



REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE

Monitoring Report
on Implementation of the 2020 Action Plan
for Public Financial Management
Reform Programme

for the period January - August 2020

September 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 2020 Action Plan for realisation of the Public Finance Management Reform Programme for the period January - August 2020 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 and finalised by the end of September 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 Report provides information on progress achieved in implementation of reform activities for the period January – August 2020.

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 third year of implementation of the PFM Reform Programme, the Government is continuing the PFM reforms activities which started in 2018 and 2019, but also planned new reform activities launched in 2020.

The 2020 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 July 2020. The 2020 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

The status of implementation of the planned activities as of 31 August 2020 are presented in the Annex 1: Performance Indicators Matrix on the 2020 Action Plan for PFM Reform Programme.

The updated Risk assessment of the 2020 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 19th 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 2020 Action Plan for Implementation of the PFM Reform Programme was adopted by the Government on 21th July 2020, following its endorsement by the PFM Council. The delay in the process of reviewing, consulting and endorsing this Action Plan is due to the Government's measures to deal with the health crisis caused by the pandemic with COVID 19 and its consequences.

It elaborates in details the measures, activities and sub-activities of the PFM Reform Programme that will be implemented in 2020, 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 2020 Action Plan is based on continuation of the reform activities started with the previous Action Plans for 2018 and 2019, 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 2020.

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 2020 - 2022 has been submitted to EC on 3 February 2020¹ after government's formal endorsement.

The European Commission's assessment² of ERP 2020 - 2022 points that the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2019 has been partially implemented. In the area of macro-fiscal reform measures, it states among others, that the government further enhanced fiscal transparency, but measures to strengthen fiscal frameworks have been delayed. A tax strategy was

¹ <https://finance.gov.mk/files/ERP%20MKD%202020-2022%20en.pdf>

² <https://data.consilium.europa.eu/doc/document/ST-7470-2020-INIT/en/pdf>

prepared, but needs to be followed up with decisive policy steps, such as review of existing tax exemptions to broaden the tax base. The general government debt ratio narrowed somewhat in 2019, largely as a result of underimplemented capital expenditure. In relation to progress in statistics, it states that progress is made concerning annual international trade in service statistics, research and development, harmonised indices of consumer prices, and short-term business statistics. Further progress is expected regarding adherence to the excessive deficit procedure methodology. Efforts on government finance statistics should be intensified and the data gaps in annual and quarterly national accounts should be addressed.

As the Covid-19 pandemic was expected to have strong effects on the economy in 2020, the Policy guidance adopted within Economic and financial dialogue in May 2020³, put focus this year on the short-term priorities to mitigate the socio-economic consequences of the pandemic crisis and on the medium-term priorities to strengthen the foundations of a sustained recovery thereafter. Hence, the following recommendations are to be implemented and reported upon in the next ERP 2021-2023:

1. Use fiscal policy to mitigate the crisis-induced impact on growth and employment. Adopt the tax System reform Strategy 2020-2023 and improve revenue collection capacities in line with the strategy. Further improve the transparency of public finances by publishing regular fiscal reports on public enterprises and taking steps towards incorporating them in general government statistics in line with the excessive deficit procedure methodology.
2. To support economic recovery, improve public investment management to mitigate technical obstacles to implementation of capital spending. Establish a comprehensive registry of state aid and review firm-level subsidies based on their cost-effectiveness. take initial legal and operational steps to establish fiscal rules and a fiscal council with a view to strengthening fiscal sustainability in the medium term.

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. The revised enlargement methodology states that the credibility of accession process should be reinforced through even stronger focus on fundamental reforms, that are to become more central in accession negotiations. Negotiation on the fundamentals will be guided by: roadmap for the rule of law, roadmap on the functioning of democratic institutions **and a stronger link with the economic reform programme process to help countries meet the economic criteria.**

³ <https://www.consilium.europa.eu/media/44029/st08101-en20.pdf>

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. Moreover, the agendas for conducting both, the PFM policy dialogue and Special Group for PAR are aligned.

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 has not yet been adopted due to the pre-election period. The Strategy will be adopted by the Government by the end of 2020. 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 progress reports on the implementation of the PIFC Policy Paper (with the Action Plan for the period from 2019 to 2021) for July-December 2019 and January - June 2020 were adopted by the Committee for Monitoring the Implementation of the Internal Financial Control Policy in the Public Sector in January and July 2020 respectively.

The implementation of the measures and activities set out in the PFM Program and PIFC Policy Paper are supported by the Twinning project "Strengthening the functions of budget planning, execution and internal control", within Component 2: "Strengthening the system of public internal financial control through effective Implementation of the PIFC Policy Paper". Due to the situation with COVID-19, the activities within the Twinning project started in June 2020 and are implemented with reduced dynamics.

PRO Strategic Plan 2020 - 2022 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. The draft Strategic Plan will be adopted after appointment of a new General Manager of PRO.

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 2020 – 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

From 1st of April to 5th 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.

Fiscal Transparency Evaluation was conducted in April/May 2018 by the IMF and the Report was published in October 2018. Number of recommendation were taken into consideration while defining the activities related to transparent government reporting.

Public Investment Management Assessment (PIMA)

In response to a request of the Government, in coordination with Ministry of Finance (MoF), from January 21 to February 4, 2020, a team of experts from Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF), World Bank, and European Court of Auditors, conducted the Public Investment Management Assessment (PIMA) which aimed to evaluate the quality of public investment management practices (the focus is on infrastructure projects). This assessment was provided with financial support from EU Directorate-General for Neighborhood and Enlargement Negotiations (DG Near).

The tasks of the mission were to: (i) assess North Macedonia's public investment management framework; (ii) assist the authorities to prepare a reform strategy and prioritized action plan for strengthening the management of public investment; and (iii) recommend follow-up areas of technical support that could be provided by FAD or other development partners.

The Final PIMA report was submitted by the IMF to the Ministry of Finance on April 28, 2020. The report assesses the quality (institutional set-up and effectiveness) of the so-called PIM institutions in the three main phases of the investment cycle: planning, allocation and implementation, identify findings and make recommendations for improving the public investment management framework.

Based on the recommendations given, the IMF has proposed a detailed Action Plan contained in Annex I of the Report. It prioritizes the recommendations, proposes deadlines for implementation (by years, from 2020 to 2023), identifies implementing authorities and proposes providers of technical assistance for capacity development.

Based on the Action Plan proposed in the PIMA Report, the Ministry of Finance currently is preparing a draft Action Plan for implementation of the recommendations, which will cover the activities planned in the first two years - 2020 and 2021, that should be adopted by the Government.

Further information are presented in the relevant section of Priority 3.

2.4 Donor coordination

Commitment of donors to support the PFM reforms and maintain the policy dialogue in the country continues during the third 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 co-ordinate the donors' assistance through conducting open and inclusive PFM policy dialogue with all relevant institutions and donors.

Due to the COVID 19 pandemic, one PFM policy dialogue will be held in October 2020.

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.

2. Technical level - PFM Sector Working Group - directly related to the working groups established for the development and monitoring of the 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.

The Policy Dialogue meeting is scheduled on 7 October 2020, aligned with the meeting of the PAR Special Group.

Starting from the beginning of 2020, in the next 3 years (until 2023) Ministry of Finance in cooperation with

other institutions (Public Revenue Office, Customs Administration, Public Procurement Bureau, State Appeal Commission on Public Procurement and Ministry of Economy) will implement two major twinning projects funded by EU - IPA 2018, which should provide support to the functions of the MoF in the field of budget planning and execution, internal control, public procurement, as well as in the field of tax and customs policy and system and revenue collection:

- 1. Strengthening budget planning, execution and internal control functions,** with twinning partner consisting of the following EU member states: Netherlands (National Academy of Economics and Finance of the Ministry of Finance), Croatia (Ministry of Finance), Latvia (Ministry of Finance) and Bulgaria (Ministry of Finance).
- 2. Improving Revenue Collection and Tax and Customs Policy,** with twinning partner consisting of the following EU member states: Austria (Agency for European Integration and Economic Development together with the Federal Ministry of Finance) and Croatia (Ministry of Finance - Customs and Tax Administration).

The FAD technical assistance for the Tax 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 the area of external audit, 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. Planned activities regarding expert's missions for 2020 have been postponed due to circumstances with Covid-19 pandemic.

SAO continues its cooperation with the Westminster Foundation for Democracy (WFD) by implementing new project entitled "Increasing accountability and transparency in Macedonia through improved implementation of SAO recommendations", supported by the British Government. Planned activities within this project relate to the implementation of SAO Communication Strategy 2020- 2023, focusing on SAO communication with the media and journalists. The initial project activities started in February 2020 and were planned to be completed by July 2020, but due to the circumstances with the coronavirus pandemic, the activities are implemented with delayed dynamics.

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 2020 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). Draft OBL is in the process of final reading and fine-tuning by the MoF, before the start of the public consultation process planned for the fourth quarter of 2020.

In the area of strengthening of forecasting, the construction of a new micro-simulation model in the programming language R which started in third quarter of 2019, is continuing with activities under the IPA twinning project *Improving Revenue Collection and Tax and Customs Policy*, with a main goal to upgrade the current micro-simulation R models for direct and indirect taxation in Agent-Based Model (ABM) with dynamic component for behavioural effects between agents.

Macroeconomic Policy Department has already started with further development of the macroeconomic model by applying different methods for quarterly distribution of national account data, and by reassessing the supply side of the model, using the knowledge gained within the previous EU twinning projects. In that respect, the MoF considers that the external technical assistance previously planned for this activity is not necessary.

In the area of statistics, the activities under the *Component 1: Further alignment with the EU standards in the field of macro-economic statistics* of the IPA project *Improving the Production and Dissemination of Statistics*, aimed to achieve increased data availability for better forecasting of GDP, are continuing.

Revenue mobilization

Activities related to harmonization of the tax and customs legislation will be implemented with twinning support under the EU-IPA 2018 twinning project *Improving Revenue Collection and Tax and Customs Policy*. Project activities started in May 2020. Several workshops were realized related to gap analysis of national legislative provisions in the area of: Value Added Tax, Excises, Tax Procedure and Customs Code, compared to the latest EU legislation and best practices and elaboration of written recommendations for improvement of Excise Law.

The reconstruction of the IT system hall in the PRO - General Directorate Skopje has started.

The process of upgrading and maintenance of the existing PRO subsystems and IT equipment have continued. The upgrade of the e-personal income tax is being implemented, but the completion of the overall process is in progress. Upgrade and maintenance of e-Taxes has started. Specification of functional requirements for a new IT Debt Management module has been prepared.

The activities under the *Component 4: Operational and administrative capacities of Public Revenue Office for enforcement of national legislation, IT services and procedures improved* of the IPA twinning project *Improving Revenue Collection and Tax and Customs Policy*, have started, related to the collection of taxes, VAT refunds, automatic data exchange, modernization of the PRO and professional and ethical standards.

In the area of customs operations, during the reporting period, several acts and regulations were adopted, in terms of the measures taken to dealing with and mitigating the effects of the COVID 19 pandemic.

Export customs clearance procedure through the new software is completely paperless as of 1st April 2020. Customs declaration including all accompanying documents (invoice, CMR) are submitted electronically – paperless. The pilot procedure for completely paperless import have begun, with the aim all customs procedures to be completely paperless by the end of 2020.

Republic of North Macedonia through the Customs Administration is the first country in the CEFTA region to submit an official request to start the process of international recognition of the granted customs simplifications and safety and security Authorized Economic Operator (AEOS and AEOC) authorizations.

To strengthen its administrative capacity, the Customs Administration also revised the updated version of the e-learning course EU Customs Law - Review.

Customs Administration prepared *Guidelines for customs issues related to the COVID-19 state of emergency*, aiming to offer guidelines to the stakeholders, with practical solutions arising from the existing legal framework (application of customs regulations in the decision-making process, customs procedures and customs formalities, as well as application of procedures related to excise goods).

Since the introduction of the CDEPS in June 2019, about 60% of the total export to the Republic of North Macedonia is done through simplified customs procedures, which practically means that two out of three trucks complete the export without coming to the customs terminal, thus avoiding the daily, holiday and non-working customs terminal costs, given that the system operates 24 hours, 7 days a week.

Planning and budgeting

Following the comments received by the World Bank, IMF and EU delegation, the MoF supported by WB expertise funded by the Government of United Kingdom was intensively working during 2020 to finalise the draft Organic Budget Law and prepare proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities, fiscal rules). The draft OBL is in the process of final reading and fine-tuning by the relevant MoF staff, before the start of the public consultation process, planned for the fourth quarter of 2020, through publishing the draft OBL to the Single National Electronic Registry of Regulations of the Republic of North Macedonia - ENER.

Furthermore, during 2020, the MoF in cooperation with the World Bank, the Government of United Kingdom and the EU (through the IPA 2018 twinning project Strengthening budget planning, execution and internal control functions) continues to work on the preparation of implementing legislation - bylaws, guidelines, manuals etc. - aimed at operationalization of the Organic Budget Law and further improvements of the PFM system.

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 first Public Investments Management Assessment (PIMA) in North Macedonia was conducted in the period January 21 to February 4, 2020, by a team of experts from Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF), World Bank, and European Court of Auditors, under coordination of the MoF. The final PIMA report was submitted by the IMF at the end of April 2020. The report assesses the quality (institutional set-up and effectiveness) of the so-called PIM institutions in the three main phases of the investment cycle: planning, allocation and implementation, identify findings and make recommendations for improving the public investment management framework. Based on the recommendations given, the IMF has proposed a detailed Action Plan contained in Annex I of the Report. It prioritizes the recommendations, proposes deadlines for implementation (by years, from 2020 to 2023), identifies implementing authorities and proposes providers of technical assistance for capacity development.

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

Budget execution

During 2019, Ministry of Finance worked intensively on development of functional and technical requirements for the new IFMIS together with World Bank experts through a project funded by the United Kingdom. As a result, a detailed technical specification was prepared, based on which a tender dossier should be prepared and a public procurement should be conducted for the new integrated system during 2021.

Recently, the Ministry of Finance is considering options for financing of IFMIS, together with EU and the World Bank.

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 second quarter of 2020.

Debt management strategy is in final phase of preparation and it is expected to be adopted by the Government in Q4-2020.

In the area of public procurement, all corresponding bylaws deriving from the new Law on Public Procurement were adopted and published in the "Official Gazette of the Republic of North Macedonia".

Tender procedure for developing platform for e-Marketplace and e-Catalogues and SAC processing system has been launched.

Assessment report on public procurement legislation in North Macedonia was prepared and delivered by twinning project's experts, with recommendations concerning legislation and strengthening capacity in the field of public procurement.

In order to increase transparency and accessibility to the data on the public contracts connected with the COVID-19 crisis, a new tool for easier indication of COVID-19 related public contracts was introduced on the ESPP. This tool provides special marking of the Contract award notices published on ESPP for the conducted negotiated procedures connected with the COVID-19 crisis.

In direction to establishing effective system for public-private partnership and concessions and legislation in line with European legislation, in the past period Ministry of Economy supported by the World Bank experts worked on bottlenecks in this area and harmonized views on certain issues, primarily regarding systemic

regulation and manner of regulation, competencies that will arise from the Law, fiscal implications that would arise in the implementation, etc.. The report on the legal analysis with recommendations for the legal regulation of this area by the experts of the World Bank was prepared and submitted to the Ministry of Economy at the end of July 2020, on the basis of which the Ministry of Economy started drafting the Law.

Also, with World Bank assistance, the technical specifications for the establishment of the Single Electronic PPP system were analyzed and developed, with modules needed to ensure the implementation of the entire procedure for granting agreements related to establishment of a public-private partnership from the announcement to the conclusion of the agreement that will generate a Register of concluded agreements.

With support under the EU Twinning project *Strengthening budget planning, execution and internal control functions*, the legal framework in the area of PPP and concessions has been analyzed and recommendations provided.

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 continued under the IPA project Improving the Production and Dissemination of Statistics.

In March 2020, IT equipment was delivered and installed in SSO, as a result of the tendering procedure for purchase of hardware.

Transparent Government Reporting

In February 2020, the MoF launched a new transparency tool about the public debt javendolg.open.finance.gov.mk, prepared with support from IRI and USAID. Platform comprise five parts: public debt and its components, debt trends by years, public debt financing in 2020, securities issuance, and debt of public companies for each of them separately, as well as the expected borrowing and the repayment by the enterprises in 2020, are published on this platform.

In June 2020, Open Finance portal data set was broaden with data for transactions of municipalities.

The financial indicators of the public enterprises and trade companies at central level are presented for the first time within the Fiscal Strategy 2020-2022. The new Fiscal Strategy 2021-2023 is additionally improved with data on realization in the first quarter of 2020, as well as data on the amount of capital investments expressed through investment programs of public enterprises and companies at the central level.

Ministry of Finance is in the process of establishing a dedicated banner within the website in order to present data on the execution of financial plans of public enterprises and companies at the central level on a quarterly basis.

Internal control

The progress reports on the implementation of the PIFC Policy (with the Action Plan for the period from 2019 to 2021) for July-December 2019 and January - June 2020 were adopted by the Committee for Monitoring the Implementation of the Internal Financial Control Policy in the Public Sector in January and July 2020 respectively.

The activities within the EU IPA 2018 twinning project *Strengthening budget planning, execution and internal control functions* started in June 2020 and are implemented with slowed dynamics due to the COVID 19 pandemic.

In 2020, the CHU continued with the activities for assessment of the key control activities in the Ministry of Labor and Social Policy, within the framework of Dutch bilateral support.

Annual Report on the Functioning of the Public Internal Financial Control System for 2019 was adopted by the Government of the Republic of North Macedonia in August 2020.

External Control and Parliamentary Oversight

At the session of the Assembly of the Republic of North Macedonia held on 12 December 2019, Maksim Acevski, MSc was elected new Auditor General, and at the session held on 4 February 2020, Orhan Ademi was elected Deputy Auditor General, which ensured conditions for unimpeded managing and organization of the work of the State Audit Office.

Aspects of the recommendations contained in the Report of the European Commission on the Republic of North Macedonia for 2020 and the PFM Reform Programme are contained in SAO strategic documents as follows:

- SAO Development Strategy 2018 - 2022;
- SAO IT Strategy 2018 - 2022;
- Human Resources Management Strategy 2020 - 2023;
- SAO Communication Strategy 2020 - 2023; and
- SAO Risk Management Strategy 2020-2023.

The last three above-mentioned strategic documents were adopted in 2020.

Based on the SAO Communication Strategy 2020-2023 adopted in mid-February 2020, SAO commenced several activities to increase transparency and accountability, as well as activities within the project funded by the British Government and implemented by the Westminster Foundation for Democracy (WFD), in cooperation with RESIS - Research Institute for Social Development from Skopje, with focus on communication with the media and journalists.

Based on the recommendations for further development of the strategic and annual audit planning process given by the experts in the previous Twinning project, SAO prepared and adopted Guidelines for Strategic and Annual Audit Planning. The Guidelines provides basis for preparing SAO Strategic Audit Plan for period 2021 - 2023.

In order to enhance the cooperation with other institutions, in 2020 SAO has signed Memorandums of Cooperation with the Geological Office of Republic of North Macedonia and the Institute of Certified Auditors of the Republic of Macedonia; a letter of support and readiness for cooperation in the field of economic development and fight against corruption was sent to the National Committee of the International Chamber of Commerce.

Important aspects of the audit processes have been improved with the adoption of the following acts:

- Procedure for the manner of operation of the Expert Body in the State Audit Office; and
- Public Procurement Audit Program based on the new Public Procurement Law.

The certification body performed second recertification check and prepared report stating that SAO management system is fully compliant with the requirements of the standard MKS EN ISO 9001: 2015.

In February 2020, SAO institutional capacities were strengthened with two employments, increasing the number of SAO employees to 90.

With the aim of improving SAO institutional capacities, new acts for internal organization and systematization of jobs were adopted and obtained consent of the competent ministries. SAO successfully implemented the Annual Work Program for 2019 by issuing 90 final audit reports, submitting these reports to the Assembly of Republic of Macedonia and publishing the reports on SAO website.

SAO 2019 Annual Report on performed audits and operation was prepared and submitted to the Assembly of Republic of North Macedonia within the legally prescribed deadline by the end of June 2020 and is made available on SAO website, as

well as it submitted to the President of the Assembly and to each MP, to acquaint them with the contents of the Report.

SAO is currently implementing the Annual Work Program for 2020, which was timely adopted on 31 December 2019, with one modification adopted on 2 June 2020. With the second modification to the Annual Work Program for 2020, SAO plans to conduct two audits on implemented measures related to the coronavirus.

SAO capacities for conducting performance audits are constantly upgraded. The Annual Work Program for 2020 contains 8 performance audits, including two international cooperative audits.

With the aim of improving follow-up of audit recommendations, the final audit reports were reviewed by the Government of Republic of North Macedonia on a regular basis in 2020 and conclusions were made obliging the supervisory bodies and the audited entities to prepare action plans for implementation of audit recommendations.

Consistent with SAO 2019 Annual Report on performed audits and operation published in June 2020, with the implementation of the SAO Annual Work Program for 2018 and 2019, measures have been taken upon 789 recommendations, i.e. acting upon audit recommendations is 76.6%.

As a result of the activities of the previous Twinning Project, we have clear recommendations on what is needed to develop quality parliamentary discussion on audit reports and the expected effect of reviewing audit reports in the Assembly. These recommendations were the starting point for drafting the twinning fiche for a new twinning project "Improving external audit and parliamentary oversight" MK 18 IPA FI 03 20. Our priorities in the coming period will be effective completion of the procedure for regulation of the constitutionality of the State Audit Office and strengthening financial and operational independence of SAO, as well as setting up regular and effective mechanism for reviewing audit reports by the Assembly of Republic of North Macedonia following European practice.

The new Twinning project "Improving external audit and parliamentary oversight" MK 18 IPA FI 03 20, envisages assessment of the legal framework for external audit and making proposals for achieving constitutional independence and strengthening SAO financial and operational independence. Currently the project proposals are expected to be submitted by the MS(s) and evaluated in accordance with the Twinning Manual. It is expected the Twinning project to start in 2021 for a period of 24 months.

4. Assessment of Implementation of the 2020 Action Plan

4.1. Priority 1: Improved Fiscal Framework

Measure 1: Formulation, adoption and implementation of fiscal rules

Establishment of fiscal rules and a fiscal council with a view to strengthening fiscal sustainability in the medium term will be regulated with the Organic Budget Law (OBL).

Draft OBL is in the process of final reading and fine-tuning by the MoF, before the start of the public consultation process planned for the fourth quarter of 2020, through publishing the draft OBL to the Single National Electronic Registry of Regulations of the Republic of North Macedonia - ENER.

Measure 2: Strengthening forecasting

In order to meet the objectives for strengthening of forecasting in the period of January-August 2020, the following activities were undertaken:

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, several trainings were realized in cooperation with JVI and CEF related to fiscal framework and revenue forecasting.

Also, in this period, the new EU-IPA 2018 twinning project *Improving Revenue Collection and Tax and Customs Policy* started with implementation, where the second component “*Capacities of the MoF for conducting tax policy analysis and forecasting enhanced*” is specifically earmarked to strengthen forecasting capacity of the MoF. In this period several workshops were conducted on modern data analysis (e.g. coding in the programming language R, working with tool for the preparation of the interactive reports Rmarkdown etc.) and practical examples on how to download big data sets from internet (e.g. annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs - AMECO etc.).

The construction of a new micro-simulation model in the programming language R which started in third quarter of 2019, is continuing with activities of twinning project where main goal is to upgrade the current micro-simulation R models for direct and indirect taxation in Agent-Based Model (ABM) with dynamic component for behavioural effects between agents. In order to achieve this, in August 2020, Public Revenue Office provided micro-simulation data related with direct taxation and work

can continue in the future period as planned in the Roll-up Action Plan of the twinning project.

Additionally, in the field of micro-simulation training was provided by the World Bank in the programming language Python and GITHUB platform, where main focus was put on how to design the model, how to put growth factors, making reforms, running various reforms in the model to estimate revenue and distributional impact. Training in this field will continue in September 2020.

In the following period, by the end of 2020, in accordance with the Roll-up Action plan of the twinning project, several activities and outputs should be delivered, in particular: a report of estimation of tax expenditures and tax gap, training for using of Tax benefit micro-simulation model for the European Union-EUROMOD, improving of forecasting with now-casting methods etc.

Further development of the macroeconomic model (P1M2A4)

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.

The macroeconomic model that was built during the EU twinning project "Strengthening the capacity of the MoF for macroeconomic analysis and policy formulation" is functional and is efficiently functioning. However, we were looking for ways to further develop it. Our initial intention was to use certain disaggregated quarterly national accounts data which should have been published by the SSO. But, having in mind that their publication was postponed by the State Statistical Office, the Macroeconomic Policy Department has already started with further development of the model by applying different methods for quarterly distribution of national account data, and by reassessing the supply side of the model, using the knowledge gained within the EU Twinning project "Strengthening the capacity of the Ministry of Finance for macroeconomic analysis and policy formulation" and follow-up missions within the EU Twinning project "Strengthening the medium-term budgeting for effective public financial management". Therefore, we deem that the technical assistance previously planned for this activity is not necessary.

Measure 3: Increased data availability for better forecasting of GDP

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 on Improving the Production and Dissemination of Statistics, financed under IPA 2017.

During the period from 20 January to 24 January 2020 one mission was carried out.

The following activities were done:

- ✓ Analysis of employment and hours worked based on National accounts figures, quarterly and annual data were done.
- ✓ 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.
- ✓ 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.
- ✓ Activities started related to: 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. ESA 2010 DTP for tables: 0110, 0111 and 0303.

4.2. Priority 2: Revenue Mobilization

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

This measure will be implemented with twinning support under the EU-IPA 2018 twinning project *Improving Revenue Collection and Tax and Customs Policy*. In particular, Component 1 of the twinning project is related to harmonization of tax and customs legislation with EU acquis, standards and best practices.

The project commenced on January 21, 2020 and will be implemented in the next 36 months with twinning partners from Austria and Croatia.

Project activities related to harmonization of the tax and customs legislation started in May 2020. So far under this component 5 workshops were realized, out of which, four workshops were related to gap analysis of national legislative provisions in the area of: Value Added Tax, Excises, Tax Procedure and Customs Code, compared to the latest EU legislation and best practices and one workshop to elaboration of written recommendations for improvement of Excise Law.

Due to the current situation with COVID-19 pandemic, the workshops were carried out via video conference.

In the next period, by end of 2020, the following activities are planned to be delivered: performing gap analysis of remaining national laws, such as Personal Income Tax, Profit Tax, Property Taxes and Customs Measures for Protection of Intellectual Property Rights; elaboration of written recommendations for improvement of the Value Added Tax Law and Customs Code; preparation on Reports on the normative framework on suspending autonomous customs tariff duties favourable tariff treatment of goods for end-use, guarantees of customs debt and write-off uncollected claims, customs fees and for drafting and alignment of the Customs Law (new UCC) and bylaws with EU legislation.

Measure 2: Improved tax and customs services and procedures

Regarding the implementation of project activities of the PROs Modernisation Programme and Strategic Plan, the following progress has been made:

In the period from 01.01.2020 to 31.08.2020, PRO have realised the following new employments:

- 11 new recruitments for an indefinite period of time in a takeover procedure from other institutions / mobility;
- 29 new recruitments for an indefinite period of time according to Public Announcement 349/2019, in accordance with the Annual Employment Plan for 2019;
- 20 new fixed-term recruitments after Public Announcement 1/2020, until 31.12.2020;
- 8 reassignments / horizontal to a job of the same level with change in status (from civil servants to tax officials) and
- 4 reassignments / horizontal to a job of the same level.

The activities to adopt the Annual Employment Plan for PRO for 2020 (which envisages 100 new recruitments and 100 new reassignments) have been suspended, as a result of the government decision to prohibit new recruitments, public sector hiring's through temporary employment agencies and new temporary service contracts by the end of 2020, as one of the measures to reduce expenditures.

The IPA 2/EUIF 2014 project "Development and re-engineering of business processes of the new tax integrated IT system" officially ended on 31/01/2019 and delivered the following outputs: modeled business processes (BPM2) which show the global scheme of business processes that need to be re-engineered and integrated in the new IT

system ("TO-BE" system), a technical specification for the hardware and software for the new integrated IT system and quality control - technical support for implementation.

Procurement of BMP tool (software and licenses) was completed unsuccessfully, there was no economic operator that meets the criteria. The procedure should be repeated in the next period.

Regarding the software for the new integrated IT tax system and technical support for quality control during software implementation, on 02/07/2020, the Delegation of the European Union submitted a Notification (as a Response to the PRO letter dated 30/06/2020, addressed to the EUD). The letter states that EUD is not confident that financing of fragmented modules of PRO's current system will lead to achieving the strategic objectives defined by the Public Financial Management Reform Programme (2018-2021) and therefore proposes to continue with financing the implementation of the remaining required modules from PRO's own resources. The Public Revenue Office with the support of Ministry of Finance is in the process of searching for new donors for the remaining modules.

The reconstruction of the IT system hall in the General Directorate Skopje is in final phase. It is expected to be finished till the end of 2020.

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

- Upgrading and maintaining e-personal income tax. The upgrade is being implemented. MPIN in progress, PIT TB implemented, module implemented, return / redirection - but the completion of the process is in progress.
- Upgrade and maintenance of e-Taxes has started.
- Specification of functional requirements for a new IT Debt Management module has been prepared.

PRO is one of the beneficiaries of the new EU-IPA 2018 twinning project *Improving Revenue Collection and Tax and Customs Policy*, which started in January 2020. Namely, the component 4 *Operational and administrative capacities of Public Revenue Office for enforcement of national legislation, IT services and procedures improved* of this twinning project is specifically designed to strengthen the capacities of the PRO.

As of end-August 2020, 5 activities have started, related to the collection of taxes, VAT refunds, automatic data exchange, modernization of the PRO and professional and ethical standards. 26 representatives of the PRO participated in the activities. Due to

the health and economic crisis caused by the COVID-19 pandemic, the activities of the project have been organised and conducted online.

In this period the following acts and regulations related to customs operations were adopted:

- On April 1, 2020, the Government of the Republic of North Macedonia adopted the Excise Duty Law Implementing Regulation with legal force in a state of emergency (Official Gazette of the Republic of North Macedonia No. 86 of 01.04.2020), stipulating that private health institutions, pharmacies and manufacturers of medicines, auxiliary medicines and disinfectants, holders of preferential use permits should submit a guarantee to securing the excise debt that may be incurred for excise goods that are in the process of excise duty deferred payment until 30th June 2020. In accordance with the above, the Customs Administration informed the holders of permits for preferential use of ethyl alcohol intended for medical purposes and production of disinfectants intended for combating COVID-19, that the obligation to submit guarantees for securing excise debt is extended until 30th June 2020.
- On its Session held on 24th April 2020, the Government of the Republic of North Macedonia, pursuant Article 58 paragraph 1 of the Law on the Protection of the Population from Infectious Diseases (Official Gazette of the Republic of Macedonia no. 66/04, 139/08, 99/09, 149/14, 150/15 and 37/16) adopted a Decision supplementing the Decision on measures to prevent the import and spread of COVID-19, allowing export of disinfectants: soaps with or without surfactants with disinfectants of tariff code 3401, preparations (for washing, cleaning and gels) based on surfactants of tariff code 3402, toilet preparations with disinfectant of tariff code 3307 90 00 00, mixtures of chemical compounds of tariff code 3824 99 92 00, 3824 99 93 00 and 3824 99 96 00, and non-denatured ethyl alcohol with an alcohol content of 80% vol or higher of a tariff code 2207 10 00 00 by economic operators and producers from the Republic of North Macedonia, provided that with each export the exporter and the producer must enclose a statement to the customs declaration claiming that they have 30% of the average daily production of disinfectants available at any time in their warehouses or storage facilities, a quantity intended exclusively for the needs of the domestic market.
- On 14 May 2020, the Government of the Republic of North Macedonia adopted a Regulation with legal force amending the Excise Duty Law Implementing Regulation with legal force in a state of emergency (Official Gazette of the Republic of North Macedonia No. 125/2020), under which the deadline for

submitting a guarantee to secure the excise debt that may be incurred for excise goods that are in the procedure of excise deferred payment is extended to December 31, 2020. The Customs Administration duly informed the private health institutions, pharmacies and producers of medications, auxiliary medicines and disinfectants, holders of excise preferential use permits.

- On May 21 April 2020, the Government of the Republic of North Macedonia adopted a Regulation with legal force amending the Excise Duty Law Implementing Regulation with legal force in a state of emergency (Official Gazette of the Republic of North Macedonia No. 105/2020), concerning new excise duty amounts for certain fuels - oil derivatives, the manner of calculating the excise duty amount, as well as the deadline for conducting the stock inventory, preparation of Report and submission of the Report to the competent customs authority and the deadlines related to payment of the difference of excise duty in case of increase of the excise tax on energy generating products. The Customs Administration duly informed all economic operators – manufacturers, importers, traders with oil derivatives.
- The Government of the Republic of North Macedonia, at its session held on 7th April 2020, pursuant Article 19 paragraph (7) of the Customs Law, adopted a Decision on autonomous measure abolishing the import duty - customs duty rate on frozen pork and pig fat, free of lean meat, and poultry fat, not rendered or otherwise extracted, fresh, chilled, frozen, salted, in brine, dried or smoked for a period until 31.12.2020.
- To ensure better regulation of the trade, in state of emergency conditions and measures to prevent the spread of the corona virus, "Green" priority corridors for the Western Balkans have been introduced, providing priority access for goods set out in the priority list, prepared by the CEFTA members. Pursuant to Article 7 paragraph 4 of the Law on Customs Administration, in April 2020 the Customs Administration adopted an Instruction for movement of goods through green corridors within CEFTA, to clarify how priority goods will move through the green corridors
- In this regard, in accordance with Article 7 paragraph 4 of the Law on Customs Administration, in April, 2020 the Customs Administration adopted a new User Guide for operational use of the SEED system, regarding the procedures for providing fast movement of shipments of essential goods through the green corridors, in order to accelerate the trade in essential goods (such as: food, animal feed, chemicals and vital medical supplies and equipment), through the following customs border crossing points located at the priority green corridors:

Customs Office Tabanovce Motorway, Customs Office Blace and Customs Office Kjafasan.

- Pursuant to the Decision Amending the Decision on the measures for prevention of the spread of Corona virus COVID19 (Official Gazette of the Republic of North Macedonia No. 92/20), instead of banning it, the export of protective masks by economic operators and manufacturers from the Republic of North Macedonia is restricted. This means that economic operators, producers or importers may export protective masks made of paper, cellulose or cellulose fibers of tariff code 4823 90 85 and plastic masks with textile filter of tariff code 6307 90 98 98 00, provided that for each export a statement enclosed to the customs declaration is submitted claiming that they have 20% of the average daily production of protective masks available at any time in their warehouses or storage facilities, a quantity intended exclusively for the needs of the domestic market
- Pursuant the Decision amending the Decision for restriction of the export of wheat and wheat flour, published in the Official Gazette of Republic of North Macedonia no. 90/2020), instead of a ban on exports, the export of wheat and flour during one month is limited to 70 % of the total amount of wheat and wheat flour produced in the previous month. The restriction will be implemented by granting of permits by the Ministry of Economy through EXIM system for import, export and transit licenses, under the license title E004 ME

Under the Macedonian Presidency with the CEFTA Subcommittee on Customs and Rules of Origin on 14th May 2020 the Customs Administration organized through a video conference the 19th meeting of representatives of the Customs Administrations and Ministries of the CEFTA countries (Albania, Bosnia and Herzegovina, Moldova, Montenegro, Serbia and Kosovo), a representative of the EFTA countries, the CEFTA Secretariat Director, senior representatives of the European Commission, the World Bank, the IFC and the EU Transport Community.

Under the meeting Agenda, the delegates discussed the start of the international recognition of the AEO Authorisations within CEFTA, which will greatly facilitate the movement of goods for our economic operators, speed up the customs procedures, reduce the costs and increase their competitiveness. The delegates also discussed the introduction of a joint official logo for AEO in CEFTA (Authorized Economic Operator in CEFTA). Concerning the current functioning of the green corridors, the delegates discussed the possibility for them to be applied also for the goods of the authorized economic operators and for perishable goods. The Agenda also included discussions about the Convention on the Origin of Goods - the PEM Convention and the conclusion

of free trade agreements with the EU, which will be great facilitation for our economic operators and will make them more competitive particularly those exporting to EU member states and the PEM zone. Taking into account the current situation with the COVID crisis, the development of e-commerce between CEFTA countries was discussed, which in the future will be of particular importance for the economic operators in the CEFTA region trade, as well as with EU and EFTA countries. Due to the expressed satisfaction with the current cooperation within the SEED system (CEFTA data exchange system), it was agreed to expand the system with the possibility of exchanging pre-arrival information, i.e. information before the arrival of the goods with the EU countries.

As of 1st April 2020, the export customs clearance procedure through the new software is completely paperless, i.e. besides the customs declaration being paperless, all documents accompanying it (invoice, CMR) are also submitted electronically – paperless. The pilot procedure for completely paperless import will begin in the summer, so that by the end of 2020 all customs procedures will be completely paperless.

With the entry into force of Decision no. 1/2019 of the Joint CEFTA Committee (on 01.04.2020) to introduce a procedure for mutual recognition of national AEO programmes, the Republic of North Macedonia through the Customs Administration is the first country in the CEFTA region to submit an official request to start the process of international recognition of the granted customs simplifications and safety and security Authorized Economic Operator (AEOS and AEOC) authorizations.

The AEO status is an internationally recognized quality mark, which indicates that the economic operators in the Republic of North Macedonia (producers, exporters, importers, freight forwarders, transporters) in the international supply chain are safe and secure and that their customs controls and procedures are efficient and aligned.

The advantages of being a holder of an AEO authorisation are multiple, both direct and indirect. The direct advantages include: greater efficiency in the personal internal system and processes, prior notification when selected for customs control, easier access to customs simplifications, priority treatment if selected for control, opportunity for the AEO to request for a different location where the control shall be performed and increased cooperation with customs authorities, but with other state agencies also. The indirect benefits include: reduced security and safety incidents, reduced theft and loss, i.e. safer products, facilities, equipment, information and resources in terms of theft, use of a logo that is useful as a marketing tool, a reliable and trustworthy business partner.

With the procedure of international recognition, practically, if a Macedonian company has the status of internationally recognized AEO, when exporting goods to any CEFTA country it will have the treatment of a "domestic" company, as the companies of the host country. The same treatment will have an AEO company when importing in the Republic of North Macedonia. As part of the Macedonian chairmanship with the CEFTA Subcommittee on Customs and Rules of Origin initiatives have been put forward for this process of mutual and international recognition to also apply to EU Member States.

- To strengthen its administrative capacity, the Customs Administration also revised the updated version of the e-learning course EU Customs Law - Review.
- Guidelines for customs issues related to the COVID-19 state of emergency were published. As a result of the crisis created by the COVID-19 pandemic, issues occurred in relation to the application of customs regulations in the decision-making process, customs procedures and customs formalities, as well as application of procedures related to excise goods, especially in the area of treatment of the ethyl alcohol for healthcare facilities and disinfectant producers. For certain cases, there are existing provisions in the customs and excise regulations, providing appropriate solutions applicable for these exceptional circumstances.

The purpose of this document in this period of crisis is to offer guidelines to the stakeholders, with practical solutions arising from the existing legal framework. Given the possibility of further development of the crisis and the need for addressing additional issues which may arise, this document will be supplemented and amended as needed.

The Government of South Korea with a grant of 700,000 Euros will support the capacity building in the Macedonian Customs Administration, especially in the area of express mail consignments, detection of illegal financial flows, as well as risk analysis in e-commerce. On 2nd June 2020, a kick off meeting was organized to launch the project, attended by Customs Director General Gjoko Tanasoski, Finance Minister Nina Angelovska and a delegation of South Korea's Customs Administration. The Customs Service is one of the key agencies responsible for smooth running of international trade and trade of goods, due to which the support that the Customs Administration will receive in the field of e-commerce, which has been growing and developing worldwide, especially now in the new conditions created by the Covid 19 crisis is of particular importance. Such an approach directly affects the growth of micro, small and medium enterprises, in terms of wider access to foreign markets by reducing entry barriers and reducing operating costs. Exchanging the experience with the Customs

Administration of South Korea in this domain will contribute to the establishment of a balance between facilitated and accelerated delivery of shipments, but at the same time increased collection of budget revenues from this type of trade.

June 2020 marks one year of the launch of the CDEPS, as a precondition for further development of digital solutions and services, significantly simplifying the work of all participants in customs and foreign trade procedure, in an efficient and modern customs environment. The implementation of the CDEPS has reduced the costs of economic operators and facilitated the implementation of free trade agreements. With the application of electronic procedures, the annual savings is estimated to over 4 million Euros. Since the introduction of the CDEPS, about 60% of the total export to the Republic of North Macedonia is done through simplified customs procedures, which practically means that two out of three trucks complete the export without coming to the customs terminal, thus avoiding the daily, holiday and non-working customs terminal costs, given that the system operates 24 hours, 7 days a week.

Under the EU IPA twinning project Improving Revenue Collection, Tax and Customs Regulations, 6 online workshops have been completed in the reporting period, in different areas and per the following activities:

- Preparation of legal documentation and bylaws for waste management
- Preparation of technical specification for IT systems (NCTS - PHASE 5)
Compliance with EU legislation - excise duties with emphasis on tobacco products
- Compliance with EU legislation - Value Added Tax - VAT
- Alignment of the national Customs Law with the Union Customs Code (UCC)
- Alignment of Customs and Excise IT systems with EU legislation, customs clearance of postal and express consignments

The events were attended by participants from the Ministry of Finance, the Public Revenue Office, the Ministry of Environment and Physical Planning and the Customs Administration, i.e. 45 Customs Administration's employees attended the above-mentioned training events.

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 2020 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 new initiatives; and
- iv) Improvement of transparency (submission of data for public enterprises, LSGUs)
- v) Establishment of an integrated information system for public financial management.

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.

The activities related to preparation of new Organic Budget Law that started in 2018, continued in 2019 and 2020. Following the comments received by the World Bank, IMF and EU delegation, the MoF supported by WB expertise funded by the Government of United Kingdom was intensively working during 2020 to finalise the draft Organic Budget Law, prepare proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities, fiscal rules). At the moment, the draft OBL is in the process of final reading and fine-tuning by the relevant MoF staff, before the start of the public consultation process. The MoF plans to conduct the public consultation process in the fourth quarter of 2020, through publishing the draft OBL to the Single National Electronic Registry of Regulations of the Republic of North Macedonia - ENER and subsequently, to submit the law to the Government for its adopting.

Government adopted the medium term Fiscal Strategy 2021-2023 in July 2020. In the process of preparation of the document, through web based system E-circular, 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 the Fiscal strategy 2021-2023, projected revenues of the General Government Budget, as % of GDP, are planned at a level of 32.2% in the next three years. As a result of the continuity in the implementation of disciplined budget policy and the strengthened control of public spending, the total expenditures of the consolidated budget in the period 2021-2023 are planned to decrease from 35.5% in 2021 to 34.1% in 2023. Consequently, and in line with gradual fiscal consolidation, the general government

budget deficit will be reduced from 3.2% of GDP in 2021 to 2.2% of GDP in 2022 and to 2% of GDP in 2023.

The adopted Fiscal Strategy 2021-2023, in addition to data on total revenues and expenditures on annual basis, presents new data on financial operation of the public enterprises and joint-stock companies at the central level, in particular data on realisation of the financial plan in Q1, 2020 and data on the amount of capital investments expressed through investment programs of public enterprises and joint-stock companies. Furthermore, the data on realisation of the financial plans of public enterprises and joint-stock companies will be published on quarterly basis on a dedicated banner on the website of the MoF.

Furthermore, during 2020, the MoF in cooperation with the World Bank, the Government of United Kingdom and the EU (through the IPA 2018 twinning project Strengthening budget planning, execution and internal control functions) continues to work on the preparation of implementing legislation - bylaws, guidelines, manuals etc. - aimed at operationalization of the Organic Budget Law and further improvements of the PFM system. 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 activities planned under the *Component 1: Support for implementation of the new OBL provided* of the EU - IPA 2018 twinning project *Strengthening budget planning, execution and internal control functions*, that started in February 2020, were paused due to the COVID 19 pandemic, but their implementation will continue from September/October 2020.

In response to a request of the Government, in coordination with Ministry of Finance (MoF), from January 21 to February 4, 2020, a team of experts from Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF), World Bank, and European Court of Auditors, conducted the Public Investment Management Assessment (PIMA) which aimed to evaluate the quality of public investment management practices (the focus is on infrastructure projects).

The implementation of the technical mission, the provision of data requested by the IMF team of experts and the organization of technical meetings with national institutions was coordinated by the Ministry of Finance - International Financial Relations and Public Debt Management Department. All Ministries and other institutions, regulatory bodies and state-owned enterprises (SOE) that implement infrastructure projects participated in the assessment.

The tasks of the mission were to: (i) assess North Macedonia's public investment management framework; (ii) assist the authorities to prepare a reform strategy and

prioritized action plan for strengthening the management of public investment; and (iii) recommend follow-up areas of technical support that could be provided by FAD or other development partners.

The Final PIMA report was submitted by the IMF to the Ministry of Finance on April 28, 2020.

The report assesses the quality (institutional set-up and effectiveness) of the so-called PIM institutions in the three main phases of the investment cycle: planning, allocation and implementation, identify findings and make recommendations for improving the public investment management framework.

Based on the recommendations given, the IMF has proposed a detailed Action Plan contained in Annex I of the Report. It prioritizes the recommendations, proposes deadlines for implementation (by years, from 2020 to 2023), identifies implementing authorities and proposes providers of technical assistance for capacity development.

Based on the Action Plan proposed in the PIMA Report, the Ministry of Finance currently is preparing a draft Action Plan for implementation of the recommendations, which will cover the activities planned in the first two years - 2020 and 2021, that should be adopted by the Government.

The Ministry of Finance has envisaged in the new functional analysis to be implemented from 2021, an establishment of a new organisational unit within the International Financial Relations and Public Debt Management Department that will deal with tasks related to public investment. Namely, in accordance with the IMF recommendations given in the report, new functions will emerge for the MoF in the field of PIM which are not currently performed (no expertise and staff), in the area of assessment and monitoring of public investments - infrastructure projects and fiscal risk assessment on infrastructure projects. In terms of capacity building of people who will work on PIM, MoF will need coordinated technical assistance from the EU, IMF and World Bank.

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 on Improving the Production and Dissemination of Statistics, financed under IPA 2017.

During the period 20-24.01.2020 second mission on EDP notification tables and related questionnaires was carried out.

The following activities were done:

- ✓ Analysis of quality of the data sources for EDP Notification tables, EDP Questionnaires, methodology and timetable;
- ✓ Experimental calculation based on the existing information for compilation of Questionnaires related to EDP tables 1.1, 1.2 and 3) - sources and timetable.
- ✓ Work on Memorandum for cooperation between SSO, Ministry of Finance and National Bank - deadlines for submitting of available data among the institutions.
- ✓ The EDP Inventory of the methods, procedures and sources used for the compilation of deficit and debt data and the underlying government sector accounts according to ESA'2010 has been reviewed and discussed in details.

4.4. Priority 4: Budget Execution

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

The establishment of a new efficient and integrated financial management information system in the Ministry of Finance (IFMIS) is one of the key reforms in the public financial management system. During 2019, Ministry of Finance worked intensively on development of functional and technical requirements for the new IFMIS together with World Bank experts through a project funded by the United Kingdom. As a result, a detailed technical specification was prepared, based on which a tender dossier should be prepared and a public procurement should be conducted for the new integrated system during 2021.

Recently, Ministry of Finance together with EU and the World Bank considered an option for financing IFMIS with IPA 2018 funds and a loan provided by the World Bank, where the World Bank would appear as the implementer of the project. Namely, given the experience that the World Bank has had in implementing such projects, the indivisibility of the procurement of such systems (IT systems) as well as technical assistance to be provided during the process of implementation, the Ministry of Finance prefers this project to be implemented by the World Bank in order to use their expertise and support in the process of implementation of the IFMIS.

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 second quarter of 2020⁴.

Measure 3: Strengthening debt management

Latest amendments of the Law on Public Debt (Official Gazette of the Republic of North Macedonia No. 98 of 21.05.2019) envisage the development of a public debt management strategy as a separate document. However, due to postponement of the activities for preparation the Fiscal Strategy caused by emergency situation with COVID-19, there was a need for consequent postponement of the activities for preparation and adoption of the Public Debt Management Strategy. This need arises from the very tight connection between the activities for preparation of the Fiscal Strategy and the Public Debt Management Strategy. Debt management strategy is in final phase of preparation and it is expected to be adopted by the Government in Q4-2020.

Measure 4: Strengthening public procurement system

Public Procurement Bureau (further: PPB) continued the process of complementation of primary legislation by corresponding secondary legislation.

In this direction, all corresponding bylaws deriving from the new Law on Public Procurement ("Official Gazette of the Republic of Macedonia" No. 24/19) were adopted and published in "Official Gazette of the Republic of North Macedonia".

Additionally, most of the bylaws deriving from the new Law on Public Procurement in the field of defence and security ("Official Gazette of the Republic of Macedonia" No. 180/19) were also adopted and published in "Official Gazette of the Republic of North Macedonia", except one which is still pending.

In a direction of strengthening the capacities of the contracting authorities and procurement officials, PPB continued with organizing trainings, which due to the COVID -19 crisis, were organised as online trainings. PPB also organized and carried out additional workshops for auditors/representatives of State Audit Office (further: SAO), aiming to improve the expertise and capacity of SAO regarding the new Law on Public Procurement.

⁴ <https://finance.gov.mk/mk/node/7317>

In this direction, PPB also prepared and published on its website an updated brochures and guidelines, corresponding to the new Law on Public Procurement, as well as, Frequently Asked Questions (FAQ), related to the implementation of the new Law on Public Procurement.

As the PPB is beneficiary institution in Twinning Project Strengthening budget planning, execution and internal control functions, an Assessment report on public procurement legislation in North Macedonia was prepared and delivered by Project's experts, with recommendations concerning legislation and strengthening capacity in the field of public procurement.

Tender procedure for developing platform for e-Marketplace and e-Catalogues and SAC processing system has been launched.

Furthermore, new tool for easier indication of COVID-19 related public contracts was introduced on ESPP. This tool provides special marking of the Contract award notices published on ESPP for the conducted negotiated procedures which are connected with the COVID-19 crisis. The tool would increase transparency and accessibility to the data on the public contracts connected with the crisis.

In this period all vacancies planned with 2020 action plan were announced and these recruitment procedures are still open, due to Parliamentary elections process, except one new employment which is already realized.

Measure 5: Effective PPP and concessions system

For the purpose to harmonize the legislation with the relevant EU legislation in the area of concessions and public-private partnership, that is, transposition of Directive 2014/23/EU on the granting of concession agreements, in 2019, a technical assistance has been provided by the World Bank in this area. World Bank's experts in cooperation with the Ministry of Economy analysed the legislation and the state of play in this area, and prepared basic study in December 2019.

In direction to establishing effective system for public-private partnership and concessions and legislation in line with European legislation, in the past period several conference meetings were held with experts who worked on bottlenecks in this area and harmonized views on certain issues, primarily regarding systemic regulation and manner of regulation, competencies that will arise from the Law, fiscal implications that would arise in the implementation, etc., taking into account the worlds experience in this area. The report on the legal analysis with recommendations for the legal regulation of this area by the experts of the World Bank was prepared and submitted to the Ministry of Economy at the end of July 2020, on the basis of which the Ministry of Economy started drafting the Law.

In parallel with the engagement of the legal experts in the past period, conference meetings were held with the IT experts of the World Bank on analysing and developing the technical specifications for the establishment of the Single Electronic PPP system, with modules needed to ensure the implementation of the entire procedure for granting agreements related to establishment of a public-private partnership from the announcement to the conclusion of the agreement, that will generate a Register of concluded agreements. The final Technical Specification will be prepared after the adoption of the new Law and by-laws, given that the basis for its establishing should be contained in the Law itself and the by-law that will regulate the subject matter.

At the same time, at the end of July 2020, the experts from the EU Twinning project *Strengthening budget planning, execution and internal control functions* were involved in the overall process and prepared a Draft Analysis of the legal framework with recommendations, which is currently in the process of discussion. In the forthcoming period, after harmonization of the positions and selection of the most appropriate way of regulating this area, a draft text of the Law would be prepared, that should be further reviewed and debated by the Inter-Ministerial Working Group established for that purpose. The activities of this Inter-Ministerial Working Group were prolonged due to the COVID- 19 pandemic.

In the forthcoming period, the working group with the assistance of experts from the World Bank and the EU Twinning Project will continue with the activities for drafting the Law and by-laws in order to achieve full harmonization with the EU legislation.

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

This measure is 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.

During the period from 20 January to 24 January 2020 one mission was carried out.

The following activities were done:

- ✓ Analysis of quality of the data sources for table 25.
- ✓ Compilation method based on the new derived information, analysis of the data, discussion for experimental calculation based on the existing information for table 25.
- ✓ Several data sources and calculation procedures have been analysed and discussed in relation to the elaboration of Table 25 based on the ESA 2010' definitions and requirements.

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.

In the period January – August 2020, SSO staff in cooperation with the experts from the project worked on upgrading the IT environment. In the meantime, the design of the system interfaces has progressed.

In March 2020, IT equipment was delivered to SSO, as a result of the tendering procedure for purchase of hardware. The equipment is installed in SSO. However, one part of it is foreseen to be installed in the Disaster Recovery Center in Prilep, which has not been done yet as SSO is still awaiting for instructions from the Ministry of Interior (which is responsible for this Center).

4.5. Priority 5: Transparent Government Reporting

In February 2020, North Macedonia's citizens have the opportunity to get informed about the public debt through the new transparency tool javendolg.open.finance.gov.mk, prepared by the Ministry of Finance with support by IRI and USAID. Debt, its trends by years, repayment, disbursements for 2020 and the manner of its financing are thoroughly presented thereon. Platform comprises five parts: public debt and its components, debt trends by years, public debt financing in 2020, securities issuance, and debt of public companies for each of them separately, as well as the expected borrowing and the repayment by the enterprises in 2020, are published on this platform.

In June 2020, Open Finance portal data set was broaden with data for transactions of municipalities in the same format as data for budget institutions within the Central Budget of the Republic of North Macedonia.

The financial indicators from the financial operations of the public enterprises and trade companies at central level, as part of the budget documentation are presented for the first time within the Fiscal Strategy of Republic of North Macedonia 2020-2022. The new Fiscal Strategy of Republic of North Macedonia 2021-2023, in addition to data on total revenues and expenditures on annual basis, is additionally improved with data on realization in the first quarter of 2020, as well as data on the amount of capital investments expressed through investment programs of public enterprises and companies at the central level.

Having in mind the commitment for greater transparency and informing the public about the operation of public enterprises and companies at the central level, the Ministry of Finance is in the process of establishing a dedicated banner within the website in order to present data on the execution of financial plans of public enterprises and companies at the central level on a quarterly basis, continuously after the end of a certain quarter during the year.

Ministry of Finance stays fully committed for improving fiscal transparency.

4.6. Priority 6: Internal Control

In 2020, the implementation of the reforms planned in PFM Reform Program for Priority 6: Internal Control continued, through the following activities:

- In order to strengthen managerial accountability through the application of a decentralized public funds management system, the CHU prepared a passport indicator "Percentage of budget users who apply a decentralized system for public funds management".
- In order to better monitor the quality of work of the internal audit units and increase the percentage of implemented internal audit recommendations, the CHU prepared a passport indicator - "Percentage of implemented internal audit recommendations".

Within the framework of the Dutch bilateral support and cooperation with the National Academy of Finance and Economics in 2020, the following activities for Assessment of the key control activities in the Ministry of Labor and Social Policy, continued:

- On March 3 and 4, 2020, a working meeting was held at the Ministry of Labor and Social Policy and the Center for Social Work - Skopje, where the implementation of the process "The right to child allowance" and "The right to guaranteed minimum allowance" were assessed.
- A report on the conducted assessment of the financial management and control in the area of the right to child allowance and the right to a guaranteed minimum allowance was submitted by the Dutch experts to the CHU on June 30, 2020 and it was submitted for comments to the Ministry of Labor and Social Policy.

On January 28, 2020, the Committee for Monitoring the Implementation of the Internal Financial Control Policy in the Public Sector held a second meeting, at which the

Progress Report on the Implementation of the PIFC Policy (with the Action Plan for the period from 2019 to 2021) was reviewed and adopted for the period July - December 2019.

On July 31, 2020, the Committee for Monitoring the Implementation of the Internal Financial Control Policy in the Public Sector held its third "on line" meeting, at which the Progress Report on the Implementation of the PIFC Policy (with the Action Plan for the period 2019 until 2021) was reviewed and adopted for the period January - June 2020.

The implementation of the measures and activities set out in the PFM program and the PIFC Policy Paper is supported by the EU IPA 2018 Twinning Project *Strengthening budget planning, execution and internal control functions*, within *Component 2: Strengthening the system of public internal financial control through the effective implementation of the PIFC Policy Paper*. Due to the situation with COVID-19, the activities within the Twinning project started in June 2020 and are implemented with slowed dynamics.

In the period June/August 2020, the experts involved in the project in cooperation with the Central Harmonization Unit prepared:

- Report with analysis and recommendations for improvement of the Action Plan for the period 2019 to 2021 from the PIFC Policy Paper.
- Draft Rulebook on the form and content of the reports, action plans and the statement on the quality and condition of the internal controls for the PIFC Annual Report.
- Report on the evaluation of the existing methodological tools according to the draft law on PIFC and recommendations for their improvement.

The finalisation of the new draft PIFC Law and its bylaws significantly depends on the adoption of the new Organic Budget Law.

On April 22, 2020, the CHU published on its website "Guidelines for the work of the internal audit units of the public sector in the Republic of North Macedonia in conditions of emergency caused by COVID -19".

The Government of the Republic of North Macedonia on August 18, 2020 adopted the Annual Report on the Functioning of the Public Internal Financial Control System for 2019.

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.

In 2020, SAO has adopted the following strategic documents:

- SAO Communication Strategy 2020-2023;
- Risk Management Strategy 2020 - 2023 and Risk Register, and
- Human Resources Management Strategy 2020 - 2023.

For the implementation of Human Resources Management Strategy 2020-2023, SAO will take on activities to introduce the human resource management function in SAO to build efficient and functional system that provides employment conditions for qualified and professional individuals with high degree of integrity willing to perform effectively the assigned functions and competencies. SAO will also promote development of professional qualities of employees and establishment of a realistic system for performance appraisal, through fair and transparent procedures for professional and career development of employees, as well as introduce additional financial and other incentives for employees.

Based on the SAO Communication Strategy 2020-2023 adopted in mid-February 2020, SAO commenced several activities to increase transparency and accountability, as follows:

- Promotion of a new website (<https://dzt.mk>) to make the results of SAO work and conducted audits more accessible to stakeholders and the public. As part of the activities for improving communication, over 180 stakeholders were identified (journalists, media, portals, daily newspapers, weekly magazines, NGOs and broadcasting laboratories / investigative journalists), so they would receive regular e-mail notifications when each final audit report is published on

the website. Consequently, the total number of visits to SAO website for the period January-July 2020 has significantly increased to 31717 visits, i.e. an average of 4531 visits per month;

- The form of the abstract of the final audit report was defined; the abstract contains all main points of the audit report on one page to provide short and concise information about the report and to incite additional interest in its contents. The abstract is distributed to all stakeholders and is published with each final audit report;
- In mid-February 2020, Memorandum of Cooperation was signed with the Association of Journalists of Macedonia to build partnership between SAO and the media in a way that will provide better quality information to citizens on topics of particular interest to the public;
- Activities have been implemented to strengthen SAO communication within the project funded by the British Government and implemented by the Westminster Foundation for Democracy (WFD), in cooperation with RESIS - Research Institute for Social Development from Skopje; the activities were related to the implementation of SAO Communication Strategy 2020-2023, with focus on communication with the media and journalists. The initial project activities started in February 2020 and were planned to be completed by July 2020, but due to the circumstances with the coronavirus pandemic, the activities are implemented with delayed dynamics. Within the project, on 30 July 2020, one-day workshops was held on "Writing statements for different target groups - basic principles, structure and language". Through interactive approach and exercises the participants had the opportunity to actively work on strengthening communication skills by processing final audit reports for the purpose of writing press releases and announcements on SAO website.

Recommendations from the previous Twinning project were taken into account in the preparation of Procedure for the manner of operation of the Expert Body in the State Audit Office, adopted in March 2020.

Based on the new Public Procurement Law, in March 2020 SAO adopted new Public Procurement Audit Program, which provides updated guidelines and methodology tools for auditors in performing this very important aspect of audits.

The certification body performed second recertification check on 16 July 2020, and prepared report stating that SAO management system is fully compliant with the requirements of the standard MKS EN ISO 9001: 2015, thus extending the validity of the

certificate confirming that SAO applies the Management System in accordance with the requirements of the ISO standard until 30 May 2021.

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).

On 17 February 2020, SAO signed Memorandum of Cooperation with the Geological Office of Republic of North Macedonia, in order to enhance the cooperation of the two institutions in performing their responsibilities, exchanging data and experience and providing expert assistance and cooperation in the field of auditing.

On 29 July 2020, Memorandum of Cooperation was signed with the Institute of Certified Auditors of the Republic of Macedonia, which creates conditions for cooperation apropos:

- ensuring continuous exchange of data and information within legal competencies;
- providing professional assistance and cooperation in the field of accounting and auditing;
- organizing joint trainings for improvement of audit capacities of both institutions;
- activities for becoming acquainted with the specifics of the work of state auditors and certified auditors.

Considering that effective fight against corruption is one of the key requirements set out in Chapter 3.23 of the National Programme for Adoption of the Acquis Communautaire (NPAA), in a letter SAO expressed its support and readiness for cooperation in the field of economic development and fight against corruption with the National Committee of the International Chamber of Commerce with support of the Embassy of the Kingdom of the Netherlands.

With the aim of implementing recommendation for improving SAO institutional capacities stated in EC Report on Republic of North Macedonia for 2019 regarding External Audit Area, SAO adopted new acts for internal organization and systematization of jobs and obtained consent of the competent ministries. These new acts are based on a functional analysis done in February 2020, which specifies that according to SAO legal mandate the number of job positions should be systematized to at least 150 employees, and the number of organizational units should increase. Based on this functional analysis, the new SAO acts for internal organization and systematization of jobs determine 155 systematized job positions, allocated in 13

departments and 2 independent units, including the newly established Department for audit of beneficiaries of EU funds and other international institutions.

SAO is currently implementing the Annual Work Program for 2020, which was timely adopted on 31 December 2019 within the legally established deadline. With the first modification of SAO 2020 Annual Work Program adopted on 2 June 2020, two of the new audits included are related to the compliance with the Law on treatment of illegally constructed buildings in the Municipality of Struga and Municipality of Ohrid, given the importance of the topic for protection of Lake Ohrid as UNESCO World Heritage Site.

To meet the challenges faced by our country due to the coronavirus pandemic, with a second modification to the Annual Work Program for 2020 SAO plans to conduct two audits that address aspects of the measures implemented for dealing with the crisis caused by the global pandemic.

SAO capacities for conducting performance audits are constantly upgraded. The Annual Work Program for 2020 contains 8 performance audits, including the international cooperative audit on efficient handling and treatment of plastic waste, as well as 2 performance audits started in 2019 - the international cooperative performance audit in the field of labor and the IT audit.

SAO is implementing the Annual Plan for continuous professional development and training for 2020, and organized four day trainings for all employees in January 2020 on the following topics: prevention and detection of fraud and corruption, latest developments in the field of public procurement, audit quality assurance and aspects of accounting and taxes. Implementation of this Annual Plan is impacted by the coronavirus pandemic crisis.

Since the beginning of 2020, SAO representatives participated in several international events for professional development and exchange of experience to improve the audit impact.

With the aim of improving follow-up of audit recommendations, the final audit reports were reviewed by the Government of Republic of North Macedonia on a regular basis in 2020 on the level of: the General Collegium of State Secretaries, the relevant committee and at Government sessions. Conclusions were made obliging the supervisory bodies and the audited entities to prepare action plans for implementation of audit recommendations and to submit the action plans to the Government and the State Audit Office within 30 days.

Consistent with SAO 2019 Annual Report on performed audits and operation published in June 2020, with the implementation of the SAO Annual Work Program for 2018 and

2019, 1030 audit recommendations were given in final audit reports for which the deadline of 90 days for submission of feedback from the audited entities has expired. Measures have been taken upon 789 recommendations, i.e. acting upon audit recommendations is 76.6%.

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.

Regardless of the situation and working conditions caused by the coronavirus pandemic, SAO 2019 Annual Report on performed audits and operation was prepared and submitted to the Assembly of Republic of North Macedonia within the legally prescribed deadline by the end of June 2020 and is made available on SAO website. In addition, following the constitution of the new Assembly of Republic of North Macedonia, SAO submitted 2019 Annual Report in electronic form on external memory device to the President of the Assembly and to each MP, to acquaint them with the contents of the Report.

In relation to the improvement of cooperation between SAO and the Assembly of Republic of North Macedonia, SAO has cooperated and used the experience of the SAI of Bulgaria and the SAI of Croatia within the Twinning project entitled "Further improvement of administrative capacities and external audit efficiency of the State Audit Office" (December 2017 – September 2019), financed by IPA 2013 funds.

As a result of the activities of the previous Twinning Project, we have clear recommendations on what is needed to develop quality parliamentary discussion on audit reports and the expected effect of reviewing audit reports in the Assembly. These recommendations were the starting point for drafting the twinning fiche for a new twinning project "Improving external audit and parliamentary oversight" MK 18 IPA FI 03 20, which should start in 2021 for a period of 24 months.

Early parliamentary elections in Republic of North Macedonia were held on 15 July 2020, which resulted in election of a new composition of the Assembly of Republic of North Macedonia with a 4-year mandate. Representatives of the Assembly of Republic of North Macedonia will take active part in the implementation of planned activities and results of the new Twinning project, with reference to the implementation of an improved legislative oversight function of the Assembly based on review and discussion of SAO audit reports.

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 Programme.

In addition, the 2020 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 a 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 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*

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 one meeting in 2020. On the 19 June 2020, the PFM Council held its a meeting on which the draft Annual Monitoring Report on Implementation of the 2019 Action Plan for PFM Reform Programme for the period January 2019–December 2019, and the draft 2020 Action Plan for Implementation the PFM Reform Programme were discussed and endorsed, before their submission for adoption by the Government.

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).

The PFM Policy Dialogues would be held on 7th October 2020, 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, one technical meeting of the SWG for PFM was held in July 2020, for discussing the draft Strategic Response for IPA 3. Also, the consultation process for the drafts 2019 Annual Monitoring Report and 2020 Action Plan for PFM Reform Programme was conducted in March/April 2020 in written, via electronic communication, due to the constraints imposed by the COVID 19 pandemic.

Annexes

Annex 1: Performance Indicators Matrix on the 2020 Action Plan for PFM Reform Programme

Annex 2: Risk assessment of the 2020 Action Plan for PFM Reform Programme