

Minutes of meeting

13 May 2022

12:00 - 15:00

Videoconference

1. Welcoming and introductory statement

The meeting was moderated by **Ms. Suzana Peneva**, State Advisor in the Ministry of Finance and Deputy Chairperson of the PFM Sector Working Group.

The meeting started with the opening addresses of **Mr. Fatmir Besimi**, Minister of Finance, and **Mr. Steffen Hudolin**, Head of Cooperation at the Delegation of EU.

Mr. Fatmir Besimi, Minister of Finance, focused its address on several issues:

- efforts of the Government in this period are focused on mitigating the economic shock triggered by COVID-19 pandemic and energy crisis;
- further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural reforms, but also as a process which improves the quality of the public administration and ensures an attractive and desired environment for the investors;
- the new PFM Programme 2022-2025 is based on SMART public finance concept or if translated literally “smart” finances, which will be based on a clear strategy and, which is to be sustainable, accountable, reform-oriented and transparent, under which the necessary public finance-related reforms will be implemented, in terms of long-term and better-quality planning of budget programs and budgets, being thereby continuous, i.e. sustainable, thus providing for increasing the transparency on continuous basis. From the point of view of economic philosophy or political economy, this will mean aiming at more just model of public finances from the point of view of revenues, expenditures and the manner of financing, i.e. in other words, how the funds are collected in the Budget and how citizens’ money is spent. The focus is put on re-orienting the traditional budgeting to performance-based budgeting and introducing multi-annual budget framework.
- by indicating that public finance transparency and accountability must be one of the main pillars of the SMART system, Minister pointed out that transparency was the “key word” in the politics over the past years. Its real value for public finances is that it is the highest level of fiscal control, whereby you provide information to the public in a simple and understandable manner – the public judges and decides whether it is a right or justified or legal decision;
- the new PFM Reform Programme for the period 2022 – 2025 highlights the credibility of the previous one (for the period 2018 - 2021) and the need for reforms in this area to continue. It is an ambitious endeavour covering all aspects of PFM: economic analysis, macroeconomic and fiscal framework, revenue mobilization and collection, budget planning, public investment management, effective instruments

- under the Growth acceleration plan, public procurement including PPP, establishing integrated financial management information system (IFMIS), PFM Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at the local level;
- new Program, incorporating 8 pillars with 22 priorities, results from the hard work by the relevant institutions, a process coordinated by the Ministry of Finance, in cooperation with PRO, Customs Administration, Public Procurement Bureau, State Appeals Commission, Ministry of Economy and State Audit Office, and supported by SIGMA.
 - the Programme will set the ground for continuation of the PFM policy dialogue with all stakeholders, which proved in the past to have very positive impact on planning and implementing the PFM reforms, by establishing a synergy and coordination among different initiatives, as well as by ensuring that budget funds and all other available resources, including the donor funds, are used in an appropriate and transparent manner;
 - he thanked to those who have already provided their comments and invited the others to share their opinion, comments and proposals that will contribute to the preparation of a credible PFM Reform Programme.

Mr. Steffen Hudolin, Head of Cooperation at Delegation of EU, welcomed the completion of the new PFM Programme 2022-2025 with the 2022 Action plan and the opportunity to discuss and provide remarks about these documents. In the context of the COVID -19 new crisis triggering financial and new financial and inflationary movements, the capacity of the Government for forecasting revenues and expenditure and sustained stability of public finances is very important and the current crises also highlighted the need of structural transformation of the economy, especially in terms of energy transition which are indentified and linked with ERP.

The national authorities are planning to increase the capital spending and to support the growth stimulating investments and the PFM Programme shall play an important role in implementing efficiently these policies. Furthermore, the PFM is key in the process of EU accession, some components of the Programme are part of the EU acquis such as public procurement, taxation, public internal financial control.

The EU is closely monitoring the PFM reforms and asks for reassurance of the continued improvement of the systems to provide funds for the economic investment plan and EU budget support. The PFM Programme is comprehensive and capture most of the weaknesses that were identified with PEFA assessment and SIGMA. The EU recommends to the Government to use the international assessments and development partners continue to be available to supporting the analytical and planning capacity of the Ministry of Finance, including spending reviews.

He welcomed the Programme's new pillar, PFM at local level. EC highlighted that IFMIS, will be essential to the implementation of the OBL reforms, and therefore a strong working group should be established to lead the implementation of the IFMIS. The legislative framework and connected manuals are not in place due to the fact that the OBL and PIFC law are not yet adopted by the Parliament which causes delays that undermine the implementation of the Programme.

The implementation of the previous PFM Programme faced challenges and some of the causes for the performance were well identified and could be included as lessons learned into the new PFM Programme. There is a still room for improvement for the strategic planning, specifically, the Government could further develop the monitoring framework of the Strategy with developing multi-year targets in the action plan to better address the objectives. This is in line with the objectives of the OBL to give multi-year perspective in the budget preparation process.

2. Presentation of the Draft Monitoring Report on Implementation of the 2021 Action Plan for PFM Reform Programme for the period January - December 2021 and Draft PFM Reform Programme 2022-2025 with 2022 Action Plan

Ms. Suzana Peneva, Deputy Chairperson of the PFM sector working group, gave a brief overview of the Draft Monitoring Report on Implementation of the 2021 Action Plan for PFM Reform Programme for the period January 2021 - December 2021 accompanied with selected results achieved in the period 2018-2021 with implementation statistics in relation to indicators, activities/sub activities and budget of the 2021 Action Plan.

The Monitoring report was prepared by the Ministry of Finance, with the 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 report provides detailed information on progress achieved in the implementation of reform activities for the period January - December 2021, and presents

PFM Reform Programme 2022-2025 has been prepared by the PFM Sector Working Group, comprising representatives from the following institutions: Ministry of Finance, Public Revenue Office, Customs Administration of North Macedonia, Public Procurement Bureau, State Appeals Commission, State Audit Office and Ministry of Economy.

The activities will be funded through two main sources: state Budget and external funds.

The total budget at the time of the preparation of the Programme is estimated to **101,8 million euros**, of which:

44 million euros are planned to be provided from the national budget,

14,6 million euros are planned to be provided from external sources and

43,2 million are estimated as financing gap (of which 27 million are needed for establishing Greening Business Facility).

A list of all presenters is attached as an annex.

3. Discussion about the presented documents

Mr. Javier Castillo – Alvarez, from EUD, noted that EC already provided comments by written, but he pointed out the following:

- OBL will introduce a very important reform such as reducing the large number of primary budget users and a multiyear perspective and improving aspects of budget performance. The implementation of the reforms foreseen in the OBL will lead to the

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- adoption/amendment of some of by-laws related to the implementation of the OBL;
- The Action plan for 2022 does not sufficiently explained the process and time of implementation of the reform. All activities, planning and budgeting are planned to be implemented in the period 2022-2025, and the specific time of the start and end of the activity is unclear;
 - The implementation of the IFMIS should be realistically planned and sequence of the implementation and it is difficult to understand how the number of years, users and modules and covered expenditure will be implemented;
 - Different deadlines for the activities in the PIM Action plan compared to the PIM activities for 2022 put in the PFM Programme, and the EC noticed a delays in the activities and proposed modification of the PIM Action plan. It is very important to establish a PIM organisation unit, staffing and capacity building of the unit;
 - The priority for the PFM Academy is not sufficiently developed and the areas that will be covered by such trainings are unclear;
 - The pillar Public Internal Financial Controls is very well structured. Priorities and measures have clear indicators and targets, but EC's proposal is to add more indicators;
 - Overall, there is an important funding gap. It might be required to readjust the activities and targets in line with resources available or further discuss how funding gaps will be overcome.

Ms. Mediha Agar from the World Bank (WB), welcomed the well prepared comprehensive PFM reform Programme, based on analyses made by the Ministry of Finance, and other institutions including the WB, the IMF and the EUD.

Regarding the new PFM Programme she pointed out the following:

- Lessons learned regarding the implementation of the previous PFM Programme 2018-2021, the cost and integration of capacity building, the new climate agenda with concrete measures and fiscal decentralisation have been integrated into this reform agenda, which is extremely critical to its success. Also, she noted that WB is working on new on lending operations in terms of IFMIS funding, OBL implementation reforms, PIM, tax reforms, the ITIS system of PRO. The EU will provide additional funds for the realization of these activities. Also, she emphasized the importance of the IFMIS working group. WB provides support for the drafting of the legal and strengthening of the institutional framework and the implementing the fiscal decentralisation at the central and local level. She noted that the MoF should take mitigation measures to overcome the risks arising from delayed adoption of the new OBL.
- WB would send additional comments in writing.

Mr. Lucien Aegerter Skopje, Deputy Head of Mission from Embassy of Switzerland, informed that Switzerland through SECO provides support with other development partners to several programs implemented by the WB or the IMF, ECORYS, and at local level with the UNDP.

He raised two questions: 1/ In the priority for financial discipline, there is a measure to strengthen the state control over the municipal budget, but to what extent, this includes measures to support strengthening of the oversight capacity and the role of

municipalities (municipal official and Municipal Council). 2/ Regarding the PFM Academy, to what extent the trainings will cover the municipal official and members of the municipal councils.

Ms. Joana Babushku from UN Resident Coordination Office, welcomed all the activities and measures that are planned to be promoted and used for financing with the new funds established in the field of green transitions, innovation and digitalization. She praised the capacities building plans for economic analyses and budget planning expecting they will be effectively used in the process of formulating and implementing the national development strategy which is a national process which is state-owned, however, the Government and the administration are the key focal point that will translate that vision into policies.

Mr. Ferdinand Pot from SIGMA, pointed that SIGMA team is grateful for the confidence given by MoF for the preparing of the Programme. SIGMA had the opportunity to provide input into drafting the Programme and in a number of cases that their input was appreciated and incorporated into the draft text of the document. He hesitate to comment further on the current draft, as they had the opportunity to comment during the preparation process and respect that this draft reflects national priorities.

In terms of the outcomes and indicators, they can always be improved, especially those related to the priorities Budget planning and IFMIS. The priority Budget planning includes critical activities in terms of developing performance budgeting, changing budget classification, reducing the first level of budget users. SIGMA will provide TA support in any area that may be useful for the successful implementation of the Programme.

Ms. Suzana Peneva from MoF, said that the Government is very grateful for SIGMA's support regarding the preparation of the PFM Programme. She pointed out that the document is well prepared, however there is always room for certain improvements. The PFM Reform Programme will be subject to a medium- term review of objectives and indicators, planned to be carried out at the end - 2023, with possibility to extend the Programme for 2 additional years, by 2027. Capacity building is very important for implementing the activities foreseen in the PFM Programme. She expressed gratitude to the WB, the IMF, the Swiss Government and other developed partners for all the support they have provided so far for implementation of PFM reform activities.

Ms. Shiret Elezi from MoF, regarding the questions from the Swiss Embassy, explained the purpose of the priorities in terms of fiscal decentralisation at central and local level. The process of fiscal decentralization, requires greater financial discipline of municipalities, greater transparency and accountability of how municipalities spend public funds.

Increasing the financial discipline of municipalities, arrears repayment and cost-effective operations can be achieved through projecting municipal revenues and expenditures in a realistic manner, rationalizing the operations and reducing unnecessary expenditures, regular servicing of arrears, strengthened financial discipline,

procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the public enterprises. Some of the municipalities face issue related to the lack of financial resources to perform their competencies. Transparency of the municipalities can be increased by announcing financial statements in a transparent and understandable manner. The current situation in the municipalities leads to insufficient and uneven regional development. The municipalities do not always have insight into the possibilities for financing capital investments, and at the same time, they are not able to provide financial resources for realization of capital investments in the municipality. Therefore, the funds that would be provided from different sources, and are intended for regional and local development, would be distributed in line with the established criteria, as well as in accordance with the needs of the municipalities and the region.

With the proposed measures and activities for fiscal consolidation and reduction of non-productive expenditures, the Government wants to raise awareness among the City Council, the mayors of the municipalities and their administrations in order to rationalize operations and reduce unnecessary expenditures. In order to overcome the bad financial situation, the high amount of arrears, the blocking of the municipality's account, the Law on Financing Local Government Units provides an opportunity for the municipality to declare financial instability and take measures to overcome it.

In addition, increased control and supervisions of municipalities and spending units will be carried out by financial inspectors in the public sector in a soft way for better spending by municipalities and raising awareness about the way they spend the money. Some of the municipalities have blocked accounts for more than 10 years and the Government want to help them.

All mentioned activities are planned to be implemented with the support of the UNDP, USAID, and WB.

Ms. Tatjana Trajkovska from MoF, in relation to the issue of the Swiss Embassy, emphasized that the purpose of the PFM Academy is to provide continuous education and certification of public administration not only at the central, but also at a local level. This Academy will include trainings in the field of public financial management (budget, treasury, budget accounting, PIFC), and will also certify auditors at the local level.

Mr. Bari Iseni from MoF, pointed out that from this perspective it is difficult to say how the budget users will be involved and their budget executions activities in the IFMIS due to the fact that the implementation of the OBL's will start next year. When IFMIS will be fully operational, our goal for this integrated platform to cover the core modules that support all budget users and their operations.

Ms. Sanja Manasijevic Manceva from MoF, as a member of the IFMIS working group provided additional explanation about the remark from the EUD related to IFMIS missing data for number of users in the Action Plan. She elaborated that MoF has anticipated this, and set in the 2022 Action plan that the priority indicator „Ratio of budget coverage and comprehensiveness“ is 65% in FY 2022, and MoF plans to gradually increase this coverage in the budget to 95% in FY 2025, when the IFMIS will be fully operational. More information about the status of the implementation would be provided during the next PFM policy dialogues. MoF will have more information in the next 1-2 years. Regarding

the IFMIS Working group, it was decided to have a IFMIS working group composed of senior management officials rather than an IFMIS project unit.

Ms. Suzana Peneva from MoF, clarified that in the text of the draft PFM Programme in the priority for the IFMIS, the wording IFMIS project unit will be replaced with IFMIS Working group.

Ms. Mediha Agar from the World Bank (WB), confirmed that this wording change for the IFMIS WG is fine with them, as the WB is only in charge of the onlending operation of the IFMIS Project.

Ms. Suzana Peneva from MoF, informed that the MoF has provided a technical assistance and started a new project with Switzerland/SECO for capacity building of employees in the Macroeconomic Policy Department. The capacity of this Department will be further improved with support from the WB and the IMF.

Ms. Ana Nanevska from PFM Coordination Unit within MoF, informed that the PIM Action plan has been adopted by the Government. She said that currently the MoF is preparing a new rulebooks for organisation and systematizations where a new Department for PIM will be set up. According to the information received from the HR Unit at the MoF, the entire process of adopting the new rulebooks for organisation and systematizations, and staffing of this Department should be completed by the end of December this year. The PIM Department will be functional from 2023 and can start with activities such as staff trainings.

Also, she clarified that the comments on the development of multi-year plans for monitoring the achieved results are foreseen in the annex-logical framework that is part of the new PFM Programme 2022-2025. She shared this annex at the meeting for all to see and explained that the logical framework for each priority indicated priority outcomes, performance indicator, baselines, and annual targets. The same is defined at the level of measures. The activities are presented for each measures with a period of implementation, responsible institutions, and estimated costs for implementing the activity and sources of financing.

This logical framework shows how the results are going to be achieved. It is our decision that the implementation of this Programme will be through action plans in order to ensure flexibility for sequencing of activities. In the future, we can consider developing a multi-year action plan, when we will carry out a mid-term review of the Programme, but at this moment we will continue with annual action plans.

Mr. Javier Castillo – Alvare from EUD, clarified that he did not propose to implement a multi-year annual plan now because this is a difficult exercise, but this topic will be raised when mid-term review is done.

Mr. Mite Mitevski from MoF, explained that the measures and activities under priority Internal audit are aimed at straightening the capacity of the internal audit units in the ministries. After the adoption of the OBL and the new PIFC Law, we will have a new budget classification, and some of the units will be deleted or some will be merged with

others.

Therefore, now is not a good moment for that kind of indicator (“percentage of institutions” or “percentage of the budget covered”) in the logical framework, but we will take these remarks from the EUD during the mid-term review of the PFM RP in 2023. It might be more useful to establish one of these indicators for institutions according to the new budget classification, because if it is established now, we will have a different base of institutions and the process of monitoring and comparing progress will be more difficult. Regarding the IT and performance audits, he informed that this is a challenge for them, as MoF – Central Harmonization Unit, this is a new step and they accept this challenge. Also, he informed that the performing of this type of audit is one of the recommendations from the PEFA assessment. They had 2-3 performance audits per year and planned to increase the number of audits to 10 audits per year by 2025. When the new department in charge of this type of audits will be established within the Ministry of Finance, and appropriate capacity would be built, the number of performance audits could be increased.

4. Adoption of conclusions

Following the discussion, the following common conclusions were proposed for adoption:

- The Government, under coordination of the Ministry of Finance, will continue to conduct regular, inclusive and transparent policy dialogue in the area of PFM with all relevant stakeholders.
- National authorities are committed to implement efficiently the new PFM Reform Programme 2022-2025 and 2022 Action Plan. Development Partners acknowledge that the new PFM RP 2022-2025 is comprehensive and captures most of the weaknesses identified in PEFA and SIGMA assessments.
- Development Partners encourage the Government to enhance the administrative capacities of the institutions involved in PFM reforms and reinforce the results and monitoring framework of the PFM reform programme.
- Development Partners note that important reforms continue to be delayed due to the lack of enabling legislative framework. This is a risk that could jeopardize the implementation of the PFM RP 2022-2025. Development Partners recommend to carry out a Mid Term Review of the PFM RP 2022-2025 in mid 2023 to reassess the monitoring framework and potentially extend the reform to cover the period 2024-2027.
- The Government commits to adopt the following key legal acts in 2022:
 - Law on Public Private Partnership and Concessions
 - Law on Concessions of Goods of Common Interest
 - Law on State Audit
 - Law on Financial Inspection
- Implementation of the reforms envisaged in the OBL will require strengthening capacities both in MoF and Line Ministries. Development Partners remain concerned about the financial gap under this measure. MoF should establish the Public Finance Academy as a new Department in MoF by 2023 and provide sufficient resources to implement its mandate.

- The Ministry of Finance, supported by the EU and the World Bank, remain fully committed to implementing the new IFMIS. WB and EU will sign an agreement to support the implementation of IFMIS before mid-July. MoF shall establish a “OBL working group” to support the implementation of IFMIS and OBL reforms and develop a detailed IFMIS implementation plan for design and gradual roll out of modules.
- Development Partners note delays in implementation of the PIM Action Plan. The government commits to speed up the implementation of the PIM Action Plan under the leadership of Ministry of Finance. The Ministry of Finance will establish the PIM department with sufficient resources to complete its mandate by December 2022. Development Partners remain committed to provide capacity building and support the process.
- The next PFM Policy Dialogue meeting will be held in September 2022 to discuss the mid year implementation monitoring report. In addition, another PFM Policy Dialogue will be held in the first quarter of 2023 in order to discuss the annual monitoring report and 2023 Action Plan.

Annexes

Agenda

List of presenters

Prepared by: Tanja Koleva

Approved by: Ana Nanevska

Endorsed by: Suzana Peneva