

# **Building Effective, Transparent and Accountable Public Financial Management Institutions**

Republic of North Macedonia  
Ministry of Finance

## ***PROJECT OPERATIONAL MANUAL***

***April, 2023***

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<b>ABBREVIATIONS AND ACRONYMS</b>	
<b>BETAPFMI</b>	Building Effective, Transparent and Accountable Public Financial Management Institutions
<b>CDPMEA</b>	Cabinet of the Deputy Prime Minister in charge of economic affairs, coordination of economic sectors and investments
<b>CRM</b>	Compliance Risk Management
<b>CSO</b>	Civil Society Organization
<b>DIAMOND</b>	Development of Implementation and Monitoring Directives
<b>DPM</b>	Deputy Prime Minister in charge of economic affairs, coordination of economic sectors and investments
<b>DRC</b>	Disaster Recovery Center
<b>E&amp;M</b>	Evaluation and Monitoring
<b>E&amp;S</b>	Environment and Social
<b>ESF</b>	Environmental and Social Framework
<b>ESHS</b>	Environmental Social Health and Safety
<b>ESS</b>	Environmental and Social Standards
<b>FAD</b>	Fiscal Affairs Department
<b>FATCA</b>	Foreign Account Tax Compliance Act
<b>FMS</b>	Financial Management Specialist
<b>GoNM</b>	Government of North Macedonia
<b>GRM</b>	Grievance Redress Mechanism
<b>GRS</b>	Grievance Redress Service
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IBRD</b>	International Bank for Reconstruction and Development
<b>ICT</b>	Information and Communication Technologies
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International Finance Institutions
<b>IFMIS</b>	Integrated Financial Management Information System
<b>IMF</b>	International Monetary Fund
<b>IPA</b>	Instrument for Pre-Accession
<b>IPF</b>	Investment Project Financing
<b>ISR</b>	Implementation Summary and Results
<b>IT</b>	Information Technology
<b>ITIS</b>	Integrated Tax Information System
<b>JSC</b>	Joint Stock Company
<b>M&amp;E</b>	Monitoring and Evaluations

<b>MDC</b>	Main Data Center
<b>MISA</b>	Ministry of Information Society and Administration
<b>MOE</b>	Ministry of Economy
<b>MOF</b>	Ministry of Finance
<b>MOI</b>	Ministry of Interior
<b>MOIS</b>	Ministry of Information Society
<b>OBL</b>	Organic Budget Law
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OIP</b>	Other Interested Parties
<b>PAP</b>	Project Affected Parties
<b>PF</b>	Procurement Framework
<b>PFA</b>	Public Finance Academy
<b>PFM</b>	Public Finance Management
<b>PIU</b>	Project Implementation Unit
<b>POM</b>	Project Operational Manual
<b>PPP</b>	Public-Private Partnership
<b>PRO</b>	Public Revenue Office
<b>SAMIS</b>	State Aid Management Information System
<b>SEA</b>	Sexual Exploitation and Abuse
<b>SEP</b>	Stakeholder Engagement Plan
<b>SIDC</b>	Secure Identification Credentials
<b>TADAT</b>	Tax Administration Diagnostic Assessment Tool
<b>USAID</b>	United States Agency for International Development
<b>VAT</b>	Value-Added Tax
<b>WA</b>	Withdrawal Application

## **I. INTRODUCTION**

### **1.1 PURPOSE OF THE PROJECT OPERATIONAL MANUAL**

The purpose of this Project Operational Manual (POM) is to assist the Project Implementation Unit (PIU), Working Bodies, the involved staff of the Ministry of Finance (MOF) as the Implementing Agency (IA), involved staff of the Public Revenue Office (PRO), involved staff of the Cabinet of the Deputy Prime Minister in charge for economic affairs (DPM) and other stakeholders in implementation of the project for Building Effective, Transparent and Accountable Public Financial Management Institutions (BETAPFMI or the Project)

It aims to:

- provide guidance on role and responsibilities of all institutions and individuals involved in key areas of project implementation;
- ensure implementation of the project in accordance with the World Bank procurement, financial management, and safeguards requirements; and
- Increase transparency and accountability, while contributing to the achievement of better results.

It describes in detail the activities that will be carried out under the Project in order to achieve the agreed project development objectives and result framework.

The POM may only be modified completely or partially by a common agreement between the Government of the Republic of North Macedonia, represented by the implementing agency (MOF), and the World Bank.

### **1.2 LEGAL FRAMEWORK**

The guidelines and procedures laid out in the POM are in accordance with the legal and key documents of the Project, specifically with the terms and conditions set out in Loan Agreement and Grant Agreement between Government of the Republic of North Macedonia and the International Bank for Reconstruction and Development for the BETAPFMI Project(P176366), the Administration Agreement between the World Bank and the EU Delegation for the EU TF (countersigned on July 19, 2022), and the Project Appraisal Document (PAD) of the World Bank (or the “Bank”). The guidelines and procedures are also in accordance with national policies, and national law.

### **1.3 CONFLICT OF INTEREST**

In accordance with this Manual, no member of the Project Steering Committee, Working Bodies, Evaluation Committee, Implementing Agency and PIU staff including (permanent, temporary) employees will directly or through an intermediary, hold any interest in companies or exercise responsibilities in public or private institutions with commercial activities related to the implementation of BETAPFMI, or benefiting from its activities. They will not receive any remuneration, commission or fee of any kind

from such companies or institutions (in accordance with the provisions of the World Bank Anti-Corruption Guidelines and the provisions of the Law against corruption (Official Gazette No. 83/04 and its subsequent amendments) and the Law of hindering conflict of interests (Official Gazette No. 70/07 and its subsequent amendments

## II. PROJECT DESCRIPTION

### 2.1 PROJECT BACKGROUND

Reflecting the objectives of the Government's 2022-2025 PFM reform program and building from the recent World Bank advisory support to the development and preparation for the implementation of the new OBL,<sup>1</sup> the new State Aid Management Information System,<sup>2</sup> and system modernization requirements to support the implementation of tax reforms,<sup>3</sup> the proposed Project aims to improve the efficiency, transparency and sustainability of public expenditure and increase the effectiveness of revenue administration in North Macedonia. It will be financed through a EUR 20 million Investment Project Financing (IPF) from the IBRD and EUR 4.9 million in Recipient-executed grant financing from the EU under the European Commission - World Bank Partnership Programme Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund. The proposed Project, to be carried out over the course of four years, will pursue a comprehensive approach to strengthening both the expenditure and revenue sides of the public financial management cycle that takes into account both fiscal and climate change sustainability. In particular, it contemplates:

- Support to public expenditure management reforms and the development of the IFMIS and the SAMIS, and
- Strengthening of tax administration processes and systems in the PRO.

These advances will be supported by activities focused on regulatory and institutional reforms, systems modernization, and capacity building. Given the importance of change management and strategic stakeholder engagement within the reform agenda, related activities will be an integral part of the proposed Project. Components 1 and 2 include the purchase of goods (software, hardware, network equipment) and services (consultancy, training); Component 3 mainly contemplates services (change management, PIU expenses) and project management/operational costs.

### 2.2 PROJECT DEVELOPMENT OBJECTIVES

#### ➤ **PDO**

The Project Development Objective (PDO) is to improve the efficiency, transparency and sustainability of public expenditure and increase the effectiveness of revenue administration.

#### ➤ **PDO Level Result Indicators**

Indicators to capture the achievement of the project development objective (PDO) include:

- General government arrears as a percent of the total general government expenditures (Target: Decreased to 5.9 percent (efficiency))
- Comprehensiveness of publicly published general government reporting (Target: Regulatory agencies, independent institutions and public entities (Pes) are included as part of the budget preparation and execution reports through the new IFMIS, in line with the new PE Registry) (transparency)

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<sup>1</sup> Technical Assistance on the Organic Budget Law together with the IFMIS Solutions, P168027

<sup>2</sup> North Macedonia Crisis Response Technical Assistance (P175415) – State Aid Management Diagnostic and proposed MIS

<sup>3</sup> Supporting the Public Revenue Office IT System Design, P175799



- Integration of climate change considerations into project screening (Target: 80 percent of new large projects have been screened for climate change mitigation or adaptation considerations) (sustainability)<sup>4</sup>
- VAT compliance gap (Target: Compliance gap reduced to 19 percent) (effectiveness)

## 2.3 PROJECT COMPONENTS

### **Component 1: Supporting Public Expenditure Management Reforms (EUR 14.69 million)**

The objective of Component 1 is to support the implementation of PFM reforms by strengthening institutional capacity and improving the processes and technology platforms in line with the new OBL, including the introduction of an IFMIS, SAMIS and other GovTech solutions in North Macedonia. These activities are key to establishing the foundations for the implementation of the OBL and improving the efficiency, transparency and sustainability of public expenditure, including reducing the accumulation rate of government arrears through coverage of expenditure cycle from budget formulation and expenditure commitment to expenditure verification and payment. In order to more tangibly demonstrate the impact of these reforms, at the beginning of implementation, pilot ministries in which the implementation of public expenditure management reforms can be tested, will be selected.

**Subcomponent 1.1 – Design and implementation of Public Financial Management legal framework:** This subcomponent will provide support for the design and implementation of the public financial management legal framework, and its associated public sector processes, through:

(a) support for the design and implementation of regulations and guidelines related to OBL, including the fiscal risk management framework, the public accounting and reporting framework, and new budget classifications including program-based budgeting. This includes, inter alia, climate-sensitive and gender-informed budgeting and reporting to facilitate the tagging of and monitoring of such expenditures – informed by citizen engagement. (*grant financed*); and

(b) support to (i) update the legal framework for PIM; (ii) preparation of procedures for standardization of planning and coordination at the sectoral and cross-sectoral levels, the national plans, guidelines and manuals for preparing and implementing public investment projects both for the MoF and other public agencies; (iii) establishing and implementing climate-related disaster resilience standards, energy efficiency and greenhouse gas emission standards for public infrastructure; and (iv) conduct vulnerability and physical risk assessment of public infrastructure assets, and identification of critical infrastructure projects. Activities should integrate a climate perspective informed by citizen engagement in areas such as project screening, appraisal and evaluation of climate change impacts and climate induced risks.

**Subcomponent 1.2 – Development of GovTech Solutions to Support PFM Reforms:** This subcomponent will provide support to the development of GovTech solutions needed to support the operationalization

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<sup>4</sup> For purposes of the PDO, improving the sustainability of public expenditure means integration of climate change considerations -- both adaptation and mitigation perspectives are taken into account as part of the PIM screening processes.

of the OBL, including the strengthening of expenditure verification, commitment controls, and payments, as well PFM processes through:

- (a) development of an IFMIS for the central and local governments based on a cost-effective custom application software, including capabilities for climate-sensitive and gender informed expenditures,<sup>5</sup> a data warehouse and interfaces with other government systems, as well as a PIM module;
- (b) installation of IFMIS hardware in the existing MoF Main Data Center (MDC) and the shared Disaster Recovery Center (DRC) (including energy efficient hardware and engineering systems) (*grant financed*);
- (c) establishment of secure backup network connections between the MDC and the DRC (*grant financed*).

**Subcomponent 1.3 – Development of State Aid Management Information System:** This subcomponent will provide support to the development of a new State Aid Management Information System (SAMIS), which will be used by all state aid providers, to improve institutional capacity to effectively manage state aid and increase internal and external transparency and accountability for the monitoring and evaluation of state aid. It includes:

- (a) development of SAMIS as a custom software to automate state aid program management through an integrated platform linked with other government systems; and
- (b) capacity building in state aid providers for effective use of the new system and improving the publication of data on available state aid.

**Subcomponent 1.4 – Institutional Structures and Enabling Environment** - This subcomponent will provide support to the new institutional structures needed for the implementation of the OBL and the creation of a conducive enabling environment. In particular, it includes:

- (a) provision of technical assistance and training to the IFMIS Working Body during the procurement and implementation of IFMIS solution. This is to ensure that the new system meets the functional and technical requirements and the MoF specialists are trained as necessary to take over the system management roles (*grant financed*);
- (b) strengthening of the business continuity model through the development of a business continuity plan and disaster recovery skills, including considerations of climate change associated vulnerabilities and the enhancement of cyber security capabilities, and acquisition of associated network security equipment. This would include Security Orchestration, Automation, and Response (SOAR) and integrated Security Information and Event Management (SIEM) solutions; and
- (c) capacity building activities to, inter alia, (i) assist the MoF in introducing PFM reforms, the OBL, and IFMIS capabilities, (ii) provide training support for the line agencies to implement the new PFM requirements, (iii) carry out other relevant training and awareness raising activities

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<sup>5</sup> Informed through support to Subcomponent 1.1(a).

related to the implementation of the OBL; and (iv) support capacity building on PIM, including PPP related capacities. With respect to c (ii), this will include the new climate informed methodologies and gender sensitive budgeting (grant financed).

### **Component 2: Strengthening Tax Administration Practices and Systems in PRO (EUR 8.135 million)**

The objective of Component 2 is to strengthen operational effectiveness of PRO operations with focus on strengthening its tax compliance management system and selected management functions. It will finance selected activities that are complementary to the PRO's ongoing investments in the development of the core modules (Registration, Filing and Service Management, Accounting, Payments, and Refunds, Debt management, Assessments, Legal, and Audit) of the Integrated Tax Information System (ITIS) being undertaken under the national budget.

**Subcomponent 2.1 - Improvements in the effectiveness of revenue management:** This subcomponent will provide capacity building activities to support the implementation of an effective tax compliance management system. This will contribute to the reduction of the VAT compliance gap. This subcomponent includes:

- (a) implementation of a compliance risk management framework, including enhanced enforcement mechanisms, tax audit, and risk analysis;
- (b) provision of support for (i) the development of methodologies and tools to strengthen the tax administration capacity in Selected Functional Areas. Functional areas expected to be supported are taxpayer registration, tax return and payment processing including VAT reporting and refund process; and (ii) the adjustment and improvement, including design and conducting, of periodic taxpayer surveys on experiences with taxpayer services;
- (c) support to the strengthening of the Large Taxpayer Office. Support will be provided through capacity building and technical assistance;
- (d) implementation of international conventions and agreements for more effective tax collection; and
- (e) support for the modernization of taxpayer services to increase taxpayers' voluntary compliance, through support for the enhancement of the e-Tax / e-Services portal and additional online capabilities to support citizen engagement in the tax domain through feedback mechanisms, smart apps or other software tools (e.g., human-centric design, universal / omnichannel access / sentiment analysis / smart apps for access, etc.). This will be done by taking into account the personal data protection and privacy regulations, including the EU's General Data Protection Regulation framework.

**Subcomponent 2.2 - Enhancing and expanding PRO's tax revenue management information systems (ITIS):** This subcomponent will provide support for enhancing and expanding PRO's tax revenue management information system (ITIS). This will be provided through a series of complementary activities that serve as a critical foundation to increase the effectiveness of the revenue administration:

- (a) technical assistance for the preparation of functional/technical requirements and bidding documents to support the implementation of improvement of effectiveness of revenue management. This relates to activities 2.1 e, 2.2 b, 2.2 c, and 2.2 d;
- (b) support to the implementation of a new Data Warehouse (DW) for online analytical processing, statistics and reporting through the procurement of related software and hardware; and development of business intelligence (BI) tools (software solutions) for compliance risk management, and decision making process;
- (c) support for the establishment of a PRO combined call center/help desk; and
- (d) installation of additional servers, data storage units, replication systems and other solutions needed for the implementation of ITIS modules. This will include the e-invoicing module being developed by the PRO in agreement with the Ministry of Finance and expansion of ITIS operations in the existing PRO data center, and the new shared DRC operated by the Ministry of Interior. Hardware and system software for additional ITIS modules could also be included; and

**Subcomponent 2.3 - Strengthening of PRO management functions:** This subcomponent will support the strengthening of the PRO's management functions through:

- (a) support to the adoption of new human resource management procedures;
- (b) increasing PRO's analytical capacity for proper segmentation of taxpayers, revenue forecasting and monitoring and evaluation;
- (c) adoption of a modern information governance structure and procedures;
- (d) support the implementation of innovative tax compliance approaches implemented by the PRO. Support will be provided through capacity building and technical assistance; and
- (e) capacity building activities to, inter alia, (i) support the PRO with adequate communication strategies and procedures, (ii) provide coaching and facilitation support to the PRO's implementation teams, (iii) develop strategies to help the PRO introduce the use of business intelligence data, and (iv) carry out other relevant training and awareness raising activities related to PRO investments, including on data recovery and back-up plans to prevent data loss and increase resilient design for server systems and data centers against climate vulnerabilities. In all these trainings, a gender balance will be taken into account.

**Component 3: Supporting Change Management, Donor Coordination and Project Management (EUR 2.025 million)**

The objective of Component 3 is to build ownership and catalyze action for reforms by providing continuous support to the implementation of work under Components 1 and 2 through activities focused on change management for effective stakeholder engagement, and reform management based on a change management plan (to be developed under the Project). Increased ownership and a focus on

results will contribute to addressing current challenges in inter-institutional coordination; state-society relations; and institutional capacity constraints; all of which have the potential to hinder the implementation of planned public expenditure and revenue management activities. This component will support change management activities for improved organizational learning, facilitating collaboration on key areas of the reform, including on associated cross-cutting issues linked to the country's priorities in areas such as climate change and gender equality, and the achievement of results. It will take an adaptive management approach by employing methods with strong stakeholder feedback loops. The adaptive management approach will also ensure flexible and responsive capacity development support that can be adjusted over time.

**Sub-component 3.1 Operationalization of change management for improved stakeholder engagement and communication.** This sub-component will provide support for the operationalization of change management, stakeholder engagement and communication through:

- (a) development of change management strategies for stakeholder engagement with integrated communication strategies for OBL, SAMIS and PRO activities targeted at stakeholders within and outside of the Government. This will include direct support to senior management and the establishment of an advisory body focused on the PFM reform agenda including civil society organizations, taxpayers' associations and private sector stakeholders, and awareness raising on the Project's actions to support climate change mitigation and adaptation through support to climate-sensitive budgeting and public investment management, and gender budgeting;
- (b) implementation of change management and communication plans. These plans are to be developed under Subcomponent 3.1. (a) and will include mass and social media support for communications with taxpayers and broader citizens;
- (c) the implementation of digital citizen engagement (CivicTech) solutions to improve budget transparency and accountability;
- (d) workshops and team-based coaching support. This is intended to support the uptake of technical training and upgrading of the leadership competency framework; and
- (e) facilitation support for change management interventions. This aims to develop high performance teams within the MoF, Cabinet of the DPM within the General Secretariat of the Government and PRO to bridge implementation gaps and strengthen incentives and momentum for reforms through the definition and communication of strategic short-term results.

**Sub-component 3.2 Monitoring the results of IFMIS, SAMIS and PRO operations.** This subcomponent will provide support to monitor and report the utilization and results of IFMIS, SAMIS and PRO systems.

**Sub-component 3.3 Project coordination and management.** This subcomponent will provide support for (a) carrying out of Project coordination and management activities, including (i) operation of the PIU, monitoring and evaluation, and audit, and (ii) technical assistance to the PIU, Project Working Bodies, and the Steering Committee; and (b) enhancing donor coordination to strengthen the efficacy of the reform

program, including facilitation support for the development of inter-agency/departmental coordination and consultation mechanisms.

## **2.4 PROJECT BENEFICIARIES**

The Project has three broad groups of beneficiaries.

. First, and farthest downstream, are the citizens who stand to gain from the Government's more efficient, transparent, and sustainable management of public expenditures thanks to the possibilities that interventions create for their more informed interaction with the Government on the use of public resources, as well as the impact upon service delivery of the Government having better quality and more timely information with which to make expenditure decisions and oversee spending. Through the planned participation spaces, they will also have the opportunity to contribute to the reform processes. Additionally, at this level, citizens and businesses will also benefit from smoother tax administration processes.

The second group of beneficiaries is made up of the government entities using the IFMIS for their financial management and the SAMIS, who will benefit from the automation of the associated processes, and the consequent impacts of having access to more up-to-date and complete information on their operations.

Third, at the center of the reform, the MoF, PRO and the Cabinet of the Deputy Prime Minister for Economic Affairs within the General Secretariat of the Government will be the direct beneficiaries of the Project. They will benefit in terms of having more efficient and effective systems for overseeing and managing public finances, state aid, and tax administration; access to and management of high quality and timely financial information with which to make decisions; enhanced technical capacity to manage and utilize that information for decision-making; and the strengthening of their institutional roles. Informed by the results of proactive citizen engagement, the Government will also be able to make expenditure decisions that are more responsive to citizens needs in a more gender and climate-informed way.

## **2.5 PROJECT MONITORING KEY INDICATORS**

More detailed information is given in Chapter 8 and in Annex 7, Result Framework and Monitoring.

## **2.6 PROJECT COST AND FINANCING PLAN**

The Building Effective, Transparent and Accountable Public Financial Management Institutions Project will be financed through a EUR 20 million Investment Project Financing (IPF) from the IBRD and EUR 4.9 million in Recipient-executed grant financing from the EU under the European Commission - World Bank Partnership Programme Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund.

### **Project Cost and Financing (EUR)**

<b>Project Components</b>	<b>IBRD Loan</b>	<b>EU Grant</b>
Component 1: Supporting Public Expenditure Management Reforms (EUR 14.250.000)	9.350.000	4.900.000
Component 2: Strengthening Tax Administration Practices and Systems in PRO (EUR 8.500.000)	8.500.000	0
Component 3: Supporting Change Management, Donor Coordination and Project Management (EUR 2.150.000)	2.150.000	0
<b>Total Project Cost: EUR 24.900.000</b>	<b>20.000.000</b>	<b>4.900.000</b>

### **III. INSTITUTIONAL & ORGANIZATIONAL ARRANGEMENTS**

#### **3.1 PROJECT IMPLEMENTING AGENCY**

The MOF as the implementing agency will serve as the main coordination and delivery body responsible for strategy and program implementation. The PIU has been (pending) established as per Decision adopted by the MOF.

Minister of Finance is the implementing authority and is entitled to make decisions and approve project related activities and documents. The Minister of Finance is entitled to sign contracts and payment documents awarded under the Project. The Minister of Finance is entitled to authorize the Project Manager or another official to sign project related documents on his/her behalf.

#### **3.2 PROJECT STEERING COMMITTEE**

The project, as well the Working Bodies, the Project Manager and the PIU will be under the strategic leadership of the Project's Steering Committee (SC), which will bring together high-level decision-makers from the multiple institutions involved in the Project. The SC will be chaired by representative of the Ministry of Finance, and include the participation of representatives from MOF, PRO, Cabinet of DPM, line ministries/institutions, and will be responsible for facilitating inter-entity coordination. The heads of each of the Working Bodies, and Project Manager will be members of the Steering Committee and will be responsible for communicating relevant advice from the Steering Committee to respective Project beneficiaries. The representatives from the World Bank and the Delegation of the European Union will have an advisory role.

In order to support the PIU in the overall implementation, coordination and supervision of project activities as well as to address strategic issues, a SC meeting shall be held at least twice a year. SC members will advise and guide the PIU on strategic issues and will support the project through their networks. Its key responsibilities are to critically review and discuss project progress and provide advice to PIU on strategic issues related to the project implementation. The SC will review the semi-annual progress reports provided by the PIU, as well as the yearly plan of operation. The PIU is responsible for the logistics and organization of the SC meetings.

See Annex 1 "TOR for PROJECT STEERING COMMITTEE".

#### **3.3 PROJECT IMPLEMENTATION UNIT (PIU)**

A PIU has been (pending) established within the MOF. The PIU will oversee and coordinate all of the implementation, results monitoring, reporting, fiduciary functions, and safeguards of the Project, in close collaboration with the line ministries and public agencies.

Capacity will be strengthened in the MOF, PRO, CDPMEA and the PIU on the Bank procedures and requirements for investment projects and trust fund management, through periodic training delivered by World Bank staff.



Capacity-building will also be provided to the relevant institutions and all members of working bodies in terms of their understanding of Bank fiduciary and safeguards procedures.

### ***Staff of the PIU***

The PIU will be staffed with a multidisciplinary team of qualified professionals, including:

- Project Manager;
- Financial Management Specialist;
- Procurement Specialist;
- Monitoring and Evaluation Specialist;
- Social and Environmental specialist – on a needs base
- Other experts as needed (such as ICT expert, coordination and outreach specialist, change management specialist).

See Annex 2 with Terms of reference for Key PIU Staff and Annex 3 for PIU Organization and Staff Rules.

### ***Assignments of the PIU***

The PIU will manage and administer its program under operating guidelines and procedures set out in this Operations Manual. The recruitment of the key staff and technical consultants will be carried out in accordance with the World Bank Procurement Regulations. Selection of PIU staff will be done by the evaluation committee appointed by the Project Manager or Minister of Finance with representatives from the PIU and/or MoF.

The PIU is managed by a Project Manager. The Project Manager of the PIU shall have overall management responsibility for the daily implementation of the project and liaison with MOF, working bodies and with the World Bank. The Project Manager will ensure appropriate and timely reporting, monitoring and evaluation.

The main responsibilities of the PIU include:

- Day-to-day Project management;
- Coordination and cooperation among working bodies;
- Organizing regular coordination meetings with Component Mangers;
- Coordination with stakeholders, the Bank and co-financiers;
- Recruitment and management of expert consultants;
- Preparation of annual work plans and budgets;
- Preparation and updating as necessary of procurement plan;
- Implementation of procurement actions (in line with WB requirements) and contract management in close coordination with relevant working bodies
- Project financial management including preparation of quarterly unaudited financial reports and annual audited financial statements;
- Monitoring and evaluation of Project activities, including monitoring and reporting on environmental, social, health and safety (ESHS) performance of the Project;
- Preparation of semi-annual and annual progress reports;

- Logistics and organization of the SC meetings;
- Briefing to the Minister of MOF on the status of Project implementation;
- Liaising with World Bank on guidance and obtaining approvals
- Systematic filing of all Project-related documents (including procurement and financial management); and
- Ensure compliance with environmental and social requirements.

The PIU will be responsible for all aspects of project implementation in line with the requirements of the MOF and the World Bank. In particular, the PIU will be responsible for the quality and management of the procurement process. It will have full responsibility for project financial management, and monitoring and evaluation of the whole project including safeguards implementation. The PIU will prepare and submit quarterly financial reporting of the project.

The PIU will be responsible for monitoring and evaluation of the project, including reporting to the Bank. Evaluations of the PDO indicators will be undertaken to determine the impact of the project.

The PIU will prepare semi-annual reports with data for the Results Framework (given in Annex 7), which will be reviewed and discussed with the World Bank and implementing agency.

The PIU will also ensure that data for these indicators and on the technical and financial situations of beneficiaries are being collected before and during project implementation.

The monitoring and evaluation of project progress versus plans will be monitored in semi-annual progress reports prepared by the PIU and provided to the Bank. Progress reports will also outline the corrective actions needed to sustain or improve progress.

PIU will prepare and submit to the World Bank regular monitoring reports on the environmental, social, health and safety (ESHS) performance of the Project, including but not limited to the implementation of the ESCP, status of preparation and implementation of E&S instruments required under the ESCP, stakeholder engagement activities, and functioning of the grievance mechanism(s).

### ***PIU Staff Rules***

#### **General Principles**

The principles of professional responsibility in the exercise of employment in the service of BETAPFMI are outlined below. As highlighted, all BETAPFMI PIU staff is under strict obligation to observe confidentiality, impartiality and strict discipline in performing their duties.

The BETAPFMI PIU will not practice any form of discrimination or preferential treatment in its relations with third parties, be they beneficiaries of activities of BETAPFMI or suppliers to BETAPFMI of goods or services, or persons or institutions involved in any way in the BETAPFMI activities or the results of those activities. Any third party will be treated exclusively in accordance with the decision-making and selection procedures described in the POM.

### Conflict of Interest

No staff of the BETAPFMI PIU will, directly or through an intermediary, hold any interest in companies or exercise responsibilities in public or private institutions with commercial activities related to the implementation of BETAPFMI, or benefiting from its activities. They will not receive any remuneration, commission or fee of any kind from such companies or institutions.

### Code of Public Behavior

Under the agreement with the Government, the BETAPFMI PIU is required to perform with confidentiality, impartiality and discipline nor may they, in the performance of their functions, engage in political activities. BETAPFMI PIU staff is expected to accord equal treatment to its clients and their representatives, the beneficiaries of works or operations, and the contractors.

### Organizational Setting

The working week in BETAPFMI PIU is of 40 hours. Working hours are between 7:30-8:30 am and 15:30-16:30 pm. All employees must use a compulsory 1/2-hour break per day. Each staff that spends over 10 hours in the field is entitled to remuneration, as established according to the Law. Overnights spent in the field will be fully compensated, based on the Law.

Staff is generally not encouraged to work on weekends and holidays, however there might be circumstances in which this engagement would be necessary. In that case, each staff member will be compensated for each hour worked, based on the value of the working hour as per their net salary. Work during weekends and holidays will be possible only with the authorization of the PIU Project Manager.

Salaries will be paid according to the Procurement Plan, depending exclusively on the position occupied by the employee. Payments will be made directly into the employee's bank account. BETAPFMI PIU staff is paid once a month, generally between the first and fifth day of the next month.

The Finance Management Specialist keeps the official personnel files for each employee of the BETAPFMI PIU. Staff may view their files during normal business hours. The PIU Project Manager and PIU Procurement Specialist are the only employees with access to employment records.

Under no circumstances will an employee be permitted to view another employee's personnel records, with the exception of the PIU Project Manager and PIU Procurement Specialist.

BETAPFMI PIU staff earns their annual vacation at the rate of 2 days per month. BETAPFMI PIU provides 24 vacation (working) calendar year prorated monthly from starting date. Staff may carry over unused annual vacation days from one year to the next. All vacation time must be approved in advance by the Project Manager.

All employees leaving the BETAPFMI for whatever reason will be paid for vacation time earned but not taken. Any unearned but advanced vacation that has been paid to a departing employee will be recovered from an employee's final pay.

All efforts will be made to accommodate the schedule for summer vacation while planning the summer vacation schedule for BETAPFMI PIU.

Staff may accrue up to six (6) sick days per year employed. If staff does not take these accrued sick days by the end of the year, the sick days will be lost.

The BETAPFMI PIU will not pay employees for unused sick days under any circumstance.

A continuous sick-leave absence of more than three (3) days requires medical documentation from a physician. This documentation must be submitted to the Financial Management Specialist, who will submit it for approval to the PIU Project Manager.

Time off with regular pay is provided for up to five (5) working days if a death occurs in the staff's immediate family. In the event of the death of a spouse or child, special arrangements for additional time off can be made through the PIU Project Manager.

If staff are absent from BETAPFMI PIU offices for 3 or more days a week or 7 consecutive work days a month without informing the supervisor or the PIU Project Manager of the reasons for absence, staff will be automatically dismissed from employment at PIU Project Manager.

Extended absences, inclusive of extended travel for official purposes, will be approved by the PIU Project Manager only on a case-by-case basis.

Employees are entitled to leave without pay only with the approval of the PIU Project Manager, who shall decide on a case by case.

BETAPFMI PIU will observe holidays that are observed by the Government, unless otherwise notified, in cases of important office obligations. Holidays can only be used on the days, which they occur. They may not be accumulated or carried over to the following year.

Staff may receive compensation days for working on official holidays or weekends in extraordinary circumstances. In this case, all compensation days must be approved by the PIU Project Manager.

Health and pension benefits shall not be paid by BETAPFMI PIU and will be staff member's responsibility.

Travel and participation in meetings and seminars will be approved on a case-by-case basis by the PIU Project Manager.

BETAPFMI PIU will pay regular economy class air fare for employees traveling to official meetings. Per Diem will be paid according to local regulations. Any request for payment of extraordinary expenses must be accompanied by receipts.

### **3.4 WORKING BODIES**

In close coordination with the Project Manager and the PIU, each project beneficiary (MoF, PRO and the Deputy Prime Minister's Cabinet) will be in charge for the day-to-day management and technical implementation of their respective parts of the Project, to be carried out through working bodies to be established within each entity. Each beneficiary will sign the relevant documents associated with their components and take ownership of the solutions to be developed and operationally accepted. Each Working Body (led by a Head and composed of experts involved in the management and coordination of

specific activities) will be responsible for providing technical inputs during the design and implementation of solutions and operational acceptance of the associated outputs, and for taking ownership of the platforms developed through their respective activities.

### ***IFMIS working body***

The IFMIS Working Body (IFMIS WB) will be established within MOF and together with the PIU will be responsible for execution of Component 1 (Supporting Public Expenditure Management Reforms, excluding sub-component 1.3.) and Component 3 (Change Management, Coordination and Project Implementation Support).

The IFMIS WB will be led by Head who should support the Project from technical point of view and through permanent communication with PIU shall provide all the necessary data and coordination of activities which are planned to be implemented under Component 1 (excluding sub-component 1.3.). Composition of the IFMIS working body will be approved by the Minister of Finance in line with the requirements of the OBL, Article 107. It will compose of relevant MoF staff. External consultants may be hired and paid through the Project to support the work of the IFMIS working body.

The expected involvement of the IFMIS WB in the project implementation shall be as follows:

- Collaborating with the PIU with regard to implementation of all relevant activities under Component 1 and Component 3;
- Validating outputs and invoices from contractors and consultants and submitting to PIU for approval and payment;
- Providing feedback regarding the required qualifications and experience of various experts/consultants to be engaged in the PIU, with whom the stakeholders will have to collaborate on relevant activities;
- Providing feedback to the PIU with reference to the project procurement plan;
- Preparing technical specifications and terms of references for relevant activities with PIU support;
- Participating in implementation of the public financial management legal framework, and its associated public sector processes;
- Participating in evaluation committees for procurement of goods, and non-consulting services, as well as for selection of consultants;
- Participating in contract negotiations with consultants for relevant assignments;
- Supervising, managing, accepting and approving delivery of goods, and non-consulting and consulting services under relevant contracts;
- Monitoring the performance of the delivery of goods/IT Supplier;
- Timely preparation and submission to the consultant all the necessary documents that would be used in implementation of the OBL and PIM;
- Checking and approving Consultant deliverables;
- Issuing an opinion on completed activities under the relevant Sub-components before the final payment is made to contractors;

- Carrying out applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP;
- Promptly reacting and notifying about detected risks and/or any incident which may occurred during Project implementation; and
- Processing and keeping all management documentation.

### ***PRO working body***

The PRO Working Body (PRO WB) will be established within PRO and will be responsible for execution of Component 2 (Strengthening Tax Administration Practices and Systems in PRO), and will provide technical support for the implementation and management of activities under Component 3.

The PRO Working Body will be led by Head who should support the Project from technical point of view and through permanent communication with PIU shall provide all the necessary data and coordination of activities which are planned to be implemented under Component 2. Composition of the PRO working body will be approved by the PRO Director. It will be composed of relevant PRO staff. External consultants may be hired and paid through the Project to support the work of the PRO working body.

The expected involvement of the PRO WB in the project implementation shall be as follows:

- Collaborating with the PIU with regard to implementation of all relevant activities under Component 2
- Validating outputs and invoices from contractors and consultants and submitting to PIU for approval and payment;
- Providing feedback regarding the required qualifications and experience of various experts/consultants to be engaged in the PIU, with whom the stakeholders will have to collaborate on relevant activities;
- Providing feedback to the PIU with reference to the project procurement plan;
- Preparing technical specifications and terms of references for relevant activities with PIU support;
- Participating in evaluation committees for procurement of goods, and non-consulting services, as well as for selection of consultants;
- Participating in contract negotiations with consultants for relevant assignments;
- Supervising, managing, accepting and approving delivery of goods, and non-consulting and consulting services under relevant contracts;
- Monitoring the performance of the delivery of goods/IT Supplier;
- Timely preparation and submission to the consultant all the necessary documents that would be used in implementation of the IT IS;
- Checking and approving Consultant deliverables;
- Issuing an opinion on completed activities under the relevant Sub-components before the final payment is made to contractors;

- Carrying out applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP;
- Promptly reacting and notifying about detected risks and/or any incident which may occurred during Project implementation; and
- Processing and keeping all management documentation.

### ***State Aid MIS working body***

The State Aid MIS Working Body (SAMIS WB) will be established within the Cabinet of DPM and will be responsible for execution of Sub-Component 1.3. Development of State Aid Management Information System (SAMIS) and installation of related HW, and will provide technical support for the implementation and management of activities under Component 3.

The SAMIS WB will be led by Head from the Cabinet of the Deputy Prime Minister or General Secretariat who should support the Project from technical point of view and through permanent communication with PIU shall provide all the necessary data and coordination of activities which are planned to be implemented under Sub-Component 1.3. Other members of SAMIS working body will include representatives from the largest state aid providers (such as Fund for Innovation and Technological Development, Directorate for Industrial Zones, Ministry of Economy, PRO, as well as Commission for Protection of Competition as key institution in approving state aid and responsible for reporting on state aid to the EU). Composition of SAMIS will be approved by the Government of North Macedonia. External consultants may be hired and paid through the PIU to support the work of the SAMIS working body.

The expected involvement of the SAMIS WB in the project implementation shall be as follows:

- Collaborating with the PIU with regard to implementation of all relevant activities under Sub-Component 1.3.
- Validating outputs and invoices from contractors and consultants and submitting to PIU for approval and payment;
- Providing feedback regarding the required qualifications and experience of various experts/consultants to be engaged in the PIU, with whom the stakeholders will have to collaborate on relevant activities;
- Providing feedback to the PIU with reference to the project procurement plan;
- Preparing technical specifications and terms of references for relevant activities with PIU support;
- Participating in evaluation committees for procurement of goods and non-consulting services, as well as for selection of consultants;
- Participating in contract negotiations with consultants for relevant assignments;
- Supervising, managing, accepting and approving delivery of goods and non-consulting and consulting services under relevant contracts;
- Monitoring the performance of the Consultant;

- Monitoring the performance of the delivery of goods/IT Supplier;
- Timely preparation and submission to the consultant all the necessary documents that would be used in implementation of SAMIS;
- Checking and approving Consultant deliverables;
- Issuing an opinion on completed activities under the Sub-Component 1.3. before the final payment is made to contractors;
- Carrying out applicable measures and actions specified in the ESCP with due diligence and efficiency, and as further specified in the ESCP;
- Promptly reacting and notifying about detected risks and or any incident which may occurred during Project implementation; and
- Processing and keeping all management documentation.

### **3.5 WORLD BANK**

The World Bank is responsible for overall supervision of the Project Components. In addition to its role in providing feedback (or no objection for prior review contracts) in the procurement process as well as on technical aspects/requirements, responsibilities in project implementation include the review and formal approval of:

- The project audits;
- The project procurement plan;
- The monitoring and evaluation program;
- Semi-annual reports;
- Environmental and social safeguards implementation.

### **3.6 CODE OF CONDUCT**

The PIU staff and each stakeholder in implementing their tasks will adopt the following code of conduct:

- act by the principles of professional impartiality, responsibility, honesty, transparency, openness, efficiency and effectiveness in relations with third parties (i.e. consultants, suppliers of goods, persons or institutions involved in any way in activities or results of those activities), and may not practice any form of discrimination or preferential treatment;
- accord equal and fair treatment to the users of the services supplied by the Project;
- use the available resources in the manner of a good host, and maximum cost-effectiveness in relation to the general objectives of the Project, maximum cost-effectiveness should always be sought in decision-making within the PIU and in the practical application of its procedures;
- shall not use available official information for private purposes;
- may not directly, or through an intermediary, hold any interest in companies, or have responsibilities in public or private institutions having commercial relations or benefiting from its activities, and they may not receive any gifts, remuneration, commission or fee of any kind

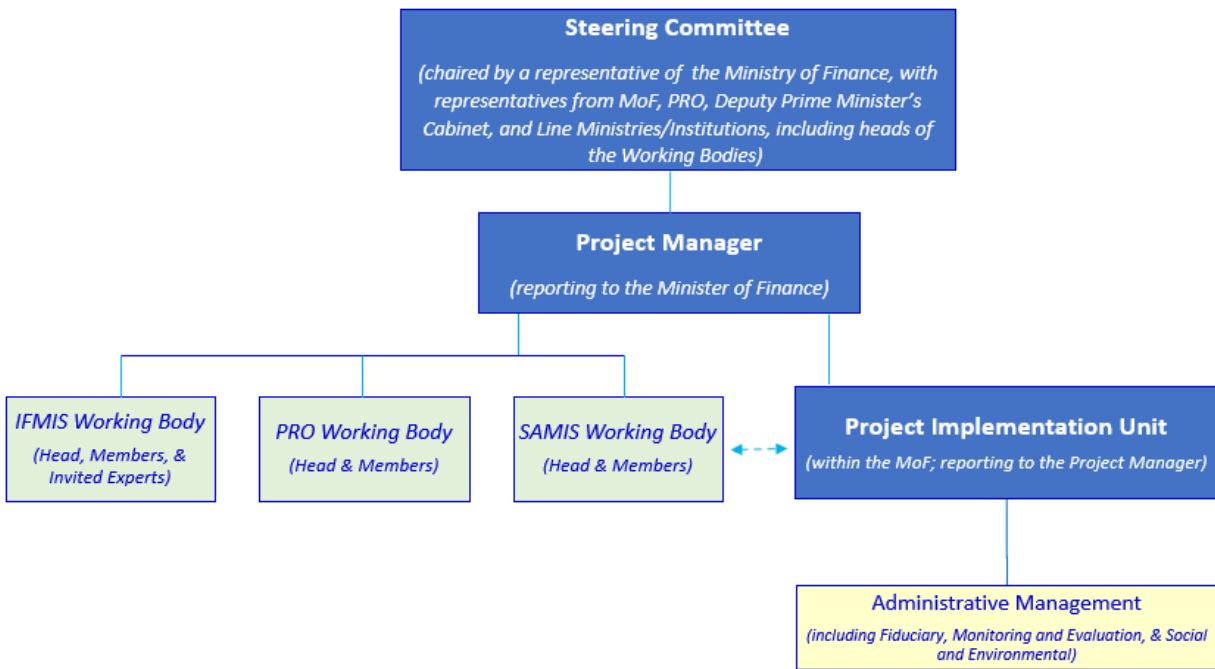


from such companies or institutions. Compliance with this obligation is an express condition of engagement with the MoF;

### 3.7 PROJECT IMPLEMENTATION SCHEDULE

#	Project components	2023	2024	2025	2026
<b>1</b>	<b>Supporting Public Expenditure Management Reforms</b>				
1,1	Implementation of adjustments to legal frameworks				
1.1.1	Supporting implementation of the OBL (advisory + training)	●	●	●	
1.1.2	Supporting the implementation of PIM (advisory + training)		●	●	●
1,2	Development of GovTech Solutions to Support PFM Reforms				
1.2.1	Development of IFMIS (custom SW development)	●	●	●	
1.2.2	Enhancement of IFMIS infrastructure (HW, NW eq for data centers)	●	●	●	
1.2.3	MDC-DRC network secure backup connection	●	●	●	
1,3	Development of State Aid MIS and capacity building				
1,4	Institutional Structures and Enabling Environment				
1.4.1	Advisory support to new Working Body for IFMIS implementation	●	●	●	●
1.4.2	Strengthening digital skills of the Working Body (training+certification)	●	●	●	●
1.4.3	Develop business continuity plan & disaster recovery skills (advisory)	●	●	●	
1.4.4	Training of IFMIS central & local users (functional & digital skills)	●	●	●	
<b>2</b>	<b>Strengthening Tax Administration Practices and Systems in PRO</b>				
2,1	Improvements in the effectiveness of revenue management				
2.1.1	Support for implementation of compl risk mgmt	●	●	●	
2.1.2	Strengthening administrative capacity in functional areas	●	●	●	
2.1.3	Large Taxpayer Office (LTO) capacity building	●	●	●	
2.1.4	Implementation of international conventions		●	●	●
2.1.5	Support for the modernization of taxpayer services	●	●	●	
2,2	Enhancing and expanding PRO's tax revenue information systems (ITIS)				
2.2.1	Support for the development of requirements and bidding docs	●	●	●	
2.2.2	Supporting the dev of DW / BI tools	●	●	●	
2.2.3	Support for additional ITIS modules (e-Invoice) & data exchange with EU and other inst & Help Desk	●	●	●	
2.2.4	Modernization of PRO's data center & DRC	●	●	●	
2,3	Strengthening of PRO management functions				
2.3.1	Supporting the adoption of new HRM procedures		●	●	●
2.3.2	Strengthening PRO's analytical capacity		●	●	●
2.3.3	Support for adoption of a modern information governance structure		●	●	●
2.3.4	Support for implementation of innovative tax compliance approaches		●	●	●
2.3.5	Support for capacity building activities	●	●	●	
<b>3</b>	<b>Change Management, Coordination and Project Impl Support</b>				
3,1	Support for change management to MoF, PRO + Support for PFA	●	●	●	●
3,2	Monitoring the results of IFMIS, SAMIS and PRO operations			●	●
3,3	Support for the Project Implementation Unit (PIU) within the MoF	●	●	●	●

### 3.8 IMPLEMENTAION ARRANGEMENTS AND REPORTING LINES



## IV. PROCUREMENT

### 4.1 PROCUREMENT GUIDELINES

The Bank's Procurement Framework (PF) effective as of July 1, 2016 will be governing procurement under the BETAPFMI. Procurement of contracts for goods, works non-consulting and consulting services financed from the project will be carried out in accordance with the World Bank Procurement Regulations for Investment Project Financing (IPF) Borrowers – Procurement in IPF of Goods, Works, Non-Consulting and Consulting Services, (Regulations) issued in July 2016, revised November 2017 and August 2018<sup>6</sup>. The Bank's Standard Procurement Documents (SPD) will be used as required by the Regulations. They are all accessible at [www.worldbank.org/procurement](http://www.worldbank.org/procurement). The project will be subject to using the Bank's electronic platform **Systemic Tracking of Exchanges in Procurement** (STEP). STEP will be used by the PIU initially to create and later to revise Procurement Plan for the project, and to monitor performance, manage procurement procedures and store related documentation for all steps in a procurement activity.

Project Procurement Strategy for Development (PPSD): As required by the PF, a Project Procurement Strategy for Development (PPSD) was prepared. The PPSD is the basis for the procurement arrangements under the project. It includes details on Project overview, strategic assessment of the operating context and Borrower's capability to manage procurement, procurement risk analysis, procurement objectives, procurement approach options and recommendations, preferred arrangements for low value low risk contracts, and a summary procurement plan. The PPSD addresses how procurement activities will support the development objectives of the project and deliver the best value for money under a risk-based approach. It also provides an adequate justification for the selection methods in the Procurement Plan. The level of details and analysis in the PPSD are proportionate to the risk, value and complexity of the project procurement. The PPSD also provides information on the procurement specific risks and the proposed mitigation measures. The proposed procurement and review thresholds applicable to the project are aligned with the Bank's most recent Thresholds for Procurement Approaches and Methods. The procurement and review thresholds relevant for the project are indicated in the PPSD and provided at the end of this section as well.

**Procurement Plan:** The project Procurement Plan for the entire duration of the project was prepared. Its final version was agreed at project negotiations. The procurement plan provides the basis for procurement methods, as well as the procurement review arrangements. All contracts shall be grouped in packages, to the extent possible, to encourage broader competition. The summary procurement plan includes as a minimum (i) a brief description of the goods, works, non-consulting services and consulting services required for the project; (ii) the proposed method of procurement; (iii) the Bank's oversight arrangements; (iv) timeline for initiation of procurement, contract commencement and completion. The initial procurement plan will be created in STEP. It will be updated at least once a year or on an as-needed-

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<sup>6</sup> <http://pubdocs.worldbank.org/en/178331533065871195/Procurement-Regulations.pdf>

basis. After the Bank review and issue a no-objection to the Procurement Plan in STEP, it will be published on the Bank's external website. All updates of the Procurement Plan will be automatically published after Bank issues a no-objection to it.

The General Procurement Notice (GPN) and all procurement notices for contracts following international market approach will be also published in United Nations Development Business (UNDB) and on the World Bank's external website through STEP. Procurement notices for contracts following national market approach will be published on the electronic system for public procurement, hosted by the Public Procurement Bureau, on the website and social media of the Ministry of Finance, on the website and social media of the respective beneficiaries with regard to the sub-projects, and/or national newspapers with wide daily circulation.

#### **4.2 PROCUREMENT MANAGEMENT**

The PIU will be established within the MOF for the implementation of the BETAPFMI will be responsible for the day-to-day implementation of the activities.

The PIU will carry out day-to-day project management activities including procurement, financial management, reporting and project M&E. PIU will procure and manage all relevant procurement packages under the project, not limited only to review of draft tender documents, approval of Bid Evaluation Documents as well as approval of Contract conclusion.

##### ***Procurement Implementation and Arrangements***

**Goods** – Goods and equipment estimated to cost US\$ 1,000,000 or more per contract will be procured through *Request for Bids (RFB)-international market approach*. Goods and equipment estimated to cost less than US\$1,000,000 per contract will be procured through *Request for Bids-local market approach (RFB)*. Readily available off-the-shelf goods estimated to cost less than US\$100,000 per contract each may be procured through *Requests for Quotation-local market (RFQ)* on the basis of three written quotations obtained from qualified suppliers. The World Bank sample for Requests for Quotation-local market *approach* shall be used. Use of *Direct Selection method for goods* shall be consistent with justifications per the World Bank's Procurement Regulations for IPF Borrowers. Direct Selection will be in accordance with paras. 6.8 to 6.10 for Goods, Works and Non-Consulting Services of the Procurement Regulations. The Procurement Plan shall specify the circumstances under which such methods may be used.

**Works** – Works estimated to cost US\$ 5,000,000 and more per contract will be procured through *Request for Bids-international market approach (RFB)*. Works estimated to cost less than US\$ 5,000,000 per contract will be procured through *Request for Bids-local market approach (RFB)*. *Direct Selection method for works* shall be consistent with justifications per the World Bank's Procurement Regulations for IPF Borrowers. Use of Direct Selection will be in accordance with paras. 6.8 to 6.10 for Goods, Works and Non-Consulting Services of the Procurement Regulations. The Procurement Plan shall specify the circumstances under which such methods may be used.

**Consultant Services and Training** – Consultancy services to be provided by consultancy firms will be selected through the following selection methods, according to the provisions of the applicable Procurement Regulations and respective Request for Proposals, as relevant: *Quality and Cost Based Selection (QCBS)*, *Quality Based Selection (QBS)*, *Fixed Budget Selection (FBS)*, *Least Cost Selection (LCS)* and *Selection based on Consultants’ Qualifications (CQS)* Individual Consultants (IC) will be selected in accordance with Section VII of the World Bank’s Procurement Regulations for IPF Borrowers. Use of *Direct Selection method for firms and individuals* shall be consistent with justifications per the World Bank’s Procurement Regulations for IPF Borrowers. Direct Selection will be in accordance with paras. 7.13-7.15 for Consulting Services of the Procurement Regulations. The Procurement Plan shall specify the circumstances under which such methods may be used.

**“Incremental Operating Costs”** [as in draft Legal Agreement to be negotiated] means reasonable incremental expenses incurred on account of implementation of the Project, including, *inter alia*, office supplies and other consumable goods, office rent, internet and communications costs, support for information systems, translation costs, bank charges, utilities, travel, transportation, per diem, accommodation costs (lodging), salaries of PIU staff, and other reasonable expenditures directly associated with the implementation of the Project, on the basis of annual budgets acceptable to the Bank, excluding salaries of the civil service employees.

**Oversight**

The procurement and review thresholds for the project are set based on the high procurement risk rating for the project.

The Bank’s Procurement and Review Thresholds as per procurement plan will apply:

Thresholds for Procurement Approaches and Methods (€ thousands)								
Works			Goods, IT and non-consulting services			Shortlist of national consultants		
Open international	Open national	RfQ	Open international	Open national	RfQ	Consulting services	Engineering and construction supervision	
≥	<	≤	≥	<	≤	≤	≤	
5,000	5,000	200	1 000	1 000	100	300	N/A	
Review Arrangements-prior review								
First contract for each approach and method and all >3 000  Direct Selection all > 80			First contract for each approach and method and all >3 000  Direct Selection all > 80			First contract for each approach and method, all TORs and all contracts > 1 000  Individual consultants all TORs and all contracts > 300  Direct Selection firms all >10		

**Prior Review:** This is a process undertaken by WB during the Project implementation in which the WB reviews “a-priori” full documentation for major contracts. Full documentation should be submitted to the WB for prior review contracts.

**Post Review:** All other contracts below the WB prior review threshold are subject to the WB selective ex-post review. Procurement documents, such as bidding documents, bids, bid evaluation reports and correspondence related to bids and contracts are kept readily available for WB ex-post review during supervision missions or at any other points in time.

### ***Anti-corruption measures***

It is the Banks' policy to require that Borrowers (including beneficiaries of Bank loans), bidders, suppliers, contractors and their agents (whether declared or not) subcontractors, sub-consultants, service providers or suppliers, and any personnel thereof, observe the highest standard of ethics during the procurement and execution of Bank-financed contracts. In pursuance of this policy, the Bank may take actions as described in Section III- *Fraud and Corruption* and Annex IV- *Fraud and Corruption* of the World Bank's Procurement Regulations for IPF Borrowers. Date of applicable Regulations is incorporated in the loan agreement, in definitions annex, while Procurement Plan and Anti-Corruption Guidelines are incorporated in the General conditions for IBRD Investment Projects Financing.

The MOF shall ensure that the Project is carried out in accordance with the AC Guidelines e.g. The Bank's Anti-Corruption Guidelines (“Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”) dated October 15, 2006 and revised in January, 2011 as of July 1, 2016.

The Bank team intends to maintain close oversight and will carry out prior review of all major contracts according to the thresholds that will be regularly reviewed and adjusted as needed in the procurement plan.

The following measures will be applied to mitigate governance and corruption risks:

- Training of fiduciary staff starting from project launch and periodically thereafter; training will be customized to the procedures and methods required for the next 12-month periods. The relevant project staff shall attend relevant Regional Procurement Workshops periodically organized by the Bank.
- Prior review: There will be close implementation support by the Bank's operational and procurement accredited staff. This will include but is not limited to technical prior review of ToR, technical documentation for the first set of buildings to be retrofitted under the Project, all civil works contract amendments introducing new items or quality of materials, as well as other aspects, as reflected in the Governance and Accountability Action Plan and/or agreed with the Bank team during implementation of the project.

Publication of SPNs, Request for Expressions of Interest (REOI) and Contract Award Notices. All procurement notices for contracts following international market approach will be also published in United Nations Development Business (UNDB) and on the World Bank's external website through STEP. Procurement notices for contracts following national market approach will be published on the electronic system for public procurement, hosted by the Public Procurement Bureau, on the website and social media of the MOF, on the website and social media of the respective beneficiary institutions, and/or national newspapers with wide daily circulation. Contract Award Notices subject to contracts procured following international market approach will be published online through STEP at UNDB and the Bank's external website. Contract Award Notices subject to contracts procured following national market approach will be published on the MOF website and social media and respective websites and social media of beneficiary institutions.

- Debarred Firms is automatically ensured through STEP. Debarred firms or individuals are not given opportunities to compete for Bank-financed contracts.
- Complaints will be handles in accordance with the provisions of the applicable Procurement Regulations.
- Monitoring of contract awards will be addressed through STEPS: All contracts are required to be signed within the validity of the bids/proposals and, in case of contracts subject to prior review, promptly after the Bank's "no objection" is issued. The Procurement Plan format will include information on actual dates (of "no objections" and award) and will be monitored for undue delay which will be reviewed on a case-by-case basis to identify the reasons. The PIU will maintain up-to-date procurement records available to Bank staff and auditors.
- Monitoring of payment against physical progress: Monitoring reports prepared for the Bank will be customized to include a form to monitor physical progress compared to payment installments.
- Timeliness of payments: Payment to contractors, suppliers and consultants will be monitored through semi-annual IFRs to ensure timely payments. The PIU will maintain a system/database (acceptable to the Bank) covering procurement, contract administration and financial management to (a) monitor all commitments and unpaid obligations, (b) ensure sufficiency of uncommitted funds before entering into obligations, (c) track payments to ensure that payments to suppliers and contractors are paid without delay according to the conditions of the contract.

The PIU will observe the Bank's anti-corruption measures and will not engage services of firms and individuals debarred by the Bank.

### ***Eligibility and Conflict of Interest***

Bank policy addresses eligibility (Section III) and noncompliance (Section III), as a basis for ineligibility, in the World Bank's Procurement Regulations for IPF Borrowers.

### ***Evaluation Committee***

The implementing agency needs to ensure that qualified bid/proposal evaluation committees are formed in a manner acceptable to the Bank. The Evaluation Committee, appointed by the MOF, is responsible for evaluation of bids for civil works and goods and EOI for services, including technical and financial proposals for consultant services and preparing recommendations on contract award for the best evaluated bid or proposal.

The Evaluation Committee will consist of three qualified members including a chairperson nominated by the relevant working body. If required, the Bank will review qualifications and experience of proposed members of evaluation committee(s) to avoid nomination of unqualified or biased candidates. Once an activity has commenced all information is considered confidential and no communication with interested consultants, contractors may take place. Prior to commencing the selection process/bidding process each committee member is expected to sign declaration of impartiality. The process of evaluation of proposals in selection of consultant's services as well as evaluation of bids in procurement of goods/works shall be confidential and will be conducted in accordance to Annex X- *Evaluation Criteria* of the World Bank's Procurement Regulations for IPF Borrowers. If the MOF and beneficiary institutions lack the expertise to carry out the evaluation, it should hire an independent consultant to assist the evaluation committee.

Evaluation reports and award recommendations made by the evaluation committee shall be furnished to the Bank for no objection if the contract is subject to its prior review, or for review and award for contract subject to post review. Then the designated decision-making authority will sign contracts for the procurement of goods, services, technical services and/or consultant services.

In case of rebidding, the call for bids in a repeated procurement process shall be made only after obtaining the Bank's approval. Any act of nonconformity by any of the parties participating in the process shall be regulated in accordance with the respective provisions of the World Bank's Procurement Regulations for IPF Borrowers.

### ***Complaints management and dispute resolution systems***

Complaints will be resolved in accordance with the provisions of the applicable Regulations. They will be registered in STEP. Please mind that there is a stand still period. It is also reflected in STEP.

Any complaint sent to the PIU must be in writing and the remedies/final decision taken should also be documented.

PIU shall promptly send an acknowledgment letter to the complainant. The complaint process shall be kept confidential and the PIU shall keep the records of all complaints received at any procurement or contract execution phase (Bidding, Bid/proposal evaluation, etc.). Complaints need to be addressed within 7 to 10 business days. All records of the complaints shall be maintained by the PIU for the entire life of the project. A project website may be maintained where anyone can view a complaint made by firm/bidder.

### ***Record Keeping***



PIU shall maintain systematically the records of the entire procurement process. The documentation with respect to each contract not subject to prior review during Project implementation and up to two years after the closing date of the Project should be kept on file. This documentation would include: (i) signed original of each contract and all subsequent amendments or addendums; (ii) all documents and correspondence related to the procurement and implementation of the contract; and (iii) payment invoices or certificates, as well as the certificates for the inspection, delivery, completion and acceptance of goods, works, and non-consulting services etc. All valuable documents i.e. all kinds of securities, financial proposals, etc. shall be kept in secured place.

#### ***The World Bank Standard Procurement Documents***

Further to article 5.25 of the World Bank's Procurement Regulations for IPF Borrowers, for international competitive procurement, the Borrower shall use the Bank's Standard Procurement Documents (SPDs), available on its external website at [www.worldbank.org/procurement/standarddocuments](http://www.worldbank.org/procurement/standarddocuments). For Procurement involving national competitive Procurement, the Borrower may use its own Procurement Documents, acceptable to the Bank. In accordance to aforesaid the Borrower shall use Standard Sample Procurement document for national competitive procurement, acceptable to the Bank, as described below.

The World Bank has standard and sample bidding documents which must be used for different procurements (works, goods and technical services not related to consultant services) and for the employment of individual consultants. The purpose of the sample bidding documents is to facilitate the implementation agency's task of preparing its own bidding documents and request for proposals specific to the need of the Project based on the sample documents.

The appropriate templates (in line with the accepted procurement methods) that are going to be used for Energy Efficiency Project are given in the tables below.

#### ***Procurement of Goods and Non-Consulting Services (in accordance with the World Bank's Procurement Regulations for IPF Borrowers)***

<b>Procurement of Goods and Non-Consulting Services Ministry of Finance (in accordance with the World Bank's Procurement Regulations for IPF Borrowers)</b>	
<b>STAGE</b>	<b>Request for Quotations-local market (RfQ- SHOPPING equivalent) GOODS</b>
Notification and Advertising	Send the Request for Quotations-Invitation to Quote equivalent to suppliers (from the previously prepared list of qualified suppliers) by letter, fax or email.
Preparation and Issuance of Bidding Documents	The request for quotations shall indicate the description and quantity of goods, as well as desired delivery time and place.
Clarifications and Corrections	The MOF/PIU may issue clarifications and corrections to the invitation to quote stemming or not stemming from consultations held by the participants. All documentation concerning the bidding process shall be retained in the file.
Submission of bids	The original and copies shall be submitted in one envelope indicating the name and address for receipt of quotations, name of the project and number of the price quotation. Submission of minimum three quotations The time allowed for the bidders to prepare and submit their quotations shall be seven (7) – ten (10) calendar days. The place, date and closing time for submission of quotations shall be specified.
Public opening of Bids	N/A
Evaluation of Bid/Quotations	The evaluation of quotations shall be based on at least three price quotations.
Contract Signature	After the contract signed by the winning bidder has been provided, the contract will be signed by the Minister of Finance, the commencement order will be issued.

***Selection and Employment of Consultants (in accordance with the World Bank's Procurement Regulations for IPF Borrowers)***

<b>Selection and Employment of Consultants MOF (in accordance with the World Bank's Procurement Regulations for IPF Borrowers)</b>	
<b>STAGE</b>	<b>SELECTION BASED ON CONSULTANTS' QUALIFICATIONS (CQS)</b>
Preparation of Terms of Reference (TOR's) and Cost Tables	Request for Expressions of Interest (REOI) will be published in the project website, and notice board, send electronically to potentially interested consultants and through dissemination of information about the assignment to professional associations, etc.; Simultaneously a shorter version of the advertisement text has to published, including the minimum relevant information, in the national press provided that the full text is simultaneously published in the official gazette or on a widely used website or electronic portal with free national and international access. The REOI will include summary from ToR and shall at a minimum include the following information applicable to the assignment: required qualifications and experience of the firm, but not individual experts' bio data and conflict of interest provisions. If necessary, seek via email additional information/clarification from interested candidates;
Evaluation of EOIs	Firms having the required experience and competence relevant to the assignment shall be assessed and compared, and the best qualified and experienced firm shall be selected; Select the best qualified and experienced firm. The evaluation report has to be send to the World Bank for no objection in case of prior review which is first contract.
Preparation and Issuance of the Request for Proposals	The request for proposals (RFP) issued by the World Bank shall be used; the Bank's prior approval is required at this stage. Only the selected firm shall be asked to submit a combined technical and financial proposal and, if such proposal is responsive and acceptable, be invited to negotiate a contract.
Clarifications and Corrections	The MAFWE-PMT may issue clarifications and corrections to the Request for Proposals, stemming or not stemming from consultations held by the participants, and everything shall be recorded in the file.
Submission of Proposal	The proposal shall be submitted in original and copy in separate sealed envelopes (the envelopes shall be submitted at the same time). The envelope shall indicate the name and address give for receipt of proposals, name of the project and number of the tender. Submission of Proposals The participant shall prepare and submit their proposal within fifteen (15) calendar days, as indicated in RFP data sheet. The place, date and closing time for submission of proposals shall be specified. Late proposals shall be rejected. The alteration and withdrawal of proposals is allowed prior to the date and time of opening.
Opening of Proposal	The Client shall open the Proposal immediately after the deadline for its submission in the presence of the Consultant's authorized representatives who choose to attend (in person, or online if this option is offered in the Data Sheet). The opening date, time and the address are stated in the Data Sheet.
Evaluation of Proposal	Evaluation of the quality only. Once the evaluation of the technical proposal has been finalized and the qualifying mark equaling or exceeding the required minimum has been met, the financial proposal will be opened for arithmetical review. The committee shall then review the financial proposals. Arithmetical errors shall be corrected.
Invitation to Negotiate Contract	If the received proposal is responsive and acceptable, that firm will be invited to negotiate a contract. The evaluation committee negotiates the Contract with the firm and prepares minutes of negotiations (that shall be signed by both parties). The Draft Negotiated Contract with Minutes of Negotiation has to be sent to the World Bank for no objection.
Contract Signature	Upon recipient of no objection, the MAFWE shall proceed to formalize the contract award. The first step is to sign the contract.
Publication of Contract Award Information	The contract award information (the name of the selected firm) shall be published in a national newspaper or in an appropriate website

***Documents flow, Responsible authority and Contract signing***

<b>Steps</b>	<b>Description</b>	<b>Responsible Authority</b>
<b>1</b>	<p>PIU through Project Manager writes a note to the Implementing Agency informing on the procurement, its method and steps to be taken.</p> <p>PIU through Project Manager will work together with the relevant working bodies (IFMIS WB, PRO WB, SAMIS WB) for preparation of:</p> <ul style="list-style-type: none"> <li>• Terms of References</li> <li>• Technical Specifications</li> <li>• Training Programs</li> <li>• Etc.</li> </ul> <p>Project Manager pre-approves of the above documents and it is followed by the step 2.</p>	Project Manager, Heads, Implementing Agency
<b>2</b>	<p>Submit draft TOR for review and comments to the World Bank. If the TORs are approved from the World Bank, the process follows the step 3 otherwise the process start again from step 1.</p>	Project Manager in collaboration with Procurement Specialist.
<b>3</b>	<p>Submit PROCUREMENT DOCS &amp; Procedures for review and comments to the World Bank.</p> <p>If the PROCUREMENT DOCS &amp; Procedures are approved from the World Bank, the process follows the step 4 otherwise the process start again from step 2.</p>	Project Manager in collaboration with Procurement Specialist.
<b>4</b>	<p>Project Manager proposes the Evaluation Committees (EC):</p> <ul style="list-style-type: none"> <li>• Project Manager asks officially Component Manager form relevant working group (IFMIS WB, PRO WB SAMIS WB) for proposals about the Evaluation Committee EC</li> <li>• Head (IFMIS WB, PRO WB, SAMIS WB) is submitting official letter for nomination of members of EC</li> <li>• PIU prepare the official document for appointment of the EC members which should be signed by Minister of Finance according to the technical skills required and their job profile.</li> </ul> <p>Composition of the Evaluation Committees (EC):</p> <p>The Evaluation Committees (EC) is composed of 3 (three) members according to the technical skills required and their job profile.</p> <p>Note: The Procurement Specialist supports the work of all ECs</p>	Project Manager in collaboration with Heads and Implementing Agency
<b>5</b>	<p>Appointment of the evaluation committees (EC).</p> <p>If the Minister of MOF approves the evaluation committees (EC), the process follows the step 6 otherwise the process start again from step 4.</p>	Minister of Finance

<p><b>6</b></p>	<p>PIU:</p> <ul style="list-style-type: none"> <li>• Collect the Expression of Interests (EOIs) received and files them properly.</li> <li>• Record the EOIs received at the Ministry’s protocol office and/or at the PIU's protocol office.</li> <li>• Prepare the Minutes on Receipt of EOIs and deliver them to the Evaluation Committee.</li> </ul> <p>Procurement Specialist:</p> <ul style="list-style-type: none"> <li>• Prepare the approach for evaluation of Expressions of Interest (EOIs).</li> <li>• Provide the information to EC members about the evaluation procedures according to the specific procurement method.</li> </ul> <p>Evaluation Committees (EC):</p> <ul style="list-style-type: none"> <li>• Agree on approach for evaluation of Expressions of Interest (EOIs), the list of supplies, the interest binders, etc.</li> <li>• Evaluate EOIs, the list of supplies, the interest binders and prepare the related evaluation reports and the proposed short lists with help from PS.</li> <li>• Prepare (with the assistance of the Procurement Specialists) the Request for Proposals (RFP), Invitation to Quotes (ITQ), and Letter of Invitations (LOI) in accordance with the standard of the World Bank.</li> <li>• Agree on the evaluation criteria.</li> </ul>	<p>PIU, Procurement Specialist and Evaluation Committee</p>
<p><b>7</b></p>	<p>Submit to the World Bank for clearance the documents prepared under step 6.</p> <p>If the documents prepared under step 6 are approved from the World Bank, the process follows the step 8 otherwise the process start again from step 7.</p>	<p>Project Manager in collaboration with Procurement Specialist.</p>
<p><b>8</b></p>	<p>Procurement Specialist:</p> <ul style="list-style-type: none"> <li>• Communicate officially with applicants in accordance with the standard of the World Bank.</li> </ul> <p>Evaluation Committees (EC):</p> <ul style="list-style-type: none"> <li>• Make the evaluation of technical and financial proposals as per procurement rules and BDs/RFP.</li> <li>• Procurement Specialist verifies if the documents prepared under step 8 need clearance from the World Bank, the process follows the step 9 otherwise the process start again from step 10.</li> </ul>	<p>Evaluation Committee and Procurement Specialist</p>
<p><b>9</b></p>	<p>Submit to the World Bank for no objection the documents prepared under step 8, as per procurement rules.</p> <p>If the documents prepared under step 8 are approved from the World Bank, the process follows the step 10 otherwise the process start again from step 8.</p>	<p>Project Manager in collaboration with Procurement Specialist.</p>

<p><b>10</b></p>	<p>Procurement Specialist: Prepares the contract.</p> <p>Project Manager, PIU staff and relevant Head and technical staff where necessary:</p> <ul style="list-style-type: none"> <li>• Make negotiations with contractor and finalize the contract (if negotiations needed).</li> <li>• Procurement Specialist verifies if the document prepared under step 10 needs clearance from the World Bank and if needed the document goes to Bank otherwise the process start again from step 11.</li> <li>• Submit the contract to the Contracting Authority for signing.</li> </ul>	<p>Procurement Specialist</p>
<p><b>11</b></p>	<p>Contracting Authority: Signing of the contract by Minister of Finance, Project Manager and contractor</p> <p>PIU &amp; Procurement specialist: Publication of contract award and archiving actions.</p> <p>The implementation of the contract and reporting to Minister of Finance and relevant working body by the Project Manager on the progress of the contract implementation.</p>	<p>Minister of Finance                      Project Manager</p>

## V. FINANCIAL MANAGEMENT

### 5.1 FINANCIAL RESOURCES

The Building Effective, Transparent and Accountable Public Financial Management Institutions Project will be financed through a EUR 20 million Investment Project Financing (IPF) from the IBRD and EUR 4.9 million in Recipient-executed grant financing from the EU under the European Commission - World Bank Partnership Programme Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund.

#### **Operating Costs**

“Operating Costs” means the reasonable incremental expenses arising under the Project and consisting of salaries of the Project Implementation Unit (excluding the salaries of the Borrower’s civil servants) and expenditures associated with the implementation of Project activities, costs for office maintenance, *per diems* for staff, office furniture, materials and supplies, communication costs, advertising and fuel and transportation costs for field visits.”

#### **Training Costs**

“Training” means the cost incurred for any training conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course and workshop preparation and implementation (but excluding goods and consultants’ services), all based on periodic budget acceptable to the World Bank.

### 3.9 FINANCIAL MANAGEMENT AND ACCOUNTING PRINCIPLES

#### **Implementing Entity**

Ministry of Finance, through the PIU, which has been mandated with a specific assignment of coordinating and managing the project, will act as the overall implementing agency for the BETAPFMI. The PIU includes qualified and experienced financial management staff. The Financial Management Specialist will perform the financial management function of the project. Under these temporary arrangements, Financial Management Specialist has no control and responsibility over all stages of a transaction, and there are several layers of controls performed by various PIU functions over tendering, contracting, approval of invoices and payments under the Project. The Project Manager will direct and supervise the implementation activities.

#### **Accounting Policies and Procedures**

The accounting books and records will be maintained on the cash receipts and payment basis with additional information of signed contracts, in conformity with related requirements of the World Bank’s

financial reporting guidelines and in compliance with the relevant provisions set out in Loan Agreement. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than when incurred.

Project financial statements will be presented in EUR, and will encompass all transactions financed under the project. In accordance with the applicable Macedonian legislation the annual financial statements will be presented in Macedonian Denars (MKD).

The project accounts are kept in local currency i.e. in MKD and for the reporting purpose converted in to EUR using the buying exchange rate of the National Bank of Republic of North Macedonia (NBRNM) on the day of transaction. By transaction date we mean the date on which EUR amount is exchanged into MKD for payment.

In addition, the implementing agency together with the PIU will apply in practice a set of acceptable accounting procedures and internal controls including authorization and segregation of duties for the project and will ensure that it's accounting policies and procedures also comply with accounting principles and methodologies for budget users set by the MOF.

#### ***Accounting standards***

The accounting systems will:

- Reliably record and report all financial transactions, assets, and liabilities of the Project, and
- Provide adequate financial information for project managing and monitoring activities.

PIU will ensure that its accounting policies and procedures also comply with the accounting principles and methodologies set up by the MOF.

#### ***Accounting Management***

Day to Day management of accounting is responsibility of PIU Financial Management Specialist who reports directly to the PIU Project Manager. The accounting for the project shall be on cash basis with additional information provided for commitments on signed contracts.

### **3.10 PROJECT FINANCIAL MANAGEMENT SYSTEM (PFMS)**

The Project Financial Management System (PFMS) acceptable to the Bank which will keep the accounts for the BETAPFMI will be established. The PFMS should be designed to accomplish the following objectives:

- Regular and precise record keeping and denoting of all project financial accounting transactions according to the requirements, needs and applications of the legislative of the Republic of North Macedonia and the World Bank;
- Produce Financial reports for two separate groups of users: i) World Bank reporting requirements – as per forms and principals laid down in the WB guidelines, and ii) statutory reporting requirements – in accordance with the Macedonian legislation.



The basic principles are designed to ensure that the accounting records are complete, relevant, and reliable, and that the accounting practices are followed consistently from one period to another, so that financial reporting is comparable. These terms are defined as follows:

- Complete: all appropriate transactions have been recorded in accordance with the accounting procedures manual;
- Relevant: accounting information is relevant when accounting transactions are recorded and reported in timely fashion; all accounts should be updated and reconciled monthly basis, and reports should be issued no less frequently than each quarter. Financial information provided by the FMS influences the decisions of users by helping them evaluate past, present or future events or correcting their past evaluation;
- Reliable: information is reliable when it is free from material error, when it is neutral: that is, it is free from bias, and it can be depended upon to represent faithfully that which it either purports to represent or could reasonably be expected to represent;
- Comparable: users must be able to compare the financial statements of the Project over time to identify trends in its financial position and performance. Hence, the measurement and display of the financial effects of like transactions must be consistent over time.

For the purposes of the project, FMS is required to register the project in the Secretariat for European Affairs. Due to the fact that the project uses a grant, it will also have to be registered in the Public Revenue Office, in order to obtain a tax number. This tax number will serve the project's clients to generate the invoices that will be paid from the grant funds.

The PFMS include:

- Proper accounting system;
- Appropriate planning and budgeting
- Internal Controls system;
- Reports and monitoring system/Interim un-audited Financial Reports (IFRs);
- Auditing and monitoring of Project activities;
- Accounting and Financial Flows;
- Disbursement arrangements and cash flows; and
- Financial Control System.

### ***Accounting system***

MOF uses the Treasury system for its accounting and reporting. The Treasury system was assessed by the diagnostic work in North Macedonia and found to be sound with reliable reporting and ex-ante controls.

The reporting is based on the Treasury reporting but due to the complexity of the project design and need for reliable and transparent timely information, acceptable to the Bank and it is used for project accounting evidence and reporting as well supplements Treasury reports. Respective application is easy for use for project accounting and financial arrangements for the projects and is considered a satisfactory system for reliable and accurate project information. It provides reliable accounting information.

The account system will enable sufficient transparency of the use of project funds and generate financial information for proper and easy preparation of project financial statements, as well as the quarterly IFRs on cash basis in the agreed format, provided in Annex 4. The software should provide reliable accounting and procurement information and be transparent with easily accessible information.

The PIU Financial Management Specialist will record, classify, report, and interpret the Project financial data. To keep necessary financial records and prepare financial statements, the PIU Financial Management Specialist will follow the accounting cycle, a six-step process including:

- Analysis of transactions from source documents into an appropriate number of debits and credits to be entered into accounting records;
- Recording transactions in a journal for later posting to the general ledger;
- Posting the general ledger at the end of each month of operations;
- Adjusting general ledger at the end of each quarter;
- Closing and balancing the ledger at the end of the year;
- Preparing financial statements in IFR format.

The accounting structure should reflect the sources of funds, project component, disbursement categories, location of activities performed and relevant expense accounts, broken down into the various types of expenditures for the project. The accounting structure should be able to produce financial reports that show budgetary items related to the current project financial data to measure performance in the implementation of the project.

The accounting data shall be backed up on regular basis. Prior to closing of the fiscal year a full back up of the accounting records shall be performed. This will ensure that record is kept of all the transactions of that fiscal year.

### ***Planning and budgeting***

Project goals include completing the project on time and within the estimated cost. Project planning is a tool to achieve these objectives. It helps to set realistic goals for each year and quarter of the project's life. A project plan is a quantitative expression of a set of actions prepared in advance. Project planning includes a financial plan.

Financial planning should start with the cost information-cost tables. Cost tables should be based on the project's chart of accounts to ensure that project financial reports can also be prepared on this basis. The cost information should be refining into detailed specifications for project activities, detailed schedules (including procurement plan), and expenditure budgets broken down by time periods. The budgeted expenditure for each quarter should reflect the project activities scheduled for the quarter. Before the beginning of each such quarter, plan should be reviewed and revised. Any variances between planned and actual costs should be analyzed and the remedial actions to be taken should be agreed for coming quarter. Before beginning of each fiscal year of the project, the project budget for the coming year should be reviewed and revised reflecting any updating of the project implementation plan.

Based on the Procurement plan, adopted by the WB annually, FMS in coordination with Procurement Specialist will plan annually use of project funds i.e. Project Budget. After its preparation it must be approved by the Project Manager and Minister of Finance and will be sent for adoption to the Ministry of Finance to be part of the State Budget. FMS is also responsible to prepare: annual, quarterly and monthly budget plans and submit to Project Manager and Minister of Finance.

Monitoring and execution of these plan/Project budget will be responsibility of FMS. Variances of actual versus planned-budgeted figures will be monitored on regular basis, appropriately analyzed and corrective actions will be taken.

### ***Internal Control System***

The BETAPFMI internal control system should be able to ensure that financial records are reliable and complete. In particular, the internal control system should ensure proper recording and safeguarding as well as transaction control.

Key internal controls to be applied for the project include:

- Appropriate authorizations and approvals of all relevant documentation transactions of payments;
- Segregation of duties as different persons being responsible for different phases of a transaction;
- Reconciliations between records and actual balances, as well as with third parties should be performed on regular basis;
- Complete original documentation should exist to support project transactions.

Adequate procedures and controls will be instituted and applied in practice for loans funds. . The respective procedures are designed to ensure use of funds for intended purposes. One of the key steps in internal control is to apply in practice appropriate system of authorizations and approvals where segregation of duties will be introduced, and the different person will be responsible for the different phases of transaction.

Key internal control procedures include:

- Clear identification of the project name and number in order to avoid/prevent double-financing of the activity;
- Clear description of eligibility criteria for components and sub-components, a clear description of the item being evaluated;
- Procedures relating to evaluation and selection, including determining and describing responsibilities for this process;
- Procedures and processes of monitoring of loan and grant implementation, including reporting back;
- The procurement processes for loan and grant;
- Clear segregation of activities financed under the BETAPFMI;
- Separate accounting and recording for BETAPFMI;

➤ Flow of funds.

Bank Statements of the Designated Account are received daily by the PIU, and Treasury reports on regular basis. Based on the Bank Statements/Treasury reports the Financial Management Specialist will record executed payments and perform due reconciliation of the bank balances.

The PIU would establish additional internal controls that would mitigate the risk of double-financing, i.e. financing the same activity from two different sources of financing or posting the expenses under the wrong activity.

PIU has the leading procurement role, memorandums of cooperation will be concluded between PIU, MoF and beneficiaries (Public Revenue Office and CDPMEA). Each of the beneficiaries will appoint a certain number of persons from their institution that will actively participate through the Working Body. After finishing the respective software related to particular beneficiary, the MoF will handover it to them. The beneficiary institutions will be responsible for proper utilization, maintenance, and future upgrades (if needed) of the software developed under this project. All other activity (procurements and payments) will be performed by the PIU.

***Interim Financial Reports***

Interim Financial Reports (IFRs) will be regularly provided in accordance with the World Bank requirements, as well as the reports requested by the Government of the Republic of North Macedonia.

Project management-oriented IFRs will be used for monitoring and supervision of BETAPFMI. The format of the IFRs as agreed with the Bank is attached in Annex 4 to this POM. The PIU will produce a full set of cash-based IFRs, covering all project components and sources of financing for each calendar quarter throughout the life of the project. They will be due 45 days after each quarter ends.

The IFRs will comprise the following reports presented in the agreed format:

- Statements of Uses of funds by Project Activity
- Statement of Project Cash Receipts and Uses of Funds;
- Designated Account Statement;
- Narratives to the reports.

The accounting for the project is cash basis with additional information provided for commitments on signed contracts.

***External Audit of Project activities***

The project's financial statements will be audited in accordance with terms of reference acceptable to the Bank, conducted in accordance with the International Standards of Auditing issued by the IAASB. The audit will be carried out every year by an audit company acceptable to the Bank. The audit report and audited financial statements will be submitted to the Bank not later the six months after the end of the audited period. The Project Audits shall be financed by project funds.

The audit report will be submitted to the Bank no later than six months after the end of the audited period. The audited project financial statements will be posted by the client on the MoF's website within 2 weeks upon the audit report being accepted by the World Bank.

### ***Financial Control System***

All transactions must be reflected by supporting documentation. The process of registering the supporting documents is the first step for record keeping.

### ***Cash Control***

A Petty Cash Fund is established to have small amounts of cash in MKD for immediate payment of such items as office supplies, representation expenses, taxi fares, fuel, delivery charges, tolls, etc. The ceiling of Petty Cash Account will be regulated by the Decision for petty cash maximum issued by the Project Manager. Whenever the petty cash fund drops below a certain balance it should be replenished through a withdrawal from the Project Designated Mirror Account. All disbursements from the petty cash fund must be documented with a corresponding receipt.

A system of internal control is established to ensure that petty cash amount is protected from theft or embezzlement. The Financial Management Specialist is managing the Project Petty Cash and is in charge of cash control. The Project Manager may appoint other person as a substitution of the Financial Management Specialist only in case of his/her absence. Internal control procedures include the following:

- Cash is under lock;
- Maintenance of cash counts sheet;
- Statement of cash flow reflecting the both cash receipts and cash disbursement records;
- Regular reconciliation between the physical cash, accounting and cash counts records;
- Random control of the cash operations by the individuals which are not financial staff of the PIU.

### ***(If appropriate):***

Petty cash shall also be used for reimbursement of expenses incurred for use of privately owned vehicle for PIU business purposes and expenses related to approved business trips outside of Skopje (i.e. accommodation, per diem, travel, telecommunications, in-town transportation, tolls) on the basis of the proper written order approved by the Project Manager or other authorized signatories. The reimbursement for fuel when using a private owned vehicle will be fixed to 20% of the cost of 1-liter fuel per kilometer traveled. This amount includes all related costs for the use of the vehicle for the purpose of the business trip (fuel, amortization, maintenance, insurance) and for this amount no documentary evidence to support cost is necessary. For other travel related documents (tolls) appropriate documentary evidence is required (fiscal receipt, bills etc.)

### ***Fixed Asset Control***

The internal control of fixed assets such as furniture, equipment, and office accessories and any other asset procured under the Project is to be maintained by the PIU. All employees are responsible and accountable for fixed assets in their possession. The controls over fixed assets include: maintaining an

assets register, verifying the existence and condition of assets periodically and developing policies for authorization of asset disposal

- An Assets Register should be established with an entry for each asset. Each asset should be given a unique reference number for identification purposes. The register will contain information about where and when the item was purchased; how much it cost; reference number or serial number and depreciation. The Assets Register should be checked by an inventory committee at the end of each calendar year and any discrepancies will be reported and appropriate action taken.
- Regular maintenance (e.g. vehicles and equipment) and budgeting funds for these purposes will help to improve safety and prolongs the life the assets, as well as preserving their value.

Any acquired or donated assets will be recorded in a Fixed Asset Record. This record will include a description of the asset, date received, cost or estimated value, location, and an indication if it was purchased or donated. The Financial Management Specialist will maintain the Fixed Asset Record.

### ***Bank account management and Flows of Funds and Documents***

Project funds will flow from: (i) the Bank, either as an advance via a Designated Account to be opened in the NBRNM, which will be replenished under transaction based disbursement method, and managed as described below in the section on disbursement arrangements, or, if specific need arises, through direct payments to suppliers; and (ii) Government of North Macedonia, where payments will be executed by order of MOF via the treasury system.

The transaction-based disbursement method will be used for the Project. Once the Project becomes effective a Designated Accounts will be opened in the NBRNM, to which the funds will be transferred from the World Bank. For the smooth operation of the PIU activities, it is necessary FMS to open two Designated Accounts in NBRNM i.e. one for the Loan and one for the Grant.

A mirror MKD account is opened within the Treasury Single Account to serve as an operating account for withdrawals from the foreign currency account. Two mirror Designated accounts in the MoF will be also opened (785 and 786). The mirror accounts are credited only with amounts coming from the Designated Account. The MKD accounts are, in essence, a zero or immaterial balance account, with all spending taking place through it, with a corresponding transfer of the MKD-equivalent amount from the foreign exchange account. The Designated Account will be managed and operated by PIU.

All payments under the BETAPFMI will be managed and operated centralize, i.e. directly from the PIU. In that case, when payments to local suppliers are made, then a corresponding amount of foreign currency is exchanged in MKDs and credited to the MKD mirror account. From there, the amount is transferred to the respective contractor. If a payment needs to be made to a foreign contractor in foreign currency, then the foreign currency equivalent amount is converted to MKDs and credited to the mirror MKD account. The MKD account is then debited with the transaction amount, the MKDs are converted to the appropriate foreign currency, and the respective amount transferred to the contractor. This flow of funds is followed even if the Designated Account and the payment due to the contractor are in the same currency. This

ensures that the mirror MKD account, as part of the Single Treasury Account, captures all amounts paid to suppliers in the Treasury system.

The Ceiling for the Designated Account is indicated in the Disbursement Letter for the BETAPFMI. Applications for replenishment of the Designated Account will be submitted quarterly or more frequently if needed. Documentation requirements for replenishment would follow standard Bank procedures as described in Disbursement Handbook and would be in line with the Disbursement letter for the BETAPFMI.

Documentation requirements for DA replenishment would follow standard Bank procedures as described in the Disbursement Handbook. The application for replenishment will be supported by the necessary documentation, DA statements and reconciliation of these Bank statements.

The World Bank will disburse funds for the Project using traditional methods such as Statements of Expenditure (SOE). An initial advance up to the ceiling amount will be disbursed to the DA upon project effectiveness. Applications for replenishment of the Designated Account will be supported by Statements of Expenditures (SOE) and will be submitted at least quarterly. In addition to the advance method, the project will have the option of using the reimbursement, direct payment, and special commitment methods. Applications for reimbursements will be supported by SOEs, direct payments by records and special commitment by a letter of credit.

The PIU FMS is responsible for the preparation of Withdrawal Application (WA), SOE, summary sheets, DA reconciliation as required. These documents should be reviewed and signed by the Minister or another duly authorized person. The documentation will be sent to the World Bank Regional disbursement center in Zagreb, Croatia, or as instructed by the WB. Applications for replenishment of the Designated Account will be in accordance of the provisions given in the disbursement letter issued by the World Bank. Bank statements of the Designated Account, which have been reconciled, would go with all replenishment requests.

The ceiling for the DA is in accordance with the Disbursement letter. The Bank may permit electronically delivering of applications (with supporting documents) through the Bank's web-based portal (<https://clientconnection.worldbank.org>) "Client Connection", or as instructed by the World Bank. This option may be effected if: (a) the BETAPFMI has designated in writing, its officials who are authorized to sign and deliver Applications and to receive Secure Identification Credentials ("SIDC") from the Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Borrower have registered as users of "Client Connection".

The designated officials may deliver Applications electronically by completing the Form 2380, which is accessible through "Client Connection", or the BETAPFMI may continue to exercise the option of preparing and delivering Applications in paper form. The Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of WA by the Minister of Finance/ BETAPFMI. By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Minister of Finance/ BETAPFMI confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation, available in the Bank's public website at

<https://worldbank.org> and “Client Connection”; and (b) to cause such official to abide by those terms and conditions.

### ***Flow of funds***

Project funds (Loan and Grant) will flow from the World Bank as an advance, via Designated Accounts (DA) through the Treasury Single Account to the final recipients.

The transaction on-based disbursement method will be used for the Project. Once the Project becomes effective a two Designated Accounts will be opened in the NBRNM (separate for Loan and Grant funds), to which the funds will be transferred. Two mirror MKD accounts will be also opened within the TSA to serve as an operating account for withdrawals from the foreign currency account. The Designated Account will be managed and operated by the PIU with the authorized signatories. All transfers will take place through it, with a corresponding transfer of the MKD-equivalent amount from the foreign exchange account.

The procedures relating to the flow of funds, including paths for authorization and approval of payments are clearly described, as well as authorized signatories for administering the account funds. Minister of Finance may authorize the Project Manager for authorized signatories for administering the treasury MKD account funds. Bank Statements indicating turnover and balance on the MKD sub-account will be submitted on daily basis. The PIU will include balances on all project related accounts in the quarterly IFRs.

The cash flow for this case is as follows:

- Step 1. World bank BETAPFMI account
- Step 2. NBRNM - Designated account for the purposes of the BETAPFMI
- Step 3. BETAPFMI treasury MKD account
- Step 4. Contractor/ suppliers/consultants- Commercial bank account

All disbursement (payments) for local expenditures to suppliers, contractors, consultants, etc., from the Project funds will be made in the local currency of Republic of North Macedonia, i.e. MKD and for reporting purposes converted into EUR using the buying exchange rate of the NBRNM at the date of transfer.

Project foreign expenditures will be made in the original contract currency and for reporting purposes converted into EUR

### ***Flow of documents & Payment execution***

The project funds will be paid from DA through Treasury mirror account directly to the final recipients.

Responsibility for the invoice and supporting documentation verification and payment procedure rests with the overall PIU staff.

The verification of the invoices and supporting documentation received shall follow the following procedure:

1. All invoices and respective supporting documentation shall be submitted to the PIU FMS for invoice registration and processing.



2. The FMS checks and confirms whether the:
  - a. Invoice and supporting documentation are in compliance with contract financial terms;
  - b. There is available budget for payment of the invoice
3. The PIU member or other person responsible for monitoring and coordinating the implementation of the contract checks and confirms that:
  - a. The conditions for contract payment are met;
  - b. The contract has been implemented according to the contract terms, i.e the goods/works/services are being delivered according to the contract and the requested documentation has been submitted in line with the contract terms.
4. The PIU procurement specialist reviews the documents to see whether they are in line with the contract signed.
5. The documentation for payment is submitted to the Component Managers for final check and to the PIU Project Manager for final approval.
6. The prepared documents for payment are submitted to the authorized signatory to be signed.
7. The FMS makes the payment.

The verification period for invoices (check of compliance with contract terms) and respective supporting documentation (availability check) is 10 business days after the invoice reception date, provided there are no remarks.

Any change of the submitted invoice or communication with the supplier/ contractor/ consultant that submitted the invoice must be done in writing. Individual consultants can be paid based on submission of a request for payment bearing the reference contract number and amount.

## VI. REPORTING

### 6.1 DURING ENTIRE PROJECT IMPLEMENTATION

As part of the monitoring process, the PIU will be responsible for generating project reports to record the progress of the project. With regard to the Financial Management and Disbursement, reporting requirements are described in following sections of this manual.

With regard to overall reporting, the PIU is tasked to prepared semi-annual reports which should be shared with Project Steering Committee and World Bank.

The semi-annual report should include the overall progress on the activities in the last 6 months:

#### ***Project implementation***

- Progress of each component;
- Specific issues encountered.

#### ***Procurement implementation***

- Bidding in progress;
- Contracts (in progress and new ones);
- Specific issues.

#### ***Financial situation***

- Disbursements;
- Situation of the accounts;
- Scheduled disbursements;
- Funding needs.

#### ***Monitoring***

- Results Framework indicators;
- Implementation and Sub-projects indicators;
- Discussion on various indicators results;
- Safeguards compliance monitoring and reporting.

### 6.2 IMPLEMENTATION COMPLETION REPORT (ICR)

Upon Project completion, not later than six months after final disbursement of the Loan proceeds, the PIU will prepare an ICR in collaboration with the Bank. The ICR will include an assessment of the execution of the project, costs and benefits derived or to be derived, the performance of the Borrower, the Bank and other project beneficiaries involved in project implementation, regarding their respective obligations and accomplishments, and including lessons learned

## VII. ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN

The Implementing Agency shall ensure that the Project is carried out in accordance with the Environmental and Social Standards (ESSs) and this Environmental and Social Commitment Plan (ESCP), in a manner acceptable to the Bank.

**The Project's social risk is rated as low.** The Project aims to strengthen key elements of the public financial management system in North Macedonia, including fiscal transparency, and will finance consulting, advisory, and capacity-building activities focused on improving the efficiency, transparency and sustainability of public expenditure and increasing the effectiveness of revenue administration.

**The Project's environmental risk is rated as Low.** From a long-term perspective, the Project is expected to have a positive environmental impact as it will contribute to the development of tools to strengthen North Macedonia's capacity for climate change adaptation and mitigation.

### ***Regular Reporting***

PIU is obliged to prepare and submit to the World Bank regular monitoring reports on the environmental, social, health and safety (ESHS) performance of the Project, including but not limited to the implementation of the ESCP, status of preparation and implementation of Environmental and Social instruments required under the ESCP, stakeholder engagement activities, and functioning of the grievance mechanism(s).

### ***Incidents and accidents***

PIU is responsible for promptly notifying the World Bank of any incident or accident related to the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, including, inter alia, cases of sexual exploitation and abuse (SEA), sexual harassment (SH), and accidents that result in death, serious or multiple injury. Provide sufficient detail regarding the scope, severity, and possible causes of the incident or accident, indicating immediate measures taken or that are planned to be taken to address it, and any information provided by any contractor and/or supervising firm, as appropriate.

### ***Labor Management Procedures***

PIU is responsible for preparing, consulting, adopting, disclosing, and implementing the Labor Management Procedures (LMP) for the Project, including, inter alia, provisions on working conditions, management of workers relationships, occupational health and safety (including personal protective equipment, and emergency preparedness and response), code of conduct (including relating to SEA and SH), forced labor, child labor, grievance arrangements for Project workers, and applicable requirements for contractors, subcontractors, and supervising firms.

PIU is responsible for establishing and operating a grievance mechanism for Project workers, as described in the LMP and consistent with ESS2.

### ***Stakeholders Management Plan***

PIU is responsible for preparing, consulting, adopting, disclosing, and implementing a Stakeholder Engagement Plan (SEP) for the Project, consistent with ESS10, which shall include measures to, inter alia, provide stakeholders with timely, relevant, understandable and accessible information, and consult with them in a culturally appropriate manner, which is free of manipulation, interference, coercion, discrimination and intimidation. This shall include measures to consult the E&S instruments for the Project.

PIU is responsible for establishing, publicizing, maintaining, and operating an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances in relation to the Project, promptly and effectively, in a transparent manner that is culturally appropriate and readily accessible to all Project-affected parties, at no cost and without retribution, including concerns and grievances filed anonymously, in a manner consistent with ESS10.

The grievance mechanism shall be equipped to receive, register, and facilitate the resolution of SEA/SH complaints, including through the referral of survivors to relevant gender-based violence service providers, all in a safe, confidential, and survivor-centered manner.

Establishment of the grievance mechanism shall take place no later than 6 months after Project effectiveness and thereafter the mechanism shall be maintained and operated throughout Project implementation.

## VIII. MONITORING AND EVALUATION

Given the operation's focus on strengthening the generation of information on public financial management, monitoring and evaluation of the Project's results will be strongly supported. To the extent possible, the results indicators will be based on existing and available data that the Government already collects. The PIU will be responsible for monitoring and reporting on Project results in coordination with the respective working bodies under supervision of the Project Manager. The respective working bodies will be accountable for the progress in project implementation and achievement of results under their parts of the Project. Accordingly, IFMIS Working Body will be responsible for collecting data for Component 1 (excluding sub-component 1.3.), PRO Working Body for Component 2, SAMIS Working Body for sub-component 1.3.

Working Bodies will propose corrective actions as necessary to their respective heads of agencies (Minister of Finance, PRO Director and Deputy Prime Minister) and the Bank.

The PIU is responsible for monitoring and evaluation of project achievements and will be a focal point to collect all the data and communicate with the WB according to the frequency of reports described in the monitoring arrangement matrix. The PIU will present semi-annual progress reports on project implementation, output and performance indicators to the Bank after consultation with the respective working bodies.

The Bank will conduct semi-annual implementation support missions to evaluate the achievement of results and agree on adjustment or corrective measures when necessary. The achievement of the targets and implementation progress will be documented in Aide Memoires and Implementation Summary and Results (ISRs), and the results framework will be carefully monitored to ensure indicators' continuing relevance. The ISR containing the results framework, key project ratings and summary of project performance will be publicly disclosed in the Bank website.

The results monitoring is based on the agreed Results Framework and targeted annual performance objectives which will be used to track overall progress of BETAPFMI.

The Results Framework and Monitoring is given in the Annex 7.

