines for new programme budgeting		Methodology and guidelines for new programme budgeting improved				
	b) Trainings for programme budgeting conducted		Trainings conducted				
	c) % of budget users applying new classification		0%	30%	50% more than in 2019	50% more than in 2020	
<b>Activity 2 (P3M1A2): Conduct Public Investment Management Assessment (in collaboration with IMF)</b>	a) Report from the conducted assessment (2018 or 2019)		Report prepared				

Activity 3 (P3M1A3): Improvement of the information on the projects included in the budget	a) Transparent information on the projects included in the budget	0	0	0	50	100
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**MEASURE 2 (P3M2): IMPROVING THE MEDIUM-TERM BUDGET PLANNING**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
Activity 1 (P3M2A1): Introduction of comprehensive Medium-term Budget Framework (MTBF) and linking ERP preparation to it	a) Comprehensive Medium-term Budget Framework (MTBF) in place					
Activity 2 (P3M2A2): Improvement of budget forecasting tools (introduction of the baseline scenario, new initiatives)	a) New tools for baseline estimates and costing of new policies in place					
Activity 3 (P3M2A3): Upgraded capacities of the employees in MoF and budget users on the new tools and planning process introduced	a) Capacity building of the employees in MoF and budget users / trainings					

**MEASURE 3 (P3M3): REVISED ORGANIC BUDGET LAW IN LINE WITH THE IMPROVEMENTS OF THE PFM SYSTEM**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
Activity 1 (P3M3A1): Preparation and adoption of new/revised organic budget law	a) New organic budget law		New organic budget law adopted			

**MEASURE 4 (P3M4): ENSURE ADEQUATE IT SYSTEM SUPPORT FOR BUDGET PREPARATION PROCESS**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
Activity 1 (P3M4A1): Improvement of IT system/software support for	a) Rulebook according to new business procedures		Rulebook according to new business procedures introduced			

budget preparation process	b) Capacity building/ trainings for software use in place			Trainings conducted	Trainings conducted	
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**MEASURE 5 (P3M5): DEVELOPED CAPACITIES FOR COMPILATION OF EDP NOTIFICATION TABLES**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P3M5A1): Strengthening the human capacities that will bear the burden of the activities planned</b>	a) Number of persons employed in the relevant area	1	2		3	
<b>Activity 2 (P3M5A2): Development of a methodological knowledge for preparation of EDP notification tables</b>	a) % of compiled EDP notification tables	0	25	50	70	95 (in 2022)
<b>Activity 3 (P3M5A3): Preparation of ESA 2010 based EDP Inventory</b>	a) % of completeness of EDP Inventory, compliant to ESA 2010	0	25	30	100	

<b>PRIORITY 4 (P4): BUDGET EXECUTION</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
XI) Improved efficiency of budget execution	Introduction of new modules	Treasury			4		
	% of budget users electronically connected to new IT system	Treasury			30	70	100
XII) Strengthened financial discipline, control and transparency through improved internal Audit, FMCs and EU Acquis aligned procurement system	Extent of alignment of the PPL to EU Acquis and Directives	PPO and SIGMA Report	Legislation is in place but not fully aligned with the new EU Acquis	Legislation and regulations are fully aligned with the EU acquis			
	Percentage of first line budget users audited by SAO with irregularities detected on non compliance with the PP regulations	Reports of SAO	45 irregularities Report of SAO 2016	Reports of SAO	Reports of SAO	Reports of SAO	Reports of SAO
	Ratio of solved out of received appeals	Annual reports on the activities of the State Appeals Commission	97% cases were solved by SAC (623 out of 606 cases)	Minimum 90 % cases solved	Minimum 90 % cases solved	Minimum 90 % cases solved	Minimum 90 % cases solved
XIII) Developed effective procurement system in line with EU law	Extent of use of modern procurement techniques and methods	SIGMA Report for 2015	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report
	Percentage of complaints rejected by SAC	Reports of SAC	36,47 % or 221 complaints were rejected;	Depends	Depends	Depends	Depends
	% of procedures conducted fully electronically	Report from the PPB - Data from ESPP	48,27%. of all procedures conducted electronically	100% of all procedures conducted electronically	100% of all procedures conducted electronically	100% of all procedures conducted electronically	100% of all procedures conducted electronically
XIV) EU compliant macroeconomic indicators that serve the needs of the Policy makers	% of available EU compliant macroeconomic indicators	SSO website, Eurostat data base	25% (FY15)	30%	40%	45%	50%
XV) General Government Accounts on quarterly level established	% of indicators produced	Project reports quarterly/final (SSO)	0% (FY15)	0%	5%	10%	30%
XVI) Statistical business process standardization based on re-engineered IT system for statistical production	% of statistical processes covered by re-engineered IT system for statistical production	Project reports quarterly/final (SSO)	10% (FY15)	15%	15%	50%	70%

**MEASURE 1 (P4M1): IMPLEMENTATION OF NEW FINANCIAL MANAGEMENT INFORMATION SYSTEM (FMIS)**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P4M1A1): Introduction of IBAN accounts</b>	a) Establishment of working groups		Working groups introduced			
	b) Preparation and adoption of new rulebook with forms and procedures		New rulebook (for using IBAN accounts) adopted			
	c) % of transactions processed via new IBAN accounts	0	30	100	100	100
<b>Activity 2 (P4M1A2): Registering commitments, invoices and financial plans electronically</b>	a) Preparation and adoption of new rulebook with forms and procedures			New rulebook (for registering commitments, invoices and financial plans) adopted		
	b) % of BB using modified e-commitments module	0	0	30	70	100
	c) % of BB recording invoices in the new module	0	0	30	70	100
	d) % of BB submitting financial plans electronically	0	0	30	70	100
	e) % of payment requests submitted electronically by budget users	0	0	30	70	100
<b>Activity 3 (P4M1A3): Introducing Accounts Receivables module and Liquidity planning module</b>	a) % of short term projections using data from receivables module as an input	0	0	0	50	100
	b) New procedures set in place			New procedures for defining and registering receivables adopted.		
<b>Activity 4 (P4M1A4): Handling forced collection payments</b>	a) Update and adoption of new rulebook			Rulebook (for forced collection payments) updated		
	b) % staff trained in handling forced collection	0	0	50	100	100

	c) % of payments transacted automatically via new module for forced collection	0	0	0	30%	100
<b>Activity 5 (P4M1A5): Introduction of General Ledger</b>	a) Preparation and adoption of new rulebook			New rulebook adopted		
	b) % of staff trained	0	0	50	100	100
	c) % of budget beneficiaries which will fall under the new GL module	0	0	0	30	100
<b>Activity 6 (P4M1A6): Introduction of user friendly creation of reports</b>	a) % of employees using the new reporting tools	0	0	0	50	100
	b) % of staff trained	0	0	50	100	100
<b>Activity 7 (P4M1A7): Introduction of Fixed Assets module</b>	a) % of Budget beneficiaries which registered their fixed assets	0	0	30	60	100

**MEASURE 2 (P4M2): STRENGTHENING COMMITMENT CONTROLS**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P4M2A1): Preparation of the report on the timeliness of entering the commitment data</b>	a) (%) Number budget beneficiaries which corrected their actions/ Number of BB that have failed to report	0	50	90	90	90

**MEASURE 3 (P4M3): STRENGTHENING DEBT MANAGEMENT**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P4M3A1): Revision of the debt legislation</b>	a) Preparation and adoption of amendments of Public debt law		Amended Public Debt Law adopted			
<b>Activity 2 (P4M3A2): Preparation of the Debt Management Strategy as separate document</b>	a) Preparation of debt management strategy			Debt Management Strategy adopted	Debt Management Strategy adopted	Debt Management Strategy adopted
<b>Activity 3 (P4M3A3): Supplementing current risk indicators for refinancing and interest rate risk</b>	a) Introduction of new indicators for risk measurement			New indicators introduced		
<b>Activity 4 (P4M3A4): Strengthening human capacities</b>	a) Number of new employees working in debt management issues		2	2	1	

<b>Activity 5 (P4M3A5): Improving MTDS framework and coordination with Debt Sustainability Analysis</b>	a) Improvement of Debt management strategy with DSA and MTDS tools					Debt management strategy improved with DSA and MTDS tools
<b>Activity 6 (P4M3A6): Improving software support for debt management process</b>	a) module for e-Debt			module for e-Debt implemented		
<b>Activity 7 (P4M3A7): Strengthening the Management of Foreign Assistance</b>	a) module for FAMA			module for FAMA implemented		

**MEASURE 4 (P4M4): STRENGTHENING PUBLIC PROCUREMENT SYSTEM**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P4M4A1): Streamlining (revision) of the mandate and responsibilities of the institutions involved in the public procurement system</b>	1) Modified competencies of relevant institutions in public procurement in accordance with the analysis	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report
<b>Activity 2 (P4M4A2): Harmonisation of the Public Procurement legal framework with the acquis</b>	a) Level of alignment with acquis	SIGMA and EU report	SIGMA and EU report	SIGMA and EU report	SIGMA and EU report	SIGMA and EU report
	b) Share of contract awarded by price acquisition available	Report from the PPB - Data from ESPP	Report from the PPB - Data from ESPP	Report from the PPB - Data from ESPP	Report from the PPB - Data from ESPP	Report from the PPB - Data from ESPP
<b>Activity 3 (P4M4A3): Institutional strengthening of the public procurement system, including the review set-up</b>	a) Nature and extent of clear user friendly guidelines and instructions standard documents and other tools available to CA and Procurement officials	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report
	b) Number of trained procurement officers per year	338 procurement officers trained for first time	Minimum 300 procurement officers trained for first time	Minimum 300 procurement officers trained for first time	Minimum 300 procurement officers trained for first time	Minimum 300 procurement officers trained for first time

	c) Share of complaints in procurement that are challenged to the next judicial level	10,73% (65 out of 606) complaints were challenged to the next judicial level** **Annual report on the activities of the SAC	Annual report on SAC	Annual report on SAC	Annual report on SAC	Annual report on SAC
<b>Activity 4 (P4M4A4): Introduction of an E-Appeal system</b>	a) Percentage of E -appeals for procurements conducted with use of electronic means out of published contract notices	0%				
<b>Activity 5 (P4M4A5): Development of Integrity-related reports with procurement performance indicators and governance (anti-corruption) red flags</b>	a) Number of Integrity-related reports with procurement performance indicators	0** **Report of the SCPC	Report of the SCPC	Report of the SCPC	Report of the SCPC	Report of the SCPC
<b>Activity 6 (P4M4A6): Introducing the obligation to publish the annual public procurement plans</b>	a) Percentage of published procurement plans of the CA	Reports of institution in charge	Reports of institution in charge	Reports of institution in charge	Reports of institution in charge	Reports of institution in charge
	b) Comprehensiveness of systems for monitoring and reporting in connection with published annual procurement plans by CA)	0** **SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report
	c) Number of educated public procurement officers for requirements introduced with new legislation	0** **Report of PPB	Report of PPB	Report of PPB	Report of PPB	Report of PPB
<b>Activity 7 (P4M4A7): Publishing of the concluded public contracts and their amendments</b>	a) Percentage of published concluded contracts	0** **PPB Report	PPB Report	PPB Report	PPB Report	PPB Report
	b) Percentage of published amendments on public contracts	0** **PPB Report	PPB Report	PPB Report	PPB Report	PPB Report
	c) Comprehensiveness of systems for monitoring and reporting on published public procurement contracts	0** **SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report	SIGMA Report

<b>MEASURE 5 (P4M5): EFFECTIVE PPP AND CONCESSIONS SYSTEM</b>							
	<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
	<b>Activity 1 (P4M5A1): Establish/upgrade/unify and publish register of PPPs</b>	a) Comprehensive, timely and reliable data on concluded agreements for the establishment of a public-private partnership			Established Single Electronic Public Private Partnership System		
	<b>Activity 2 (P4M5A2): Establish/upgrade/unify and publish register of concessions</b>						
	<b>Activity 3 (P4M5A3): Harmonisation of legislation in line with relevant EU acquis</b>	a) Level of compliance with EU legislation		Adopted amendment to the Law on Concessions and Public Private Partnership			
<b>MEASURE 6 (P4M6): GENERAL GOVERNMENT ACCOUNTS ESTABLISHED IN ACCORDANCE TO ESA 2010 AND MADE AVAILABLE FOR POLICY MAKERS</b>							
	<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
	<b>Activity 1 (P4M6A1): Strengthening the human capacities that will bear the burden of the activities planned</b>	a) Number of persons employed in the relevant area	1	2	3		
	<b>Activity 2 (P4M6A2): Assessment of the availability and quality of data necessary for production of Government Finance Statistics on quarterly level</b>	a) % of available data for production of quarterly GFS	0	30	60	90	95
	<b>Activity 3 (P4M6A3): Development of a capacity for implementing of methodology for calculation of General Government Accounts</b>	a) Number of staff trained	1 person trained	2 persons trained	3 persons trained		

<b>Activity 4 (P4M6A4): Comprehensive, timely, and reliable reporting of quarterly general government accounts</b>	a) % of quarterly general government accounts compiled	0	30	60	90	95
<b>Activity 5 (P4M5A5): Calculation of quarterly General Government Accounts</b>	a) % of quarterly general government accounts compiled	0	30	60	90	95
<b>Activity 6 (P4M6A6): To make quarterly General Government Accounts available for users</b>	a) Preparedness of transmission tables					Transmission tables prepared and published in an appropriate format

**MEASURE 7 (P4M7): STRENGTHENING STATISTICAL SERVICES**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P4M7A1): Development of the textual content of statistical releases and other publications in ways that would facilitate and foster their use by a broader range of users</b>	a) Number of new Software implemented in accordance with the recommendation from the expert			5	7	8
	b) Number of new hardware implemented in accordance with the recommendation from the expert			6	8	0
	c) Number of new products and tools implemented according to the expert advise			5	7	8
	d) Number of staff trained on newly implemented tools			5	7	8
<b>Activity 2 (P4M7A2): Development of interactive data visualisation tools and applications in order to promote a quick and easy-understandable overview of the presented statistics</b>	a) Number of new Software implemented in accordance with the recommendation from the expert			5	8	10
	b) Number of new hardware implemented in accordance with the recommendation from the expert			6	8	10

	c) Number of new products and tools implemented according to the expert advise			5	8	10
	d) Number of staff trained on newly implemented tools			6	8	10
<b>Activity 3 (P4M7A3): Strengthened capacity on using standard IT tools for data processing of survey data</b>	a) Number of new data processing IT tools adopted and implemented	7	9	12	15	25
<b>Activity 4 (P4M7A4): Technical assistance for defining the business requirements of different parts of the re-engineered IT system for statistical production</b>	a) Business requirements of different parts of the re-engineered IT system for statistical production prepared for tendering			Document with description available for tendering		
<b>Activity 5 (P4M7A5): Outsourced software development of IT system, maintenance and support</b>	a) % of developed and tested modules of the system				30	100
<b>Activity 6 (P4M7A6): Acts on organisation and systematisation that will support the re-engineered production environment</b>	a) New organizational structure for adequate support of new production environment created		Adopted organization scheme and post descriptions			
<b>Activity 7 (P4M7A7): Upgrading of the IT infrastructure (hardware and software) and putting the new IT system into production, maintenance and support</b>	a) Drafted detailed specification for the equipment			Specification prepared		
	b) Tendering procedure completed				Equipment installed at SSO	
<b>Activity 8 (P4M7A8): Strengthening of the human capacities (number of staff and skills) that will bear the burden of the activities planned</b>	a) Number of IT persons employed			2	4	4
	b) Number of IT methodologists employed			2	3	3

<b>PRIORITY 5 (P5): TRANSPARENT GOVERNMENT REPORTING</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
XVII) Improved fiscal transparency	Higher rank in the Open Budget Index	Open Budget Survey	35 out of 100 (FY15)		40 out of 100		45 out of 100
	Citizen budget published	publication, web site	Citizen's Budget not published	Citizen's Budget published	Citizen's Budget published	Citizen's Budget published	Citizen's Budget published
<b>MEASURE 1 (P5M1): IMPROVED TRANSPARENCY THROUGH GOVERNMENT REPORTING</b>							
<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>	<b>Target FY21</b>
<b>Activity 1 (P5M1A1): Development and implementation of transparency standards for PFM reporting</b>	a) New fiscal information published	main fiscal data are available in overall budget documentation	Quarterly budget execution reports per budget user Quarterly and semi-annual budget execution reports of the local self-government units Quarterly reports on budget execution of the general government (consolidated report of the Budget of the Republic of Macedonia and of the budgets of the local self-government units)	Report on monthly projections for revenues and expenditures for the current year, at the beginning of the year	Quarterly report on the total guaranteed debt including data on the guaranteed debt structure per debtor and guaranteed debt structure per creditor		
<b>Activity 2 (P5M1A2): Publishing of Citizen's Budget</b>	a) <b>Publishing of Citizen's Budget</b>	Citizen's Budget not published	Citizen's Budget published	Citizen's Budget published	Citizen's Budget published	Citizen's Budget published	Citizen's Budget published

<b>PRIORITY 6 (P6): INTERNAL CONTROL</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
XVIII) Improved compliance with accountability rules and regulations (in support of fiscal discipline and transparency)	% of implemented internal audit recommendations	PIFC Department	52 (FY15)	58	62	65	70
XIX) Improved Financial Management and Controls as defined in PIFC (Chapter 32)	% of risk based internal audit coverage of CG+LG	PIFC Department	57 (FY15)	67	69	73	77
XX) Increased transparency for citizens	Positive Internal audit opinion on performance information submitted by institutions of CG and LG on their programmes (% coverage)	PIFC Department	0	10	15	20	30
XXI) Improved Internal Audit Effectiveness	% of programmes audited annually	PIFC Department	0	20	25	30	40
<b>MEASURE 1 (P6M1): IMPROVED PIFC (FMC AND IA) LEGISLATION AND METHODOLOGICAL FRAMEWORK</b>							
<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>	
<b>Activity 1 (P6M1A1): Amendment of PIFC legislation</b>	a) Amendment of PIFC Law		PIFC Law Amended				
	b) Amendments of rulebooks for FMC			Rulebooks for FMC amended			
	c) Amendments of rulebooks for IA			Rulebooks for IA amended			
	d) Amendment of FMC Manual				FMC Manual amended		
	d) Amendment of IA Manual				IA Manual amended		
<b>Activity 2 (P6M1A2): Promoting the concept of public internal financial control to the managers of the entities of the central and local level</b>	a) Number of promoted institutions	0	0	2	5	7	

**MEASURE 2 (P6M2): STRENGTHENED ADMINISTRATIVE CAPACITIES ON CENTRAL AND LOCAL LEVEL ON FMC AND IA**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P6M2A1): Establishing system of continuous training and on the job training</b>	a) Adoption of Public Finance Academy Law		Public Finance Academy Law adopted			
	b) Adoption of Rulebooks for continuous trainings for FMC and IA		Rulebooks for continuous trainings for FMC and IA adopted			
	c) Adoption of Rulebook for training and exam for certification of internal auditors		Rulebook for training and exam for certification of internal auditors adopted			
	d) Organised trainings and exams			Trainings organized and exams taken	Trainings organized and exams taken	Trainings organized and exams taken
<b>Activity 2 (P6M2A2): Establishing system for supervision of IA and FMC units</b>	a) Increased human capacities of the Unit for supervision		Unit for supervision staffed			
	b) Training of the staff		Training of the staff of the Unit for supervision conducted	Training of the staff of the Unit for supervision conducted		
	c) Implemented supervisions on FMC and IA units			Supervisions on FMC and IA units implemented	Supervisions on FMC and IA units implemented	Supervisions on FMC and IA units implemented

<b>PRIORITY 7 (P7): EXTERNAL CONTROL AND PARLIAMENTARY OVERSIGHT</b>							
<b>Outcome</b>	<b>Performance Indicators</b>	<b>Data Source</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
XXII) Improved impact of audit & reporting	% of external audit recommendations leading to corrective measures	Annual Report on Conducted Audits and Operation of the State Audit Office	51% <sup>1</sup>	55%	60%	65%	70%
XXIII) Increased accountability in the use of public finances	% of audit coverage of the total public expenditure	Annual Report on Conducted Audits and Operation of the State Audit Office	40%** **OECD-SIGMA Baseline Measurement of Public Financial Management (June 2015)	45%	50%	55%	60%
<b>MEASURE 1 (P7M1): IMPROVED STRATEGIC PLANNING AND EXTERNAL AUDIT PROCESS IN LINE WITH THE ISSAI<sub>s</sub></b>							
	<b>Activity</b>	<b>Performance Indicators</b>	<b>Baseline FY16</b>	<b>Target FY18</b>	<b>Target FY19</b>	<b>Target FY20</b>	<b>Target FY21</b>
	<b>Activity 1 (P7M1A1): Development and implementation of Strategic Plan of SAO</b>	a) Assessment Report on improvement of audit process as per ISSAI			Assessment Report Prepared		
		b) Guidelines for strategic audit planning process in line with SAO priorities and resources available		Guidelines on suggesting audits for annual programme amended as regards to strategic audit planning process			
		c) SAO staff trained in strategic planning of audit			At least 15 SAO staff trained in strategic planning of audit		
		d) Multi-annual Audit Plan 2020-2022			Multi-annual Audit Plan 2020-2022 prepared		
	<b>Activity 2 (P7M1A2): Assessment of institutional and human resources capacity of SAO in order to maintain high quality of audits, in accordance with the relevant legal framework</b>	a) Report with recommendations on improving the institutional and human resources capacity of SAO in order to maintain high quality of audits	SAO Human Resources Management Strategy 2013 – 2017		Report with recommendations on improving the institutional and human resources capacity of SAO prepared		

<b>Activity 3 (P7M1A3): Improved administrative capacity for performance audit</b>	a) Training of SAO staff in performance audit will be performed in the areas such as EU funds, ICT, public financial internal control, public procurement.			At least 15 SAO staff trained in performance audit		
	b) Audit Reports on performance audits conducted in the areas such as EU funds, ICT, public financial internal control, public procurement.			Audit Reports on performance audits issued		

**MEASURE 2 (P7M2): IMPROVED SCRUTINY OVER THE BUDGET BY THE PARLIAMENT**

Activity	Performance Indicators	Baseline FY16	Target FY18	Target FY19	Target FY20	Target FY21
<b>Activity 1 (P7M2A1): Analysis of existing legal and institutional framework in regard to mutual cooperation between SAO and Parliament benchmarked to SAO-Parliament cooperation best practices in EU</b>	a) Report with recommendations for improved transparency of the legislative scrutiny function of the Parliament based on implementation of EU best practices including options for processing and discussion of the audit reports within the parliament procedures.			Report prepared		
<b>Activity 2 (P7M2A2): Training needs assessment (TNA) carried out and Training plan elaborated for members of Parliament</b>	a) Report on training needs assessment (TNA) parliament administration and MP's in assessing the audit reports			Report on training needs assessment (TNA) prepared		
	b) Training plan elaborated for members of Parliament			Training plan elaborated		