



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

**Annual Monitoring Report  
on Implementation of the 2019 Action Plan  
for Public Financial Management  
Reform Programme**

**for the period January 2019 - December 2019**

**June 2020**

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## Abbreviations and acronyms

AEO	Authorised economic operator
BPM	Business processing management software
CARNM	Customs Administration of the Republic of North Macedonia
CEFTA	Central European Free Trade Agreement
EC	European Commission
ERP	Economic Reform Program
ESA	European System of Accounts
EU	European Union
EUIF	EU Integration Facility
FMC	Financial Management and Control
GDP	Gross domestic product
GDRM	Government Debt and Risk Management Program (World Bank)
GFS	Government Finance Statistics
HR	Human resources
IA	Internal Audit
ICT	Information and communications technology
IFI	International Financial Institution
IFMIS	International Financial Management Information System
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
ISSAI	International Standards of Supreme Audit Institutions
IT	Information technology
MISA	Ministry of Information Society and Administration
MoF	Ministry of Finance
MTBF	Medium-term budget framework
NPAA	National Programme for Adoption of Acquis
OECD	Organisation for Economic Cooperation and Development

PAR	Public administration reform
PEFA	Public Expenditure Financial Accountability
PFM	Public financial management
PIFC	Public internal financial control
PIT	Personal Income Tax
PPB	Public Procurement Bureau
PPP	Public private partnership
PRO	Public Revenue Office
SAA	Stabilisation and Association Agreement
SACPP	State Appeal Commission for Public Procurement
SAI	Supreme audit institutions
SAO	State Audit Office
SECO	State Secretariat for Economic Affairs of Switzerland
SIGMA	Support for Improvement in Governance and Management
SSO	State Statistical Office
SWG	Sector working group
TA	Technical assistance
TADAT	Tax administration Diagnostic Assessment Tool
UK	United Kingdom
USAID	United States Agency for International Development
WB	World Bank

## Introduction

The monitoring report on implementation of the 2019 Action Plan for realisation of the Public Finance Management Reform Programme for the period January 2019 - December 2019 was prepared by the Ministry of Finance (MoF) of the Republic of North Macedonia, with active participation of other line ministries and institutions represented in the Sector Working Group for PFM: Ministry of Economy, State Audit Office (SAO), State Statistical Office (SSO), Customs Administration of the Republic of North Macedonia (CARNM), Public Revenue Office (PRO), Public Procurement Bureau (PPB), State Appeal Commission for Public Procurement (SACPP). The process of preparation of the report was initiated in the middle of December 2019 and finalised in March 2020. The report was prepared based on an instruction for reporting, including deadlines and reporting templates, prepared by the IPA and NPAA Unit at the Ministry of Finance (coordination unit), which facilitated the

consolidation and presentation of the PFM reform reporting information. The draft Report has been sent for consultation to the SWG for PFM in March 2020 and the comments received, based on an assessment made by the relevant institutions, were incorporated in the final version of the Report. The delay in the process of reviewing, consulting and endorsing this Report is due to the Government's measures to deal with the health crisis caused by the pandemic with COVID 19 and its consequences.

The Report provides information on progress achieved in implementation of reform activities in 2019.

## 1. Executive summary

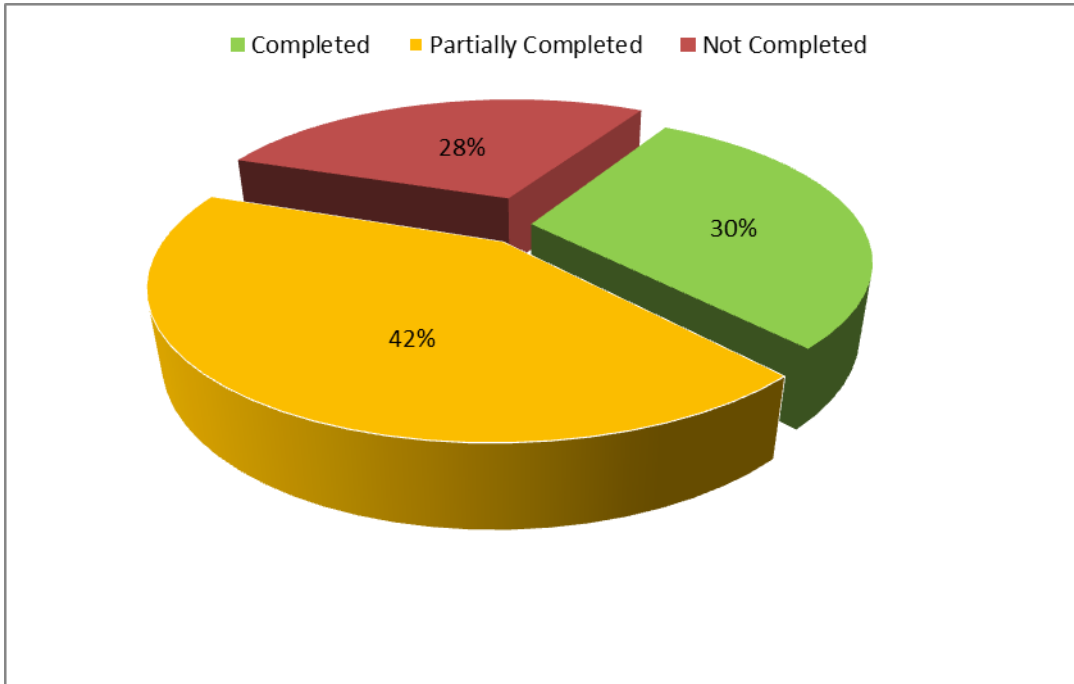
The Government has adopted the PFM Reform Programme 2018-2021 (hereinafter: the Programme) in December 2017. The overall objective of the Programme is to ensure efficient and effective allocation of public funds towards activities that contribute to economic growth and development and maintain effective management of the use of public funds in all areas and sectors of public administration. The Government has also developed sub-system reform strategies, including in the areas of public internal financial control and tax system.

In the second year of implementation of the PFM Reform Programme, the Government is continuing the PFM reforms activities which started in 2018, but also planned new reform activities launched in 2019.

The 2019 Action Plan for implementation of the PFM Reform Programme was prepared by the Ministry of Finance of the Republic of North Macedonia, in close collaboration with the following institutions: Ministry of Economy, State Audit Office, State Statistical Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement. The Action Plan was adopted by the Government in March 2019.

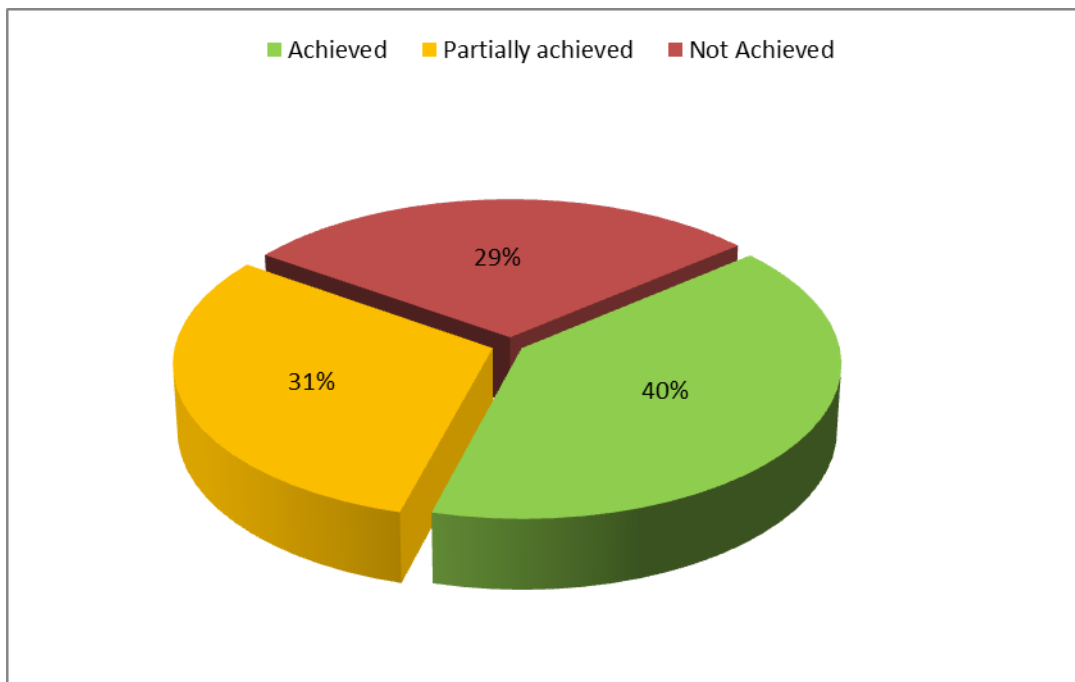
The status of the implementation of the activities/sub-activities covered by the Action Plan 2019 for the implementation of the Programme is as follows: out of 104 sub-activities, 31 are completed, 44 are in the process of implementation and 29 are not completed (not yet started), which in terms of the percentage of implemented activities is represented as follows:

*Percentage of implemented activities in the reporting period from January - December 2019*



The achievement of indicator targets for 2019 is the following: 29 indicator targets are achieved, 22 indicator targets are partially achieved and 21 are not achieved.

*Percentage of achieved indicator targets in the reporting period from January - December 2019*



The detailed status of achievement of indicator targets for 2019 and status of implementation of the planned activities are presented in the Annex 1: Performance Indicators Matrix on the 2019 Action Plan for PFM Reform Programme.

All the activities that were initially planned to be completed in 2019, but were not realised, will be planned in the 2020. The draft 2020 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

The Risk assessment of the 2019 Action Plan for PFM Reform Programme is presented in Annex 2.

## 2. Aggregate overview

### 2.1 Background

The PFM Reform Programme 2018-2021 was adopted by the Government of the Republic of North Macedonia on 19<sup>th</sup> December 2017.

The 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 Programme supports the dialogue with the EU and help use EU resources more efficiently throughout Macedonian institutions, on the road to EU accession.

Reforms under the Programme are structured in the form of 7 priorities, the goal of which is to improve both efficiency and effectiveness of public spending, through fiscal discipline, debt sustainability and efficient, transparent and modern public financial management, which is an imperative for a stable, sustainable development and well-being of the citizens of the Republic of North Macedonia.

7 priorities are envisaged under the 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

The PFM Reform Programme 2018 - 2021 is implemented through annual Action Plans approved by the Government of the Republic of North Macedonia for each year during the implementation period of the Programme, thus ensuring timely implementation and sequencing of the Programme's activities.

The 2019 Action Plan for Implementation of the PFM Reform Programme was adopted by the Government on 12<sup>th</sup> March 2019, following its endorsement by the PFM Council.

It elaborates in details the measures, activities and sub-activities of the PFM Reform Programme that will be implemented in 2019, defines specific indicator targets to be achieved and presents an estimation of the costs implications and sources of funds needed for implementation of these activities. The 2019 Action Plan is based on continuation of the reform activities started with the previous Action Plan for 2018, which were mainly focused on improving legislation in several areas (public procurement, public internal financial control, budget planning, public debt management), but also contains new activities to commence in 2019.

Sound public financial management is a key requirement in the European integration process and is linked to a large number of negotiating chapters, (Chapter 5 – Public Procurement, Chapter 16 - Taxation, Chapter 17–Economic and Monetary Policy, Chapter 18 - Statistics, Chapter 29 – Customs Union, Chapter 32 – Financial control and Chapter 33 – Financial and Budgetary Provisions).

## 2.2 Links to Strategic Documents

### 2.2.1 Policies, Strategies and Programmes Linked to PFM

The national authorities continue to maintain close co-ordination of all PFM sub-systems' strategies and policies as well as with other relevant national strategies.

The PFM Reform Programme 2018-2021 takes into account all the relevant documents in the field of European integration, starting from the Stabilisation and Association Agreement (SAA) between the European Communities and their Member States, on the one hand, and the Republic of North Macedonia, on the other hand, as well as all relevant national strategic documents in this area.

#### ***IPA II Indicative Strategy Paper 2014-2020***

The priorities set in the PFM Reform Programme are in line with the priorities for EU financial assistance to support the Republic of North Macedonia on its path to EU accession for the period 2014 - 2020 set out in the IPA II Indicative Strategy Paper 2014-2020. Along with improved capacities for macro-economic planning, IPA will also invest in establishing a robust framework for the management of economic changes and financial crisis. IPA will also provide support for the preparation and implementation of a comprehensive public financial management reform programme. Specific focus will be put on improving the revenue administration and collection (customs/tax) and strengthening the operational and institutional capacities including the IT interconnectivity and interoperability of customs and tax administrations with EU systems. A key priority will be the improvement in the medium term budget planning and introduction of a solid programme-based budgeting. At the same time IPA funds will also be invested in optimising the budget preparation, budget execution and cash management, including the introduction of the integrated PFM IT System, covering all key PFM sub-systems and gender responsive budgeting. Assistance will be allocated for ensuring the efficiency and effectiveness of the public procurement system. Strengthening the public internal financial control and the external audit remains among the key priorities of the sector as well. Particular focus will be put on statistics where investments will be made into the data collection (sex-disaggregated), processing and publication and ensuring the



compliance with the EU statistical criteria for production of statistics and organisation of the statistical system.

### ***Economic Reform Programme (ERP)***

The Economic Reform Programme is prepared and submitted to the European Commission in accordance to European Commission Guidance and in the frame of European Semester - light which follows similar time dynamic as the European Semester for Member States.

The Economic Reform Programme 2019-2021<sup>1</sup> has been submitted to EC on 30 January 2019 after government's formal endorsement.

The European Commission's assessment<sup>2</sup> of ERP 2019-2021 states that the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2018 has been partially implemented. In the area of macro-fiscal reform measures, the government adopted a number of reforms which are expected to underpin fiscal consolidation, in particular regarding pensions, social assistance, and the introduction of progressive taxation. The government also cleared a substantial amount of unpaid liabilities. It continued to improve fiscal transparency by further enhancing fiscal reporting, such as budget users' arrears. However, essential measures to improve budget planning and fiscal discipline are scored at a level of "no implementation", such as proper medium-term budget framework and fiscal rules, and sustainable stabilisation of debt while protecting capital spending.

In relation to progress in statistics, it states that important steps are made on EDP, government finance statistics and financial accounts in 2018 and that the provision of national and sector accounts is improving. However, extra efforts are needed for quarterly government finance statistics, towards the full implementation of the ESA 2010.

Hence, the Policy guidance adopted within Economic and financial dialogue in May 2019<sup>3</sup>, refers to following recommendation to be implemented and reported upon in the next ERP 2020-2022:

1. Stabilise the debt ratio by moving towards a balanced primary budget while implementing the budgeted capital expenditure. Adhere to agreed consolidation measures, in particular the new pensions indexation formula. Implement legal and organisational measures to improve revenue collection.
2. Further increase the transparency of public finances by including public enterprises in the general government fiscal reporting framework where mandated by international statistical standards. Adopt the new organic budget law including fiscal rules and arrangements for an independent fiscal council.

The process for preparation of ERP 2020-2022 had started with the initial kick-off meeting held on 22 May 2019 and subsequent workshop organized by CEF on structural reform measures budgeting and costing, held on 23 May 2019. Additional TAIEX and CEF support was provided for improving structural reform measures text related to diagnostics, performance indicators, risk analysis and costing of measures. Regular EC advisory mission

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<sup>1</sup> [https://www.finance.gov.mk/files/ERP\\_MKD\\_2019\\_EN.pdf](https://www.finance.gov.mk/files/ERP_MKD_2019_EN.pdf)

<sup>2</sup> <https://data.consilium.europa.eu/doc/document/ST-8545-2019-INIT/en/pdf>

<sup>3</sup> <http://data.consilium.europa.eu/doc/document/ST-9474-2019-INIT/en/pdf>

was held beginning of November 2019. The draft ERP was discussed in the frame of Economic and Social Council's 55<sup>th</sup> session held on 18 December 2019 and its opinion was included in the document. It will be sent to EC till 31 January 2020, as per EU ERP Guidance deadline foreseen. Assessment missions of ECB and EC are announced in February 2020.

The implementation of the Policy guidance contributes to improvement of the economic governance, that is one of the three key pillars of the EU enlargement process. It helps strengthening the economic policy coordination and multilateral surveillance under the European Semester.

Priorities set within the PFM Reform Programme are directly tackling those requirements. Implementation of measures and activities envisaged in the Public Financial Management Reform Programme aims at:

- improved medium-term fiscal projections,
- improved revenue collection in the country by both the tax and the customs administration and ensured long-term stability of the IT systems for public financial management in case of crisis,
- maintaining overall fiscal discipline on the medium term,
- improved efficiency when executing the Budget and strengthened financial discipline,
- improved transparency in public financial management,
- establishment of a sound financial management and control system and
- ensuring accountability in spending public funds.

### ***State Programme for Prevention and Repression of Corruption and Prevention and Reduction of Conflict of Interests with Action Plan***

The implementation of the annual Action Plan and the PFM Reform Programme as a whole is expected to significantly improve the accountability and transparency in the management of the public finance as well as to strengthen the public and Parliamentary oversight. The planned improvements in the budgeting process and in the budget documentation, as well as in the public contracting process and procurement information will improve the quality of the available PFM information and will allow citizens to better follow and assess key PFM processes. In addition, the efforts to enhance the managerial accountability and internal audit are expected to result into stronger management systems less prone to corruption and maladministration. Finally, the investments in the external audit function have the potential to improve the effectiveness of the external audit, which is expected to result into a closer involvement of the Parliament in the oversight of the PFM. With transparency and accountability being the key instruments to prevent corruption, the Programme therefore is expected to support the implementation of the anti-corruption programme in a horizontal manner through a direct impact on all budget users.

Given that the existing State Program for the Prevention and Repression of Corruption and Prevention and Reduction of Conflicts of Interest refers to the period 2016-2019, the State Commission for Prevention of Corruption in August 2019, with the support of USAID, commenced preparatory activities for the preparation and adoption of the new anti-corruption strategy paper for the period 2020 - 2024. To this end, a broad working group has been set up with representatives from relevant public institutions, the private sector and civil society and the media, as well as experts. In the period September - December 2019, three three-day workshops of the working group were held, whose practical work was carried out in

subgroups covering specific segments or sectors of the social system. As a result of these workshops, as well as additional meetings with institutions and stakeholders on specific issues in their domain, a draft National Strategy for the Prevention of Corruption and Conflicts of Interest 2020-2024 was prepared, with an action plan for its implementation (Draft Strategy). The public consultation process began on December 27, 2019, with stakeholders and citizens having the opportunity to submit their comments on the Draft Strategy by January 08, 2020.

### ***Public Administration Reform (PAR) Strategy***

Reform of public finances is one of the key pillars of the Public Administration Reform (PAR), and as such is embedded in the PAR Strategy and Action Plan for the implementation of the PAR Strategy. Given that modern public administration is a basis for efficient and effective management of the public finances, during the preparation of PFM Reform Programme and PAR Strategy, full coherence and harmonization of both strategic documents is provided. Particular attention has been given to the human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, the link between these two strategic documents has been further strengthened by participation of the Minister of Information Society and Administration in the process of management and coordination of the PFM Reform Programme, as member of PFM Council, and membership in Sector Working Group for PFM, thus ensuring consistency and complementarity in implementation of both strategies. Also, PFM reforms are placed on the agenda of the SAA monitoring process, in particular, the progress in implementation of the reforms is discussed during the meetings of the Special Group for Public Administration Reform.

## **2.2.2 PFM Sub-areas Strategies**

The strategies developed under different PFM sub-systems are coordinated and consistent with the PFM Reform Programme.

***Tax System Reform Strategy***, which has been prepared in accordance with the PFM Reform Programme, has been finalized and the draft version has been set on public consultation, but however the strategy is not yet adopted. The Tax System Reform Strategy integrates the main priorities in the area of tax policy and the institutions that are collecting public revenues for the period 2020 - 2023 (1- Increase Fairness of Taxation, 2 – Improve Efficiency and Productivity of the Tax System, 3 – Increase Tax Transparency, 4 – Improve Quality of Services, 5 – Introduce Green Taxation), covering all tax institutions in the Republic of North Macedonia - Ministry of Finance, Public Revenue Office, Customs Administration, Financial Intelligence Office and Financial Police Office.

***Public Internal Financial Control (PIFC) Policy Paper (2019-2021)*** was adopted by the Government in March 2019. The document is consistent with the PAR Strategy 2018-2022 and the PFM Program 2018-2021 and defines priorities aimed to ensure further consistent strengthening of the PIFC. For the purpose of monitoring the implementation of the PIFC Policy Paper (with Action Plan for the period from 2019 to 2021), on May 21, 2019, the

Minister of Finance adopted a Decision on the establishment of a Committee for monitoring the implementation of the Internal Financial Control Policy in the public sector.

The Report on the progress in the implementation of the PIFC Policy Paper (with Action Plan for the period from 2019 to 2021) for the period March-June 2019 has been prepared by the members of the Committee from the MoF-Central Harmonisation Unit in coordination with other institutions represented in the Committee (from MISA and General Secretariat of the Government). The Report was approved by the Committee on 15 July, 2019. This report was reviewed at the PFM Council meeting held on November 4, 2019.

**PRO Strategic Plan 2019 - 2021** is fully complementary with the Programme. Under Programme 3. Public Finance Management - Revenue Mobilisation, sub - programme 3.1. Improved stability, efficiency and quality of revenue collection system (tax system and policy) and sub-programme 3.3: Establishment of a Disaster Recovery Centre, it contains activities which are in full consistency with the planned activities under Priority 2 - Revenue mobilisation of the Programme.

**PRO IT Strategy for the period from 2019 to 2022** is in line with the PFM Reform Programme and the Draft Tax System Reform Strategy. The key goal of the IT Strategy of the PRO is to define the overall development strategy for the information and communication systems of the PRO in accordance with the development strategy of the PRO as a whole. The Strategy defines the future development of the IT systems, infrastructure and technical environment and the development direction of the Directorate for Information Technology and its employees, mandatory application of IT standards and methodologies.

#### **SAO Development Strategy 2018 – 2022**

Measures under the Priority 7: External Control and Parliamentary Oversight of the PFM Reform Programme 2018 -2021, are closely connected to the strategic goals in SAO Development Strategy 2018 – 2022.

- Measure 1: Improved strategic planning and external audit process in line with the ISSAIs is connected to Strategic goal 2 – Further improvement of the quality of audits and Strategic goal 3 – Further development of SAO institutional capacity;
- Measure 2: Improved scrutiny over the budget by the Parliament is connected to Strategic goal 5 - Improvement of communication and exchange of information with domestic and international entities and informing the public.

**CARNM Strategic Plan 2019 – 2021** is fully complementary with the Public Finance Management Reform Programme 2018 - 2021. Measures under the Priority 2: Revenue Mobilisation of the Programme are fully compliant with the CARNM strategic objectives VI.1.1. Further harmonization of the national Customs Legislation and procedures with the legislation of the European Union, VI.1.3. Ensuring simple and predictable procedures and formalities and VI. 2.1. Ensuring effective and efficient controls and VI.4.3 Improvement and further development of IT support systems.

**Strategy for ICT development of the Customs Administration 2019 – 2023 and Action Plan for Interconnection and Interoperability of the Customs Administration with the EU systems 2019-2023** (adopted by the Government in April 2019), provides a basis for implementation of the IT systems for the coming mid-term period, according to the Multi-

Annual Strategic Plan for Implementation of e-Customs of the EU for harmonisation with the UCC and EU accession.

## 2.3 Links to external assessments

In 2018, the World Bank carried out a Public Expenditure Review and published the relating report in May 2019, under the title: Sowing the Seeds of a Sustainable Future<sup>4</sup>. The purpose of this Review was to assist the Government in finding ways to make its public finances more sustainable while also improving critical public services. On the state of Public Financial Management it concludes that “the Government of North Macedonia has adopted an ambitious and comprehensive PFM Reform Program which could address many of the PFM weaknesses identified in recent diagnostic reports. This Program addresses seven core pillars of a well-functioning PFM system and sets out a plan of action and a generalized schedule of deliverables. While the schedule allocates a relatively short timeframe for achieving some key reforms and there are questions about the capacity of some institutions to deliver, the government appears to be committed to the program objectives and plans to launch it through a series of action plans”.

From 1<sup>st</sup> of April to 5<sup>th</sup> of April 2019 TAIEX Peer-review mission on public procurement system was conducted in the area of public procurement. The aim of expert mission was to assess the capacity of the Republic of North Macedonia to effectively enforce judicial decisions in civil including commercial matters. For that purpose, assessment was made on the basis of studying the legal and institutional provisions as well as a number of concrete cases. Experts delivered set of recommendations regarding enforcement structures, procedures and of their effectiveness.

Also, numbers of recommendations by the IMF Fiscal Transparency Evaluation report published in October 2018 were taken into consideration while defining the 2019 Action Plan and will be further implemented in next annual Action Plans<sup>5</sup>.

## 2.4 Donor coordination

Commitment of donors to support the PFM reforms and maintain the policy dialogue in the country continues during the second year of implementation of the Programme. Therefore, in order to ensure good planning and complementarity of external technical support, proper sequencing and successful implementation of the reforms, the MoF will continue to coordinate the donors’ assistance through conducting open and inclusive PFM policy dialogue with all relevant institutions and donors.

The Policy Dialogue meeting was held on 16 September 2019, aligned with the meeting of the PAR Special Group.

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*PFM donor coordination is carried out on the following two levels:*

*1. Policy level - PFM Council and PAR Council. One of the main tasks of the PFM Council is to facilitate the policy dialogue with relevant institutions and donors. Members of the PFM Council participate in the PFM Policy Dialogues with all relevant stakeholders.*

The FAD technical assistance for the Tax

<sup>4</sup> *World Bank, North Macedonia Public Expenditure Review: Sowing the Seeds of a Sustainable Future.*

<sup>5</sup> *World Bank, North Macedonia Public Expenditure Review: Sowing the Seeds of a Sustainable Future.*

<sup>5</sup> For more information, please see the Annual Monitoring Report on Implementation of the 2018 Action Plan for Public Financial Management Reform Programme. *PFM Subsystems strategies and policy papers. Also, separate donor coordination meetings on operational level are organised with regard to the implementation of specific PFM sub-areas measures.*

Administration of Republic of North Macedonia is crucial for successful implementation of the foreseen strategic priorities, measures and activities. In addition, IMF's continuous support to the long-term modernization processes and the already developed reform programs will greatly contribute to ensuring smooth change management to the end of establishing electronic tax administration and improving the public finance management – revenue mobilization. In 2019 the following missions were conducted in the Public Revenue Office (experts on various topics, as well as HQ diagnostic missions) in accordance with the annual plan (May – April), in the areas of: tax reform management, improvement of the capacity of the Large Taxpayers Office, progress in the implementation of the reform program (funded by the EU and SECO) and the review of the modernization program, formation of a risk management unit, Piloting LTO Risk Analysis and the Risk Differentiation Framework and in process of refund, selection of risk and criteria, desk audit etc.

In the area of external audit, during 2019, SAO representatives established cooperation with SIGMA experts to prepare a guideline for auditing the final accounts of the state budget. As part of the activities, several working meetings and workshops were held to present the experiences of the United Kingdom and Latvia in this area.

Within the framework of the support of the reforms in the RNM, the Government of the United Kingdom through the Good Governance Fund of United Kingdom (GGF of UK) provided support to the State Audit Office for implementation of the project “Increasing Accountability and Transparency in Macedonia through Improved Implementation of Recommendations from the SAO”.

The project, which lasted from July 2018 to March 2019, was implemented by the SAO with the support from the PricewaterhouseCoopers Macedonia (PwC), Westminster Foundation for Democracy (WFD) and in cooperation with the Center for Economic Analysis (CEA) and RESIS. The objective of the project was to improve implementation of the SAO recommendations, by assessing and strengthening the institutional mechanisms for their monitoring. This would be achieved through greater public presence and greater involvement of the general public and other stakeholders in the work of the SAO.

The project focused on three main outcomes 1. General assessment of the audit process; 2. Increased capacity of the SAO to refer to the recommendations; and 3. The SAO's communication strategy embedded in the institution's work plans, including a strategy for presenting simplified audit reports to stakeholders.

## 2.5 Human, IT and financial resources - administrative capacities

The issue for strengthening administrative capacities in relation to the implementation of the PFM Reform Programme is addressed at 3 levels:

1. PAR Strategy and Action Plan give particular attention to the human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency across all public administration.

2. The PFM Reform Programme envisages numerous measures and activities related to the development of administrative capacities and IT systems of all PFM institutions. Measures and activities under each priority are defined taking into consideration current HR capacities of the PFM institutions, but also separate activities for further capacity building based on future recruitment plans are proposed, as part of the reform process. Significant number of results in the Programme is related to capacity building of the PFM institutions through new employment, knowledge enhancement and skills development and upgrading, which will be achieved through various forms of technical support and trainings. This has the potential to attract, regenerate and develop motivated and engaged employees. The improvements in the business processes (in the area of taxation, customs, internal control, public procurement and other areas) will create space for professional development of the public servants, while the new integrated IT systems (for PRO and IFMIS for the MoF) are oriented towards a more rationalised, sustainable and cost-effective management of the public administration and public resources.
3. Also, strategic plans on institutional level are developed on 3 years basis and they provide overview of the objectives and tasks of each separate institution, the activities for achieving those goals, the effects and the expected results and the human and financial resources for their realization. In addition, pursuant to the Law on administrative servants, all public institutions prepare annual training plans.

All gaps identified are tackled by the relevant existing training bodies established in the sector, as well as within the framework of the various donor projects currently implemented and planned. Also, it is expected that the planned establishment of the Public Finance School, which will be supported under the EU twinning project *Strengthening budget planning, execution and internal control functions*, will contribute to the improvement of knowledge and skills of the relevant staff.

The PFM Reform Programme envisages that all priorities, measures and activities shall be funded through two main sources: the state budget and the donors' funded capacity development projects or technical assistance. The Programme provides a synopsis of the known estimated costs at the time of preparation of the document. In addition, each annual Action plan presents an estimation of the costs implications and sources of funds needed for implementation of the planned activities.

The relevant financial resources are envisaged in the frameworks of the cost benefit analysis and regulatory impact assessment done under each strategic document.

The progress in capacity building of PFM institutions is further elaborated under the status of implementation of the concrete activities planned in the Programme (Part 4. Assessment of 2019 Action Plan Implementation).

In addition to regular budget funding, significant support during the preparation and implementation of the Programme was provided by the European Commission (IPA projects, TAIEX, SIGMA). Support was also provided by the World Bank, IMF, OECD, as well as by various bilateral programs.



### 3. Overall Progress in the Implementation of the Programme- Summary of Progress Made During the Reporting Period

#### **Improved Fiscal Framework**

Establishment of fiscal rules and Fiscal Council will be regulated with the new Organic Budget Law (OBL), which is under final refinement following comments received from international stakeholders (IMF, WB and EC).

In the area of strengthening of forecasting, a new software suitable for analysis and microsimulation (*the "R"*) was installed in the Forecasting and Analysis Unit within the Public Revenues and Tax and Customs Policy Department. The construction of a new micro-simulation model in the programming language "R" started in third quarter of 2019.

Procurement of an additional license of the statistical software EViews has been realized in the second half of 2019, financed by the national budget.

In the area of statistics, the State Statistical Office in February 2019 started to implement a 3-year IPA project "Improving the Production and Dissemination of Statistics", aimed to improve the quality and availability of statistical data in the Republic of North Macedonia and enhance their use in development and coordination of public policies. The activities aimed to achieve increased data availability for better forecasting of GDP, planned under this project, have started with implementation.

#### **Revenue mobilization**

Pre-populated Annual Tax Return was introduced and issued by the PRO, within the PROs new electronic system e-Personal tax <https://e-pdd.ujp.gov.mk>. Introduction of e-tax services for Personal Income Tax facilitates the accessibility and the opportunities for electronic filing by the citizens and legal entities - income payers, as well as extending the range of initiatives and efforts of the PRO to reduce taxpayers compliance costs, including pre-populated tax returns, that contributes to overcoming TADAT performance assessment of the PRO regarding the Indicator P4-11 Timely Filing of Tax Declarations and P3-8 Supporting Voluntary Compliance. This project is finalized.

The process of upgrade and maintenance of the e-personal tax system is in progress.

Based on planned and approved budget, the PRO had adopted the Annual Plan for Employment for 2019, where 35 new employments and 70 promotions were planned. The procedure for recruitment of 28 new employees and promotion of 70 tax officers is completed.

In regards to the development and re-engineering of business processes of the new tax integrated IT system, the IPA 2/EUIF 2014 financed project officially ended on 31/01/2019. Modelled Business Processes (BPM2) that show the global business process pattern to be re-engineered and integrated into the new IT system ("TO-BE" system) were delivered as well as a technical specification for the hardware and software for the new integrated IT system and quality control - technical support for implementation. The purchase of the BPM tool (software and licenses) is ongoing. The preparation of the market analysis and tender documentation for the new tax integrated IT system in accordance with EU PRAG



procedures is in progress. Based on the market analysis, a decision should be made regarding the financing of the new tax integrated IT system.

Activities for securing appropriate location for the new Data IT System Hall are ongoing, which is precondition for starting the planned public procurement procedures.

Regarding upgrades of the application for tax accounting and maintenance of e-Taxes, tenders are completed and contracts have been signed with the economic operators.

The Customs Administration of the Republic of North Macedonia is making substantial progress in achieving its vision.

The digital system for customs declarations and excise documents processing (CDEPS) has been launched on 01.06.2019.

On 1 January 2020, new excise module within the CDEPS would be launched, developed on basis of the Excise Movement Control System, applied in the EU. Excise procedures would be carried out completely digitally without use of paper. A plan for establishing paperless environment in customs export procedure in CDEPS has been drawn up, with selected pilot customs offices where the project will start operating. Activities for launching the pre-arrival information module for express mail consignments are in progress. The module has been developed within the CEFTA Regional Working Group, and it provides for submission of data on express consignments before they arrive in the customs territory and application of appropriate risk analysis techniques which will enable faster customs clearance of express consignments.

The Government of the Republic of North Macedonia adopted a new Strategy for ICT Development of the Customs Administration (2019-2023) and Action Plan for Interconnection and Interoperability of the CARNM with the EU systems (2019-2023), which sets the ground for implementation of the IT systems for the coming mid-term period, and according to the Multi-Annual Strategic Plan for Implementation of e-Customs of the EU for harmonization with the UCC and EU accession (these documents include the necessary human and financial resources for implementation).

The Customs Administration has been promoting the benefits of being an AEO through several workshops organized to familiarize the Macedonian companies and to additionally encourage them to adequately get involve in the global supply chain and boost their exports. The Customs Administration is also working on the implementation of the Additional Protocol 5 of the CEFTA Agreement on mutual recognition of the AEO concept within the CEFTA member states.

So far, 11 companies have been granted AEO authorised economic operator certificate, and 3 more are in the process of approval. To ensure this benefit to be used, the Customs Administration has been intensively promoting the program among economic operators. Since the beginning of the promotion campaign to the present day, there has been a growing interest among the economic operators for this type of authorization which contributes to the increased understanding of the concept itself, its meaning and the benefits of holding this kind of certificate.

## **Planning and budgeting**

During 2019, the MoF in cooperation with WB experts intensively worked on finalizing the draft of the new Organic Budget Law (OBL), preparing proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities, fiscal rules), as well as on designing options for the new IFMIS.

Activities related to programme budgeting will be implemented as part of the process for preparation of the methodology and the guidelines for programme budget.

The new OBL is in the final stage of preparation. Following the comments received from the international stakeholders (IMF, WB and EC), the Ministry of Finance is reviewing the remarks and considering options to implement certain improvements in the draft law. In the next period, we plan to start the public consultation process on the draft Law. The new law should be in line with improvements in the public finance management system, in order to provide a framework for sound, predictable and sustainable fiscal policy and increased budget discipline and accountability.

In the area of statistics, the implementation of the activities aimed to develop capacities for compilation of EDP notification tables, have been started under the IPA project “Improving the Production and Dissemination of Statistics”.

### **Budget execution**

Implementation of a contemporary IFMIS by the MoF is a crucial part of budget execution reforms planned in the PFM Reform Programme. During 2019, the MoF, supported by the World Bank has been intensively working on development of functional and technical requirements for the new IFMIS. The detailed technical specification for the new IFMIS was delivered at the end of December 2019 and a workshop was organized with relevant stockholders where the IFMIS concept and future changes were presented.

Quarterly summary reports from the recorded data for reported liabilities in accordance with the Law on reporting and recording of liabilities are published regularly. The latest report on the MoF's website is published for the fourth quarter of 2019<sup>6</sup>.

The Law Amending and Supplementing the Law on Public Debt (PDL) was adopted and published in the Official Gazette of the Republic of North Macedonia No. 98 of 21.05.2019. The goals of the PDL amendments are: greater transparency, harmonization with international practices and greater credibility among international institutions and investors. However, due to the delayed adoption of the Law, the preparation of the Debt Management Strategy as separate document had to be postponed for the next year in order to be adopted by 31 May 2020. Also, the capacities of MoF staff for designing debt management strategy have been further strengthened through trainings organised by the World Bank. Also, in 2019, human capacities of the respective MoF department dealing with public debt management have been strengthened by 1 new employee.

In order to protect the central government debt portfolio against refinancing risk, the MoF has introduced new short term risk indicator within the Fiscal Strategy 2020-2022, which sets the maximum limit for the debt due in 2020 in relation to the total central government debt at 35%.

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<sup>6</sup> <https://finance.gov.mk/mk/node/7317>

The new cash flow forecasting procedure has been designed and tested for its functionality. Next steps envisage its fine-tuning as a forecasting instrument, additionally automated. The relevant time series have been extracted from the TRIS system on regular basis and are updated as needed.

The new Law on Public Procurement ("Official Gazette of the Republic of Macedonia" No. 24/19) was adopted in January 2019. Most of the bylaws deriving from the new law were adopted by the Minister of Finance. Only two remaining bylaws are still pending as of 31 December 2019.

Institutional capacities of the Public Procurement Bureau have been strengthened with 9 new employees in 2019.

The contract for Twinning Project Strengthening budget planning, execution and internal control functions under IPA 2018 was signed in December 2019 and its implementation is expected to start from February 2020.

Starting from July 2019, the activities for developing an effective system for Public Private Partnership that will ensure unification and full transparency in the respective area, in particular for harmonising the national legislation with EU acquis and establishing a single electronic PPP register have continued with technical assistance from the World Bank.

During December 2019, the World Bank team presented the Report on Regulatory Framework (Concessions Law and PPP) with instructions that were submitted to representatives of the all concerned parties, for discussion, suggestions or notes. The following next activities are expected to be realized in the first quarter of 2020.

In the area of statistics, the activities related to establishing General Government Accounts in accordance with ESA 2010 and further strengthening statistical services in the area of IT, have been started under the IPA project Improving the Production and Dissemination of Statistics.

### **Transparent Government Reporting**

Improving transparency in the management of public finances is a continuous endeavour of the MoF. In the first half of 2019, new information were made available to the public through publication of various documents and reports. Citizens budget is being prepared for each budget cycle. The portal "Open Finance" designed to provide the public with an insight of all transactions of the budget institutions within the Central Budget is officially launched in November 2019.

### **Internal control**

Public Internal Financial Control (PIFC) Policy Paper (2019-2021) was adopted by the Government in March 2019. The document is consistent with the PAR Strategy 2018-2022 and the PFM Program 2018-2021 and defines priorities aimed to ensure further consistent strengthening of the PIFC. For the purpose of monitoring the implementation of the PIFC Policy Paper (with Action Plan for the period from 2019 to 2021), on May 21, 2019, the Minister of Finance adopted a Decision on the establishment of a Committee for monitoring the implementation of the Internal Financial Control Policy in the public sector. The Progress Report on the implementation of the PIFC Policy for March-June 2019 was approved by the

Committee on 15 July 2019 and subsequently reviewed by the PFM Council in November 2019.

Part of the activities in the PFM Program 2018-2021 and PIFC Policy Paper are implemented as part of the Twinning Light Project, "Further Improving the Internal Control System", funded by the EU (IPA), which ended on 15 June 2019.

In September 2019, the CEH, within the framework of Dutch bilateral support, began conducting an assessment of key control activities at the Ministry of Labor and Social Policy.

Implementation of other PIFC measures and activities will be supported by the EU Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions", which will begin in February 2020.

### **External Control and Parliamentary Oversight**

The Assembly of the Republic of North Macedonia, at the session held on December 12, 2019, elected the new Auditor General, thus securing terms for continuous functioning of the State Audit Office.

The planned activities under the PFM Reform Programme were directly linked with the realisation of the EU Twinning Project "Further improvement of administrative capacities and external audit efficiency of SAO", implemented in cooperation with the twinning partners - SAIs of Bulgaria and Croatia. Under the twinning project, the following outputs have been delivered:

- Assessment Report including recommendations of improvement of SAO methodological acts and tools as per ISSAI, is prepared;
- Report with comparative analysis, recommendations and proposals with reference to the strategic planning process of audits, is developed;
- Following the recommendations for further development of the strategic and annual audit planning given by the twinning experts of the previous Twinning project, a working group has been set up within SAO that prepared a draft Guidelines for Strategic and Annual Audit Planning, which should be considered at a session of the SAO Collegium and then adopted by the Auditor General;
- The recommendations from the previous Twinning project were taken into consideration in the preparation of the working procedure of the SAO Expert Body, which is planned to be adopted in March 2020.
- SAO Training Plan is developed based on the "Report with recommendations for strengthening SAO institutional capacity and HR capacities";
- The pilot performance audits in the areas of EU funds, ICT, realization of higher education graduates on the labor market and public procurement, has been conducted and the results and lessons learned from the pilot audits were presented to all SAO auditors. The SAO has adopted an Annual Plan for Continuous Professional Development and Training for 2020, which will be implemented from January 2020;
- Training needs assessment (TNA) with Action Plan of Parliament administration and the Members of Parliament (MPs) for assessing the audit reports (findings and

recommendations) were carried out and activities with MPs and Parliament administration for accepting proposed recommendations have been started.

As an outcome of the activities implemented under the EU Twinning Project and the UK funded project, the following results have been achieved in 2019:

- Legal framework on external audit needs to be improved for achieving SAO's constitutional independence and enhancing financial and operational independence in compliance with the international standards and EU best practices. This activity will be envisaged as a result under the new planned IPA 2018 Twinning Project.
- In order to strengthen professional cooperation with other institutions and professional bodies, SAO has prepared a Memorandum of Cooperation to be signed with the State Geological Office and the Institute of Authorised Auditors regarding performance audits in the relevant area.
- 2020 SAO Annual Programme was adopted on 31 December 2019, within the legally set deadline. The 2020 SAO Annual Programme envisage 47 audits in total, out which 37 regularity audits and 10 performance, follow-up, theme and IT audits.
- The Twinning Fiche for the new Twinning Project funded by the EU IPA 2018 Action Document for PFM is under preparation. The Twinning Project is planned to begin in September 2020 and last for the next 21 months.

## 4. Assessment of Implementation of the 2019 Action Plan

### 4.1. Priority 1: Improved Fiscal Framework

#### **Measure 1: Formulation, adoption and implementation of fiscal rules**

First version of the Draft Organic Budget Law which includes provisions on fiscal rules and Fiscal Council was delivered by the WB expert at the end of 2018. During 2019, the provisions related to the establishment of Fiscal rules and Fiscal council were reviewed and upgraded by the responsible departments in the MoF and draft version was officially sent to the international stakeholders (World Bank, IMF and EU) for opinion. The new OBL is under final refinement following comments received from international stakeholders.

#### **Measure 2: Strengthening forecasting**

In order to meet the objectives for strengthening of forecasting, the following activities were undertaken:

In accordance with the 2019 Action Plan, in the first quarter of 2019, the "R" (a free software environment for statistical computing and graphics) was installed in the Forecasting and Analysis Unit within the Public Revenues and Tax and Customs Policy Department. This software is suitable for statistical computing and graphics as well as analysis and microsimulation.

Also, during 2019, for the purpose of strengthening the administrative capacities of the employees from the Forecasting and Analysis Unit within the Department for public revenues, tax and customs policy, three trainings were realized on revenue forecasting, macro econometric forecasting and analysis and fiscal policy analysis in cooperation with CEF and JVI.

The construction of a new micro-simulation model in the programming language R started in third quarter of 2019. The main focus here is to build a model which will enable easy and quick policy simulations by altering tax parameters for direct and indirect taxes, as well as deeper analyses of income distribution either at individual level and economic welfare analyses by socio economic groups. Work of this model is based on micro-data from the Household Budget Survey and the Survey on Income and Living Condition, and for that purpose, we already provided latest micro-data from the SSO.

Modul 1 of this model was built in the fourth quarter of 2019. This modul is driven by script of around 1.000 round rows and is capable of performing different what-if analysis related to changes of nominal tax rates of the indirect taxes.

This model will be further developed by introducing additional modules with dynamic component for behavioral effects, with support provided by the twinning partners of the EU twinning project „Improving Revenue Collection and Tax and Customs Policy“, in the framework of the second component „Capacities of the MoF for conducting tax policy analysis and forecasting enhanced“.

Procurement of an additional license of the statistical software EViews has been realized in the second half of 2019, financed by the national budget funds.

### **Measure 3: Increased data availability for better forecasting of GDP**

This measure will be realised as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics, within the project Improving the Production and Dissemination of Statistics, financed under IPA 2017 National Programme. The project aims to improve the quality and availability of statistical data in the Republic of North Macedonia and enhance their use in development and coordination of public policies.

This programme started in February 2019 and will last for 36 months. The specific purpose of this project is to further support the State Statistical Office of Republic of North Macedonia in harmonization with EU acquis and upgrading its statistical and ICT infrastructure for increased efficiency of the statistical production and improved data quality in order to respond better to emerging challenges from the changing EU acquis.

Component 1 will improve the existing methodology according to the recommendations of ESA 2010 about quality of national accounts data, ESA 2010 methodology and data provided to Eurostat according to the transmission programme that defines the accounts and tables that are to be provided by all EU member states according to specific deadlines.

Component 1 covers the following activities:

- Activity 1.1 Exploring the usage of administrative and other sources in the field of business and social statistics;
- Activity 1.2 Delineation of gross capital formation;
- Activity 1.3 Improving ESA 2010 transmission;
- Activity 1.4 Establishing Quarterly General Government Accounts in accordance to ESA 2010;

- Activity 1.5 Improving capacities for compilation of EDP notification tables.

For the component on National Accounts, during the reporting period, the following activities were started:

- **Exploring the usage of administrative and other sources in the field of business and social statistics**

The main data sources concerning GDP data by Income approach and employment and hours worked based on ESA'2010 requirements have been analysed and reviewed. Meanwhile, the available information from SSO (Department for Labour market - code by code from the database, in order to prepare a relevant model for GDP by income approach) reviewed and analysed. For the elaboration of employment and hours worked - quarterly data, the work performed during the period concerned the available data sources and national accounts estimates based on ESA 2010. A Gap Analysis of the usage of administrative and other sources in the field of business and social statistics and Action Plan to address the Gaps identified have been produced.

- **Delineation of gross capital formation**

The work performed includes: discussion of the current situation in the compilation and transmission of national accounts data on Gross capital formation and changes in inventories - data sources, coverage, Identification of deficiencies in estimates of Changes in inventories; mark-up for the Work in progress inventories, Improving the estimations of Changes in inventories: HG only for FIFO valuation, timespan - checking the plausibility of using the annual inventories frame for calculation of the quarterly figures versus using direct data if/when available on time emphasizing on deficiencies in data and methods. A Gap Analysis of the delineation of gross capital formation and Action Plan to address the Gaps identified have been produced.

- **Improving ESA 2010 transmission**

The work during 2019 includes: improvement of GDP quarterly data and additional data according to Reg 549/2013 ESA 2010, Annex B Data Transmission Programme – e.g. including GDP by income approach, Employment and Hours worked, Labour productivity, changes in inventories and Gross fixed capital formation. The Gap Assessment report and the Action Plan have been prepared.

It has to be noted that all activities related to statistics are ongoing and will be implemented until the project completion.

## 4.2. Priority 2: Revenue Mobilization

### **Measure 1: Improved revenue legislation framework, harmonized with the EU acquis**

This measure will be implemented through the EU twinning project *Improving Revenue Collection and Tax and Customs Policy*. The twinning fiche for this project has been drafted by the national institutions (MoF, PRO and CARNM) and approved by the EC services, and subsequently circulated to the EU MS. The twinning contract was signed in November 2019. The implementation of the new twinning project is expected to commence in the beginning of 2020.

### **Measure 2: Improved tax and customs services and procedures**

Regarding the implementation of the project activities foreseen in the PROs Modernisation Programme (including reengineering of business processes, new Tax Integrated IT system), the following progress has been achieved:

Pre-populated Annual Tax Return was introduced and issued by the PRO, within the PROs new electronic system e-Personal tax <https://e-pdd.ujp.gov.mk>. Introduction of e-tax services for Personal Income Tax facilitates the accessibility and the opportunities for electronic filing by the citizens and legal entities - income payers, as well as extending the range of initiatives and efforts of the PRO to reduce taxpayers compliance costs, including pre-populated tax returns, that contributes to overcoming TADAT performance assessment of the PRO regarding the Indicator P4-11 Timely Filing of Tax Declarations and P3-8 Supporting Voluntary Compliance.

In relation with the pre-populated Annual Tax Return for all citizens - natural persons, in the reporting period the PRO has started with the following activities: the data were taken on the realized income of the citizens and the personal income tax paid in 2018 from the Pension and Disability Insurance Fund (pensions), data from PIT-DB (Annual tax balance) for realized revenues from independent activity, the salary system MPIN and the E system - personal tax; exchange of data with the carriers of payment operations for foreign exchange inflows of individuals was established and the mapping of the bases for the transactions of the banks with types of revenues was made in the Annual tax return; in the period from 01.04.2019 until 30.04.2019, Annual tax returns for determination of personal income tax for 2018 were generated as well as user profiles of the citizens of the system of e-personal tax; a press release was published on the PRO's website [www.ujp.gov.mk](http://www.ujp.gov.mk) and to the media for informing the citizens about the submission of the Annual Tax Returns for 2018; a press release was published on the PRO's website [www.ujp.gov.mk](http://www.ujp.gov.mk) and to the media for informing the citizens about the manner of confirming / correcting the Annual Tax returns for 2018; the process of confirming / correcting the Annual tax returns for 2018 has been completed. A module for personal income tax refund for agricultural income up to 1 million denars and confirmation of data by the Ministry of Agriculture, Forestry and Water Economy has been created. Personal tax refund orders have been created and the refund procedure has been initiated. Annual tax returns in paper form were submitted for unregistered users of E-PDD system. Request was submitted for adjustment of E-PDD System for 2020 according to the Draft-Amendments to the Law on Personal Income Tax. Activities started by tax officers following the corrected Annual Tax Returns for 2018. This project has been finalised.

The following activities have been achieved during the reporting period regarding the upgrading and maintenance of the e-personal tax system: Business requirements and specification for E-PDD system upgrades with MPIN and PIT-DB / PIT-B system upgrades have been prepared; A draft design of the new calculation of the MPIN Salaries has been prepared; Meetings were held with the Health Insurance Fund and the State Statistical Office on proposals based on the new form. The solution is currently being tested in the data transmission part of the integrated payment system core. System maintenance is a continuous process.

Based on planned and approved budget PRO has adopted the Annual Plan for Employment for 2019, where 35 new employments and 70 promotions are planned. The procedure for employment of 35 administrative officials has started with the publication of Public announcement for employment and the procedure for applying and selection of candidates



in the Administration Agency was completed and 28 new employments were realized. On 07/11/2019 an internal competition no.1/2019 was announced for promotion of 70 tax officers, on the basis of which a Decision was made to select candidates for promotion for a total of 70 administrative / tax officials.

On 1 November 2017 the IPA 2/EUIF 2014 Project "Development and re-engineering of business processes of the new tax integrated IT system" was launched, aiming at improving the administrative capacities of the PRO and further development of efficient business processes. Based on the projects results, a new integrated IT system will be built that will provide a reduction of the costs for tax collection and better services to taxpayers and third parties. The Project was officially completed on 31 January 2019. Modelled Business Processes (BPM2) that show the global business process pattern that needs to be re-engineered and integrated into the new IT system ("TO-BE" system) were delivered as well as a technical specification for the hardware and software for the new integrated IT system and quality control - technical support for implementation. The purchase of the BPM tool (software and licenses) has been unsuccessfully completed, as there was no economic operator that meets the criteria. Therefore, the amended tender documentation has been prepared and the procurement procedure needs to be repeated.

Regarding the software for the new integrated tax IT system and technical support for providing quality assurance during the implementation of the software, an expert for analysis of technical specifications for software, hardware (including the Disaster Recovery Center hardware) has been assigned by the Delegation of the European Union with a task to prepare a market analysis and tender documentation for the new tax integrated IT system in accordance with EU PRAG procedures. Based on the market analysis, a decision should be made regarding the financing of the new tax integrated IT system.

Technical support for quality assurance is planned to be provided in the framework of the joint MoF, PRO and CARNM twinning project "Improving Revenue Collection and Tax and Customs Policy", financed under the IPA 2018.

Activities for securing appropriate location for the new Data IT System Hall are ongoing, which is precondition for starting the planned public procurement procedures.

Regarding the upgrading the existing IT subsystems and equipment of the PRO, maintenance, licenses, etc., the following progress has been achieved:

- Upgrading Tax Accounting Application - The tender procedure was completed and a contract was signed in March 2019. The implementation of the upgrade has been initiated, several meetings have been held with the contractor and with several institutions with which the Public Revenue Office should exchange data for the purposes of the upgrade. Draft Data Exchange Agreements with other institutions have been prepared and sent. Presentation of the new Registry by the Contractor was held for the Heads of Departments in the General Directorate. New taxpayer registration form has been prepared. Activities have been started to clear the situation in the Registry.
- Upgrading and maintenance of e-Taxes - the contract for upgrading and maintaining the e-tax system, which is an external portal to taxpayers is under implementation.

Working group has been set up and initial meetings with the contractor have commenced.

The Customs Administration of the Republic of North Macedonia is making substantial progress in achieving its vision.

The digital system for customs declarations and excise documents processing (CDEPS) has been launched on 01 June 2019. All export declarations are submitted through the CDEPS. The CDEPS is a system that is ranked as one of the most sophisticated systems used by the EU Member States, and with its application, our country goes a step forward in fulfilling the requirements for entry into the European Union.

The implementation of the new system, which is a precondition for further development of digital solutions and services, significantly simplifies the work of all participants in the customs and foreign trade procedure in an efficient and modern customs environment. The customs procedures that were until now performed on paper form will be replaced by electronic procedures. On 1 January 2020, new excise module within the CDEPS should be launched, developed on basis of the Excise Movement Control System, applied in the EU. The CDEPS is a modern and complex system that integrates the existing system solutions. The module has been developed within the CEFTA Regional Working Group. For the economic operators, the system means cut-down on time on filling in declarations, simple processes, and most importantly - a significant cut-down on costs. All processes are automatic, thus reducing the possibility of human error, as well as the risk of illicit activities and corruption. A plan for establishing paperless environment in customs export procedure in CDEPS has been drawn up, with selected pilot customs offices where the project will start operating. Activities for launching the pre-arrival information module for express mail consignments are in progress.

The Government of the Republic of North Macedonia adopted a new Strategy for ICT Development of the Customs Administration (2019-2023) and Action Plan for Interconnection and Interoperability of the CARNM with the EU systems (2019-2023), which is a ground for implementation of the IT systems for the coming mid-term period, and according to the Multi-Annual Strategic Plan for Implementation of e-Customs of the EU for harmonization with the UCC and EU accession (these documents include the necessary human and financial resources for implementation).

The Strategy for ICT Development provides the roadmap for the development of the ICT systems of the CARNM in the next five years (2019-2023) and is in line with the mission, vision and strategic priorities and goals of the CARNM:

- Interconnection and interoperability with the ICT systems of the European Union,
- Improvement of the ICT environment,
- Application of modern technologies and practices for the implementation of business processes,
- Improving the use of the Internet, intranet and social networks in customs operations.

The Customs Administration has been promoting the benefits of being an AEO through several workshops organized to familiarize the Macedonian companies and to additionally encourage them to adequately get involved in the global supply chain and boost their exports. According to this plan, activities aimed at fulfilment of the conditions for mutual recognition of approvals are ahead of us.

So far, 11 companies have acquired AEO status, while 3 AEO authorizations are in the process of approval. To ensure this benefit to be used, the Customs Administration has been intensively promoting the program among economic operators. Since the beginning of the promotion campaign to the present day, there has been a growing interest among the economic operators for this type of authorization which contributes to the increased understanding of the concept itself, its meaning and the benefits of holding this kind of certificate. Together with the promotion of the concept, the Customs Administration is also working on the implementation of the Additional Protocol 5 of the CEFTA Agreement on mutual recognition of the AEO concept within the CEFTA member states.

The activity for 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 will be realised through the twinning project "Improving Revenue Collection and Tax and Customs Policy" financed under IPA 2018. The twinning contract was signed in November 2019 and its implementation is expected to start in the beginning of 2020.

Also, for the purpose of procurement of equipment for improving customs control capacities, CARNM has prepared the tender dossier documents for the implementation of the IPA 2018 supply contract (market analysis, draft-technical specifications and draft-tender documentation) and delivered them to the EUD. Along with the other institutions involved, CARNM has taken part in the process of preparation of the tender dossier for the IPA 2018 contract for upgrading the PFM capacities (equipment, hardware and software) for Disaster Recovery Centre.

The process of analyzing the deviations gaps and the needs for improving the quality of the controls and the timely reaction throughout the country has been completed by CARNM in order to prepare a twinning fiche for the above-mentioned project in cooperation with others involved persons has been completed. The twinning fiche is approved by the EC services, and subsequently forwarded to EU member states.

### 4.3. Priority 3: Planning and Budgeting

**Measure 1: Upgraded programme based budget approach and improved project information**

**Measure 2: Improving the medium – term budget planning**

**Measure 3: Revised Organic Budget Law in line with the improvements of the PFM system**

Maintaining the overall fiscal discipline in the medium term is one of the priorities within the planning and budgeting process, which will result in: i) Medium term fiscal consolidation; ii) Allocation of resources based on programs and program indicators included; and, iii) Medium-term budget framework serves as a reliable guide to future budget allocation for each budget user.

Measures implemented under this priority are aimed to strengthen and upgrade programme budgeting, provide improved project information and continue the process of introduction of a comprehensive Medium-term Budget Framework (MTBF). Programme based budget will

enable budget users to manage their budgets in line with the policies and priorities in their institutions. 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.

Furthermore, using unified approach for appraisal and selection of proposals for public investment projects and improving organizational aspects would make project implementation more transparent.

Introduction of a comprehensive MTBF is the key planning tool to link medium-term budgetary decisions with those deficit and debt targets that have been set. Moreover, 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.

All the above mentioned measures with activities and sub activities under Priority 3, which are planned in the 2019 Action plan are closely interlinked with preparation of the new Organic Budget law and establishment of the new Integrated Financial Management Information System (IFMIS).

The OBL is the framework legislation that defines public financial management system in North Macedonia – it is the main legislation that defines the scope of the central and general government in the country. The Organic 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 report for budget execution, management of the budget allocations and preparation of a Medium-term Fiscal Strategy.

The new OBL will 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. Important new mechanism of the law include:

- i) Establishment of fiscal rules and institutionalization of fiscal council;
- ii) Publication of a Register of Public Sector Entities;
- iii) Medium-Term Fiscal Strategy process improvement, preparation of a baseline scenario and other new initiatives; and
- iv) Improvement of transparency (submission of data for public enterprises, LSGUs).

The activities related to preparation of new Organic Budget Law that started in 2018, continued in 2019. The MoF in cooperation with WB experts intensively worked during 2019 on finalizing the draft of the new Organic Budget Law, preparation of proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities, fiscal rules), as well as on the design options for a new IFMIS. The final draft version of the OBL was officially sent to the World Bank, IMF and EU delegation for comments. The new Budget Law is in the process of fine-tuning based on implementation of the remarks of the international stakeholders. In the next period, we plan to start the public consultation process. The new law should be in line with the improvements planned in the public finance management system, in order to provide a framework for sound, predictable and sustainable fiscal policy and increased budget discipline and accountability.

In particular, following activities were realized during 2019:

- Several technical missions with experts engaged by the World Bank and funded by the UK were carried out. During the missions, meetings between experts and different departments in the MoF and other key stakeholders (National Bank etc.) were held, in order to finalize the As-Is report and to discuss high level process and system changes due to new OBL, as well as future IFMIS implementation strategy, to discuss the draft IFMIS options paper and initiate the discussions on the functional and technical requirements of the future IFMIS modules and integration model (to-be), as well as to deliver workshops for MoF employees to present the draft OBL.

- Government adopted the medium term Fiscal Strategy 2020-2022 in May 2019. In the process of preparation of the document, through web based system E-circular (as a pilot exercise), the MoF instructed budget users to prepare their baseline scenarios (guidelines were submitted with circular letter). Once the MoF establishes the IFMIS and after the adoption of the new OBL, this activity will become a standard procedure in accordance with the law.

In addition, the adopted Fiscal Strategy 2020-2022 encompasses a separate section/chapter on analysis of fiscal risks. In December 2019, the Government adopted the revised Fiscal Strategy 2020-2022, following the practice in developed countries and recent changes during 2019, related to macroeconomic and fiscal parameters. It is important to stress that limits for budget deficit are kept on the same level determined in the Fiscal strategy 2020-2022 adopted in May 2019 (2,3% of GDP in 2020 and 2% in 2021 and 2022) .

Furthermore, during 2019, the MoF in cooperation with the World Bank, the Government of United Kingdom and the EU (through the planned IPA 2018 twinning project Strengthening budget planning, execution and internal control functions) continued to work on the preparation of implementing legislation - bylaws, guidelines, manuals etc. - aimed at operationalization of the Organic Budget Law, further improvements of the PFM system, development of detailed plan of all working processes in the MoF and their mapping, as well as on preparation of a detailed technical specification for IFMIS. Activities related to programme budgeting will be implemented as part of the process for preparation of the methodology and the guidelines for programme budget. The Twinning Fiche for the Project Strengthening budget planning, execution and internal control functions under IPA 2018 was prepared by the national institutions and approved by the European Commission services, and subsequently circulated to the EU member states. The twinning contract for the Project has been signed in December 2019 and the implementation of the project is expected to start in the beginning of 2020.

#### **Measure 5: Developed capacities for compilation of EDP notification tables**

This measure will be implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics within the project Improving the Production and Dissemination of Statistics, financed under IPA 2017.

The work under the activity concerning EDP notification tables focused on: strengthening the expert capacities that will bear the burden of the activities planned, preparation of Memorandum of cooperation with Ministry of Finance, State Statistical Office and National Bank of the Republic of North Macedonia in the field of GFS and EDP, Preparation of EDP

Inventory based on ESA 2010 and elaboration of a Manual on General Deficit and Debt (MGDD). During the period, several data sources have been analysed and they were base for preparation of the Gap assessment report. They concern EDP tables and related questionnaires, EDP Inventory of the methods, procedures and sources used for the compilation of deficit and debt data. During the project missions, presentations and discussions of the data of EDP notification tables have been made. The necessary data sources for compilation of EDP tables and related questionnaires, timeliness and consistency have been analysed. The discussion covered defined problems and action steps. As a result, the Gap Analysis and Action Plan have been provided.

It has to be noted that all activities related to statistics are ongoing and will be implemented until the project completion.

## 4.4. Priority 4: Budget Execution

### **Measure 1: Implementation of new financial management information system (IFMIS)**

In the area of budget execution, one of key reform processes is implementation of contemporary integrated information system for public financial management with the aim of improving the efficiency of the working processes. The activities for development of functional and technical requirements for the IFMIS were supported by the World Bank under the Technical Assistance on Organic Budget Law project, which started in November 2018. In 2019, the following activities were carried out:

- the AS-IS Report was prepared in February 2019. Details of existing PFM information systems and the gaps identified in core PFM processes are presented in the AS IS report. Most of the functional and technical challenges identified in this report can be addressed by enhancing the capabilities of existing PFM information systems.
- the IFMIS options Report was prepared in April 2019. It is expected that the new OBL will change the PFM processes and information systems in many aspects. Following the mapping of business processes (as-is) and assessment of existing PFM information systems, discussions on possible implementation options and proposed modules are part of this report.
- in April 2019, a workshop was organised with all relevant departments in the MoF on which the IFMIS options were presented;
- in June 2019 second workshop was organised in the MoF to discuss the latest draft Organic Budget Law and expected changes in core public financial management processes and information systems and the functional and technical requirements of the future IFMIS modules and integration model (to-be).
- in December 2019, technical specification for the new IFMIS was delivered and a workshop was organized with relevant stockholders were the IFMIS concept and future changes were presented.

### **Measure 2: Strengthening commitments controls**

The publication of quarterly summary reports from the recorded data for reported liabilities in accordance with the Law on reporting and recording of liabilities (Official Gazette No.64/18)

is performed continuously. The reports on the reported liabilities are published by: subjects, group of subjects, type of expenditure and types of customers. The latest reports are published on the MoF's website with data for the fourth quarter of 2019<sup>7</sup>.

### **Measure 3: Strengthening debt management**

The Law Amending and Supplementing the Law on Public Debt was adopted and published in the Official Gazette of the Republic of North Macedonia No. 98 of 21.05.2019. The goals of the PDL amendments are: greater transparency, harmonization with international practices and greater credibility among international institutions and investors. The main amendments to the law are the following:

1. The national definition of public debt has been broadened to include non – guaranteed debt of public enterprises,
2. Developing a public debt management strategy, as a separate document,
3. Determination of maximum borrowing limit for the state during one fiscal year,
4. Improvement of the system for issuing consents for borrowing with sovereign guarantee, and
5. Improving the process of on-lending borrowing.

The preparation of the Debt Management Strategy as separate document will be postponed for 2020 due to the delayed adoption of the Law Amending and Supplementing the Law on Public Debt which provides the legal basis for the Debt Management Strategy. In January 2019, WB mission for capacity building was held where one of the covered topics was the Debt Management Strategy. In November 2019 short World Bank experts visit was organised as a continuation of the assistance in public debt management and implementation of the GDRM Program.

Further capacity trainings will follow. In addition, one person participated in training for designing debt management strategies organised by the World Bank.

The MoF supported by World Bank experts under the GDRM Programme has introduced new short term risk indicator within the Fiscal Strategy 2020-2022. So, in order to protect the central government debt portfolio against refinancing risk, a maximum limit for the debt due in 2020 in relation to the total central government debt has been set at 35%.

Also, in 2019, human capacities of the relevant MoF department dealing with public debt management have been strengthened by 1 new employee.

The new cash flow forecasting procedure has been designed and tested for its functionality. Next steps envisage its fine-tuning as a forecasting instrument, additionally automated. This subject has been included in the World Bank mission under the GDRM programme held in November 2019.

As regards the provision and update of data basis (relevant time series and variables (Q1-Q4 2019)), the relevant time series have been extracted from the TRIS system on regular basis and are updated as needed.

### **Measure 4: Strengthening public procurement system**

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<sup>7</sup> <https://finance.gov.mk/mk/node/7317>

The new Law on Public Procurement ("Official Gazette of the Republic of Macedonia" No. 24/19) was adopted in January 2019. Most of the bylaws deriving from the new law were adopted by the Minister of Finance and published in "Official Gazette of the Republic of North Macedonia" No. 64/19, 225/19, 250/19 and 263/19. Only two remaining bylaws are still pending as of 31 December 2019.

The process of institutional strengthening of the public procurement system, including the review set-up, in view of the new expanded competences of the Public Procurement Bureau envisaged with the new Law, is in progress. Out of 25 envisaged employments so far, nine new employments were realised and Public Procurement Bureau has 31 employed civil servants in total.

The Twinning contract for the Project *Strengthening budget planning, execution and internal control functions* under IPA 2018 was signed in December 2019 and its implementation is expected to start in the beginning of 2020.

The tender documentation for EU supported Project (FWC SIEA 2018- LOT 2: Infrastructure, sustainable growth and jobs, EuropeAid/138778/DH/SER/multi) aimed for developing platform for e-Marketplace and e-Catalogues and SACPP processing system was drafted by the national authorities - PPB and SAC and currently is in a process of finalisation based on the comments received from the EUD. Tendering and contracting procedures of this project are under the competence of the EUD as a Contracting Authority.

The process of institutional strengthening of the State Appeals Commission for Public Procurement continued. Out of 3 (three) envisaged employments, 2 (two) new employments were realised and SAC will require consent from MoF for the one left recruitment. SAC has 13 (thirteen) employed civil servants in total.

#### **Measure 5: Effective PPP and concessions system**

In order to harmonize legislation with the relevant EU legislation in the area of concessions and public-private partnerships, i.e. transposition of the 2014/23/EU Directive on the award of concession agreements, the Interministerial Working Group composed of representatives from several institutions has prepared an initial draft of the Law. This activity was prolonged in order to provide technical assistance from foreign donors and will continue with technical assistance from the World Bank.

The TA of the World Bank started in June 2019 when several meetings with WB experts and representatives of institutions involved in this area were conducted for the purpose of scanning the situation in the North Macedonia in the field of public-private partnership. In December 2019, the World Bank team presented the Report on Regulatory Framework (Concessions and PPPs). In the beginning of 2020, this report should be discussed with relevant institutions, both in terms of legal regulations and technical specifications for the establishment of the Electronic System for PPP. Also, proposals from legal experts regarding the manner and content of legal framework are expected in the next period.

In the forthcoming period the working group, with the assistance provided by the World Bank experts will continue the activities for drafting the law and the bylaws in order to achieve full harmonization with the EU legislation.

Regarding the activity for establishing Single electronic PPP register, after the conducted preliminary consultations with IT experts, which determined the possibility of upgrading the



existing Electronic System for Electronic Auctions set up in the Ministry of Economy with the modules needed to ensure the implementation of the overall procedure for awarding contracts for establishment of a public private partnership, from the publishing of the announcement until the conclusion of the agreement, and its generation through the system, it is expected that further support will be provided under the TA project for preparation of technical specifications by the World Bank's IT experts. The technical specification will be prepared after the adoption of the new law and the bylaws, since the basis for its establishment should be contained in the law itself and the by-law which will regulate the subject matter.

### **Measure 6: General Government Accounts established in accordance with ESA 2010 and made available for policy makers**

This measure will be implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics, within the IPA 2017 project on Improving the Production and Dissemination of Statistics.

Under the component on National Accounts, the activity for establishing quarterly general government accounts in accordance to ESA 2010 started which envisages: strengthening the human capacities that will bear the burden of the activities planned, assessment of the availability and quality of data necessary for production of GFS data on quarterly basis, development of a capacity for implementing of methodology for calculation of GG Accounts, comprehensive, timely and reliable reporting of QGFS data, availability to the users of GFS quarterly data. During the reporting period, the SSO in cooperation with project experts intensively discussed and analyzed several data sources and methodology requested for elaboration of the table 2500. Other activities covered: analysis and presentation of consistency between the ESA 2010 data transmission program (Annex B, EU Reg. 549/2013), GNI data, GFS tables and EDP notification tables, data sources, timeliness and consistency were identified on the T2500 - identifying problems and future steps. Gap Analysis and Action Plan under this activity have been prepared. In order to present to three institutions involved in the compilation process of EDP data, a meeting with the SSO, MoF and National Bank was organised and discussed and defined the responsibilities, arrangements and future steps concerning activities for EDP and QGGA.

It has to be noted that all activities related to statistics are ongoing and will be implemented until the project completion.

### **Measure 7: Strengthening statistical services**

This measure will be implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics, within the IPA 2017 project on Improving the Production and Dissemination of Statistics.

For the component on IT, during the reporting period, the following activities were started:

1. Needs analysis has been done, tender documentation has been prepared and the tendering procedure for purchasing of part of the hardware has started (in the amount of EU funds, excluding the national co-financing);
2. The current situation is being evaluated in relation to the processes and tools for statistical production.

It has to be noted that all activities related to statistics are ongoing and will be implemented until the project completion.

## 4.5. Priority 5: Transparent Government Reporting

The Ministry of Finance focuses much of its activities on improving transparency in the management of public finances by creating additional and quality information that will be easy to use and accessible to the wider public.

The following activities were undertaken in 2019 with regards to the process of transparent government reporting:

- As a part of the Report for final account of the Budget of the Republic of North Macedonia, the balance of deposits is published;
- Fiscal strategy is supplemented by a comparative analysis of the mid-term projections of the budget with data from the Revised Fiscal Strategy 2019-2021, as well as comparison with the projections of other domestic and international institutions;
- Fiscal strategy is supplemented with data on the main financial indicators for state-owned public enterprises and fully-owned companies for 2018 and a plan for 2019, transferred funds from the budget to public enterprises and fully state-owned companies, as well as paid gains and dividends in the budget of public enterprises and joint stock companies in state ownership;
- New tool for [capital expenditures](#) was set up on the web page of the Ministry of Finance, representing a visualization of the realized capital expenditures by budget user, against its annual budget;
- In the Annual Public Debt Management Report for 2018, a table for adjusting stock flow adjustment is presented, which explains the factors that influence the change in the stock of debt.

In addition to publication of additional data on the MoF website, two new web portals for improving fiscal transparency have been created.

The "Citizens Budget" is a web application that allows access and overview of the budget, through an interactive interface created for the citizens. It provides information about the budget planning, distribution and income. Citizen's budget is being prepared for each budget cycle.

The portal "Open Finance" is aimed at providing the public with an insight into the data, available to the Treasury Department within the MoF, as regards the realization of transactions of all budget users in the Republic of North Macedonia. In the first phase, all the transactions of the budget institutions within the Central Budget of the Republic of North Macedonia, covering the institutions from the Core Budget (ministries, agencies, offices, etc.) and the social security funds are published. Transactions of the local government units and their budgetary institutions will be published in the second phase.

The development of the portal was supported by the USAID. The Open finance portal is officially launched in November 2019.

Transparency is a horizontal issue that will be continuously improved during the Programme.

## 4.6. Priority 6: Internal Control

In 2019, the activities for strengthening the internal control system in the public sector continued with the development of a sound and efficient financial management and control system and internal audit.

In the first quarter of 2019, the MoF focused on the preparation of the “PIFC Policy Paper (with Action Plan for the period from 2019 to 2021)” as a strategic document for the further development of the internal control system in the public sector, which the Government of the Republic of North Macedonia adopted on March 12, 2019.

This document sets out priorities, measures and activities in order to develop a system of internal controls that will serve as a tool for responsible, accountable, successful and transparent management of national funds and European funds.

This document combines measures related to PIFC and the activities included in the Public Administration Reform Strategy 2018-2022 and the Public Finance Management Reform Program 2018-2021 and provides for new measures to ensure further continuous strengthening of the public internal financial control.

The implementation of these activities started within the framework of the twinning light project "Further improvement of the internal control system ", funded by the EU (IPA), which ended on June 15, 2019.

The main goal of this project was to improve the internal control system in the country in order to ensure efficient managerial accountability, transparency and sound financial management of public funds in accordance with international standards and best practice of the EU.

In cooperation with the project, the following outputs were delivered:

- Draft Law on the Internal Financial Control System in the Public Sector
- Draft methodological tools for FMC and IA (FMC Manual, IA Manual, Risk Management Guidelines, Managerial Accountability Manual)
- Pilot internal audits were conducted in three budget organizations
- Draft methodology for performing quality checks of IA and FMC (instructions, questionnaires).
- Draft programs for continuous training for FMC and IA staff
- Trainings were organized for FMC staff and internal auditors from central and local level, attended by a total of 528 participants.

On the closing event for the project, the results of the project were presented, including the novelties in the Draft Law on the system of internal financial controls in the public sector. For the purpose of monitoring the implementation of the PIFC Policy Paper (with Action Plan 2019 - 2021), the Minister of Finance adopted a Decision on the establishment of a Committee for monitoring the implementation of the Internal Financial Control Policy in the public sector in May, 2019.

The Committee held its first meeting on 15th July 2019, at which the Report on the progress in the implementation of the PIFC Policy Paper (with Action Plan for the period from 2019 to 2021) for the period March-June 2019 was approved. This report has been prepared by the members of the Committee from the MoF- Central Harmonisation Unit in coordination with other institutions represented in the Committee (from MISA and SG). This report was reviewed at the PFM Council meeting held on November 4, 2019.

In September 2019, the Central Harmonisation Unit, within the framework of the Dutch bilateral support and the National Academy of Finance and Economics, began conducting an assessment of key control activities at the Ministry of Labor and Social Policy.

Assessment is carried out in the light of the implementation of the PIFC Policy Paper in Priority 4: Control activities in financial management, Measure 4.1: Determining weaknesses in key control activities in one pilot institution and Activity 4.1.1: Conducting an assessment at the control activities in achieving objectives, preventing fraud and corruption in public procurement, and preventing the further creation of arrears.

To this end, the Ministry of Finance - Central Harmonisation Unit in cooperation with experts from the Netherlands has developed a "Criteria for Evaluation of Key Control Activities" and a Questionnaire.

At the first working group meeting, which took place on 8 October 2019, were discussed the criteria and questionnaire for the assesment of key control activities. At the second workshop meeting held on November 7, 2019 were presented the answers to the questionnaire regarding control activities in achieving objectives, preventing fraud and corruption in public procurement and preventing further creation of arrears. At the third working meeting held on December 17, 2019, the answers to the additional questions for the preparation of a draft self-assessment report to be considered on January 21, 2020 were presented.

Further support for implementation of PFM Reform Program and the PIFC Policy Paper is planned to be obtained within the framework of the IPA 2018 Twinning Project "Strengthening budget planning, execution and internal control functions", which is expected to start with implementation in early 2020.

## 4.7. Priority 7: External Control and Parliamentary Oversight

### **Measure 1: Improved strategic planning and external audit process in line with the ISSAIs**

The objective of this measure is 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.

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.

The activities for preparing Assessment Report, including recommendations for improving the audit process in line with ISSAIs, were finalised.

Activities for preparing Report with comparative analysis, recommendations and suggestions with reference to developing strategic planning process, were completed.

Reviewing and updating the SAO methodological acts related to the strategic planning process has been implemented under the Twinning Project. The twinning experts from Bulgarian NAO assisted the SAO Working Group in preparing the methodological framework for strategic and annual audit planning process. The main steps of the process of the strategic and annual audit planning, criteria for assessing audit areas / sub-areas and templates of working documents were created. After adoption on the Guidelines for Strategic and Annual Planning on Audits, Multi-annual Audit Plan 2021-2023 will be developed.

SAO continuously builds 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 fulfillment of the relevant legal requirements for audit.

The activities for drafting report with recommendations for strengthening SAO institutional capacity and HR capacities were finalised. Based on the Report with recommendations for strengthening SAO institutional capacity and HR capacities, SAO Training Plan was produced.

Pilot performance audits in the areas such as EU funds, ICT, realization of higher education graduates on the labor market and public procurement, were conducted under the Twinning Project, in order to improve audit practice in such audits based on ISSAI's and EU best practices. The results and lessons learned from the pilot audits were presented to all SAO auditors on a conference organized on 25 July 2019.

## **Measure 2: Improved scrutiny over the budget by the Parliament**

The objective of this measure is to improve institutional and/or legal mechanism for anticipation of audit reports by the Parliament.

Analysis of existing legal and institutional framework with regard to cooperation between SAO and Parliament is focusing 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.

A survey was conducted on the relationship between the SAO and the Parliament. The aim of the survey was to evaluate the need of awareness rising of the Parliament's members regarding the understanding of the audit process and the audit results and to draw up an

Action Plan based on the results of the survey. Based on the results from the survey, Awareness Raising Needs Assessment with Action Plan was prepared.

Conclusions and recommendations set out in the Final report with recommendations and Action Plan with implementation measures for the institutionalisation of relations with Parliament and for mutual cooperation between Parliament and SAO were discussed with the representatives of the Parliament and the SAO.

As a result of these Twinning project activities, we have clear recommendations on what is needed to develop quality parliamentary discussion on audit reports and what effects should be expected on reviewing audit reports in Parliament. Proposal to amend the Law on State Audit was formulated, which will regulate the submission of the audit reports for consideration in the Parliament.

*The monitoring process is based on the PFM reform management and coordination framework, consisted of the following structures established at all hierarchical level of decision-making:*

- *PFM Council*
- *PFM Working Group*
- *Coordinators per Priorities*
- *Measure Leaders*

Programme.

In addition, the 2019 Action Plan sets up indicators and targets per year for each activity planned.

The country, with the support of the Commission, is in a process of developing a sector-based performance assessment framework structured around a set of objectives, result and impact indicators and targets. For the PFM sub-sector the PAF integrates the indicators and targets as per the PFM Reform Programme and the responsibilities for data collection and processing are being assigned on the grounds of the monitoring and reporting system planned in the PFM Reform Programme. The SWG for PFM is currently working on the proposal of indicators to be included in the PAF system.

Strong political commitment as regards the fulfilment of the reform goals set in the 2018 - 2021 PFM Reform Programme is ensured through the PFM Council.

The PFM Council has held two meetings in 2019. On the 1 March 2019, the PFM Council held its a meeting on which the draft Annual Monitoring Report Monitoring Report on Implementation of the 2018 Action Plan for Public Financial Management Reform Programme for the period December 2017 – December 2018, and the draft 2019 Action Plan for Implementation the Public Financial Management Reform Programme were discussed and endorsed, before their submission for adoption by the Government. On the 5 November 2019, the PFM Council held meeting on which the draft Semi - Annual Monitoring Report

## 5. Monitoring and Coordination

For the purpose of monitoring of the progress in implementation of the PFM reforms, priority outcomes with outcome indicators and activity outputs with output indicators for each priority/activity are defined in the log-frame of the

Monitoring Report on Implementation of the 2019 Action Plan for Public Financial Management Reform Programme for the period January 2019 - June 2019 was approved and endorsed. At the same PFM Council meeting, the Report on the progress in the implementation of the PIFC Policy Paper (with Action Plan for the period from 2019 to 2021) for the period March-June 2019 was reviewed.

The Sector Working Group (SWG) for PFM is established with Decision from the Minister of Finance and comprises of representatives from all relevant PFM and other related institutions (MoF, State Audit Office, State Statistical Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement, Ministry of Economy, Secretariat of European Affairs, Ministry of Information Society and Administration, Cabinet of the Deputy Prime Minister for Economic Affairs), as well as observers from donor community and civil society organisations. The Decision also appoints priority coordinators and measure leaders for each priority and measure from the Programme, giving them certain tasks in the system for monitoring and reporting.

The IPA and NPAA Unit within the MoF represents the Coordination Unit, acting as a technical secretariat to support functioning of the PFM Working Group and PFM Council. In general, its tasks comprise of technical preparation of the meetings of the PFM Council and PFM Working Group and preparation of compiled reports on progress in implementation of the reforms under each priority and compiled annual action plans, based on the input provided by the Priority Coordinators and Measure Leaders.

These working bodies also ensure the necessary coordination among all PFM sub-system strategies and policies (PIFC Policy Paper, Tax System Reform Strategy, PRO and CARM strategies) as well as the other related national strategies, such as the Public Administration Reform Strategy.

Meetings of the PFM SWG are held regularly both on policy and technical level.

On policy level, meetings of the PFM SWG are held in a form of PFM policy dialogues with all relevant stakeholders (civil society, business sector, academia, EC and other donors, IFI's and other international partners active in the sector).

In 2019, one PFM Policy Dialogues was held on 16 September 2019, aligned with the date of the meeting of the PAR Special Group.

On technical level, SWG meetings are held on concrete PFM sub-areas measures, including on IPA II programming and implementation.

During the reporting period, two technical meetings of the SWG for PFM were held in June and November 2019, for discussing the final version of the PFM indicators to be proposed for the Performance Assessment Framework. Also, several technical meetings were organised for the purpose of drafting tender documentation for projects planned under the IPA 2018 Action Document for PFM.

## 6. Financing of 2019 Action Plan

The 2019 Action Plan provides details on the cost implications of the reform activities in 2019: budget funds were allocated, while part of these activities were planned to be financed with donor funds. The following table presents the realisation of the budget for implementation of the 2019 Action Plan.

Table - financing of 2019 Action Plan

Priority	Budget in EUR					
	National budget		Donor funds		Total	
	Planned	Realised	Planned	Realised	Planned	Realised
1: Improved Fiscal Framework	<b>190,519</b>	8,463	<b>618,500</b>	172,500	<b>809,019</b>	180,963
2: Revenue Mobilization	<b>879,997</b>	200,048	<b>299,766</b>	299,766	<b>1,179,763</b>	499,814
3: Planning and Budgeting	<b>158,536</b>	158,536	<b>0</b>	0	<b>158,536</b>	158,536
4: Budget Execution	<b>248,695</b>	117,504	<b>601,876</b>	301,876	<b>850,571</b>	419,380
5: Transparent Government Reporting	<b>29,300</b>	29,300	<b>13,000</b>	13,000	<b>42,300</b>	42,300
6: Internal Control	<b>5,000</b>	5,000	<b>87,849</b>	87,849	<b>92,849</b>	92,849
7: External Control and Parliamentary Oversight	<b>12,000</b>	12,000	<b>138,117</b>	138,117	<b>150,117</b>	150,117
<b>Total</b>	<b>1,524,047</b>	<b>530,851</b>	<b>1,759,108</b>	<b>1,013,108</b>	<b>3,283,155</b>	<b>1,543,959</b>

## Annexes

Annex 1: Performance Indicators Matrix on the 2019 Action Plan for PFM Reform Programme

Annex 2: Risk assessment of the 2019 Action Plan for PFM Reform Programme