



REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE

„SMART PUBLIC FINANCES“

**Annual Monitoring Report on Implementation of
2022 Action Plan for Public Financial
Management Reform Programme**

for the period January - December 2022

March 2023, Skopje

Abbreviations and Acronyms

AMS	Audit management system
CA	Customs Administration
CARNM	Customs Administration of the Republic of North Macedonia
CEF	Center of Excellence in Finance
CIPFA	Chartered Institute of Public Finance and Accountancy
CHU	Central Harmonisation Unit
DR	Disaster Recovery
DBRNM	Development Bank of the Republic of North Macedonia
EUROSAI	European Organization of Supreme Audit Institutions
ESPEO	Electronic System for reporting and recording obligations
ERP	Economic Reform Programme
EC	European Commission
EEPSP	Single Electronic System for Public Private Partnership
ENER	Unique National Electronic Register of Regulations
ESRRL	Electronic System for Reporting and Recording of Liabilities
EU	European Union
FEZ	Free economic zones
GAP	Growth Acceleration Plan
GGICR	Good Governance and Investment Climate Reforms
HR	Human Resource
IPA	Instrument for Pre-Accession Assistance
IFMIS	integrated financial management information system
IFIs	International Financial Institution
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institution
INCOSAI	International Congress of Supreme Audit Institutions
IT	Information Technology
ICT	Internal Customers Technology
IFMIS	International Financial Management Information System
ISSAIs	International Standards of Supreme Audit Institutions
LGUs	Local Government Units
KPIs	Key Performance Indicator
MASA	Macedonian Academy of Sciences and Art
MoF	Ministry of Finance
ME	Ministry of Economy
MJ	Ministry of Justice
MASP	Multi-Annual Strategic Plan
NBRNM	National Bank of the Republic of North Macedonia
NDI	National Institute for Democracy

NPAA	National Programme for Adoption of the Acquis
OECD	Organisation for Economic Cooperation and Development
OBL	Organic Budget Law
PFM	Public Finance Management
PRO	Public Revenue Office
PPB	Public Procurement Bureau
PFA	Public Finance Academy
PPP	Public-Private Partnership
PAR	Public Administration Reform
PEFA	Public Expenditure Financial Accountability
PIM	Public Investment Management
RRF	Recovery and Resilience Facility
RIA	Regulatory Impact Assessment
SPF	SMART PUBLIC FINANCES
SWG	Sector Working Group
SAO	State Audit Office
SACPP	State Appeal Commission for Public Procurement
SMART	Specific Measurable Achievable Relevant Time-Based
SIGMA	Support for Improvement in Governance and Management
SESPPP	Single Electronic System for Public Private Partnership
SEA	Secretariat for European Affairs
SECO	Swiss State Secretariat for Economic Affairs
SAA	Stabilisation and Association Agreement
TFMA	Task Force on Municipality Audit
TA	Tax Administration
TSRS	Tax System Reform Strategy
TFMA	Task Force on Municipality Audit
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
WGPD	Working Group on Public Debt
WB	World Bank
WFD	Westminster Foundation for Democracy

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Introduction

Monitoring Report on implementation of 2022 Action Plan for Implementation of the PFM Reform Programme for the period January-December 2022 was prepared by the Ministry of Finance (MoF) of the Republic of North Macedonia, with other line ministries represented on the Sector Working Group actively participating: Ministry of Economy, State Audit Office (SAO), Customs Administration of the Republic of North Macedonia (CARNM), Public Revenue Office (PRO), Public Procurement Bureau (PPB), State Appeal Commission for Public Procurement (SACPP). Process of Report preparation was initiated in January 2023, and finalised by end-February 2023. The Report was prepared on the basis of an instruction for reporting, including deadlines and reporting templates, prepared by the IPA and NPAA Unit at the Ministry of Finance (Coordination Unit), facilitating the consolidation and the presentation of PFM reform reporting information.

It provides information on the progress achieved in implementing the reform activities for the period January – December 2022.

1. Background

On 21st June 2022, Government of the Republic of North Macedonia adopted the 2022-2025 PFM Reform Programme and the 2022 Action Programme for Implementation of PFM Reform Programme.

2022-2025 PFRM Reform Programme (hereinafter referred to as: Programme) highlights the credibility of the 2018-2021 Programme and the need to proceed with the reforms in this area. It is an ambitious effort covering all aspects of PFM: economic analysis, macroeconomic and fiscal framework, revenue mobilisation and collection, budget planning, public investment management, effective instruments under the Growth Acceleration Plan, public procurement, including PPP, establishment of integrated financial management information system (IFMIS), Public Finance Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at local level.

Key goals of the Programme are improved fiscal framework, strengthened process of public finance planning, execution and reporting, increased revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, which are to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation. Further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural

reforms, but also as a process which improves the quality of the public administration and ensures an attractive and desired environment for the investors. Moreover, the Government has developed sub-system reform strategies in the areas of public internal financial control and tax system.

The Programme is based on the SMART public finance concept, as one of the priorities of the Government, or literally translated “smart” finances based on clear strategy, which will be maintainable, accountable, reform-oriented and transparent, under which public finance reforms will be implemented in terms of longer-term and better quality planning of the budget programmes and the budgets, it will be continuous, i.e. maintainable, and will be continuously aimed at improving the transparency. This will mean aiming at more just model of public finances from the point of view of revenues, expenditures and the manner of financing, i.e. in other words, how the funds are collected in the Budget and how citizens’ money is spent, putting the focus on re-orienting the traditional budgeting to performance-based budgeting and introducing multi-annual budget framework.

One of the main pillars of the SMART system has to be transparency and accountability of public finances, considering that transparency has been the “key word” in the politics in recent years. Its real value for public finances is that it is the highest level of fiscal control, when you provide information to the public in a simple and understandable manner and the public judges and decides whether it is a right or justified or legal decision.

Ministry of Finance of the Republic of North Macedonia prepared the 2022-2025 PFM Reform Programme and the 2022 Action Plan for Implementation of the PFM Reform Programme in close cooperation with the following institutions: Ministry of Economy, State Audit Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement.

Both the Programme and the 2022 Action Plan were published on the Ministry of Finance website on 15th April 2022 in Macedonian and English language. Public consultations took place in the form of a policy dialogue on 13th May 2022, with the relevant stakeholders taking part (development partners, civil society organisations, IFIs, local authorities and other stakeholders), all to the end of actively contributing to the process of identifying and implementing the reform priorities.

What is important for the accession process is that PFM Reform Programme will support the EU dialogue and help in more efficient use of EU funds through the institutions of North Macedonia, on the road to EU accession. Sound public financial management is a key precondition in the process of EU integration and is linked to many negotiation chapters (Chapter 5 - Public Procurement, Chapter 16 - Taxation, Chapter 17 - Economic and Monetary Policy, Chapter 18 - Statistics, Chapter 29 - Customs Union, Chapter 32 - Financial Control and Chapter 33 - Financial and Budgetary Provisions).

Implementation of structural reforms through quality and sound economic policies in all spheres, above all fiscal policy with moderate fiscal deficit, but sustainable public debt for efficient, transparent and modern public financial management, is essential for a stable, sustainable development, boosted competitiveness of the Macedonian economy and achieving better economic results in future, as well as wellbeing of the citizens of the Republic of North Macedonia.

PFM Reform Programme envisages 8 pillars with 22 priorities:

Pillar I - Economic Analysis, Macroeconomic and Fiscal Framework

- Priority 1. Revenue Forecasting and Reporting
- Priority 2. Economic Analysis and Macroeconomic Forecasting
- Priority 3. Strengthening Debt Management

Pillar II - Revenue Mobilisation

- Priority 1. Tax and Customs Policy
- Priority 2. Tax Administration
- Priority 3. Customs

Pillar III - Planning and Budget

- Priority 1. Budget Planning
- Priority 2. Strengthened Public Investment Management
- Priority 3. Effective Instruments under the Growth Acceleration Plan

Pillar IV - Public Procurement

- Priority 1. Public Procurement Policy
- Priority 2. Public Private Partnerships (PPPs)
- Priority 3. Appeal Mechanism

Pillar V - Integrated Public Finances

- Priority 1. Implementation of an Integrated Financial Management Information System (IFMIS) to Support the Implementation of Public Financial Management Reforms and Organic Budget Law
- Priority 2. Strengthen the Accounting of Budgets and Budget Users
- Priority 3. Public Finance Academy

Pillar VI - Public Internal Financial Control

- Priority 1. Financial Management and Control

- Priority 2. Internal Audit
- Priority 3. Financial Inspection

Pillar VII - External Control and Parliamentary Oversight

- Priority 1. External Audit
- Priority 2. Parliamentary Oversight

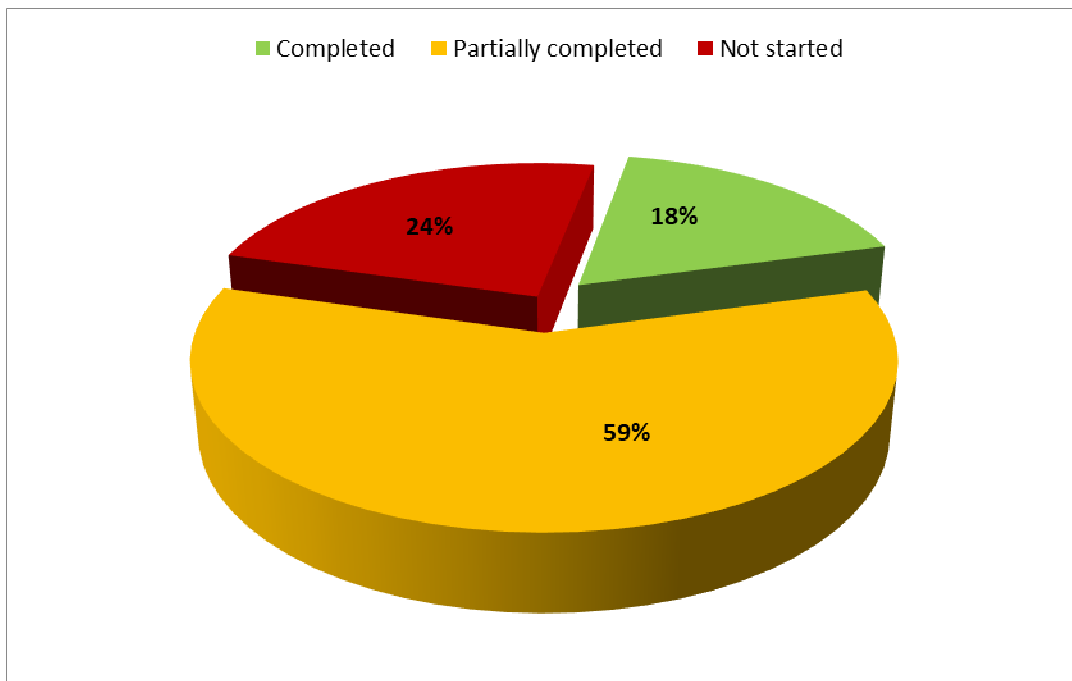
Pillar VIII - PFM at Local Level

- Priority 1. Fiscal Decentralisation
- Priority 2: Financial Discipline, Transparency and Accountability at Local Level

2022 Action Plan elaborates in details the measures and the activities under the PFM Reform Programme to be implemented in 2022, defines the specific indicator targets to be reached, also presenting cost estimates and the sources of financing needed for implementing such activities.

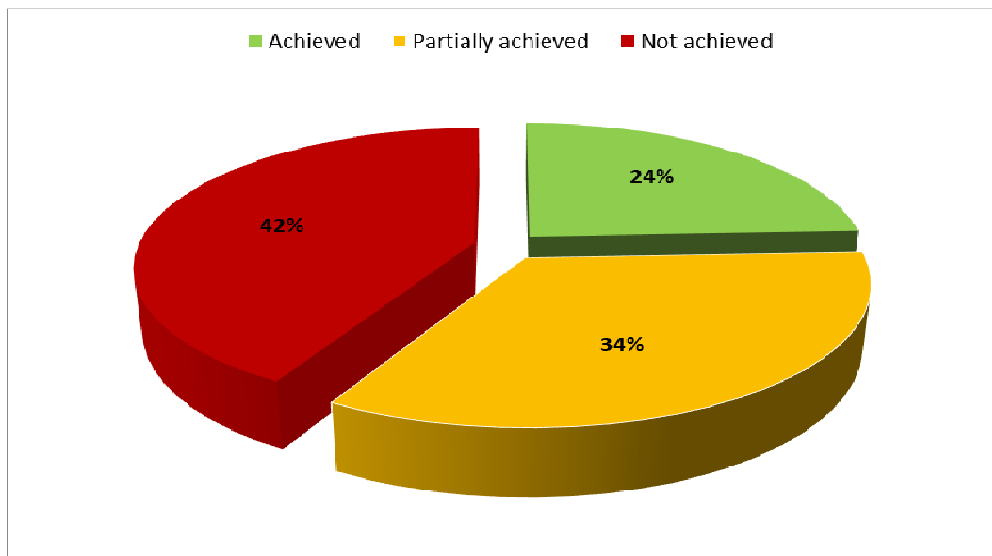
The status of the implementation of the activities covered by the Action Plan 2022 is as follows: out of 85 activities, 15 are completed, 50 are in the process of implementation and 20 are not completed (not yet started), which in terms of the percentage of implemented activities is represented as follows:

Percentage of implemented activities in the reporting period from January - December 2022



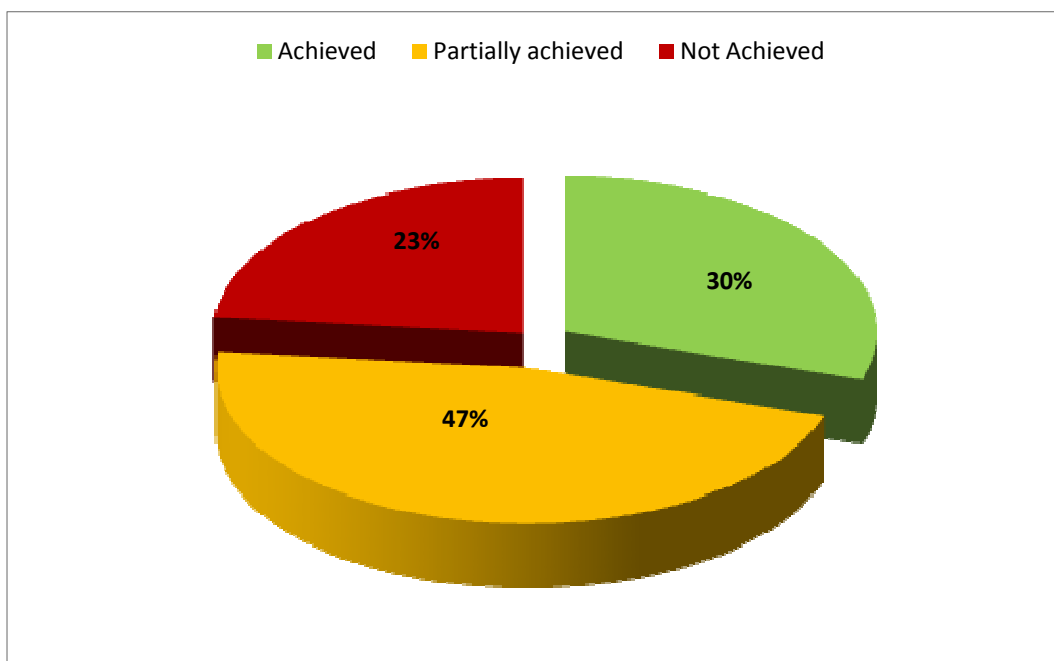
The achievement of indicator targets at the measure level for 2022 is the following: out of 74 indicator targets at the measure level, 18 are achieved, 25 indicator targets are partially achieved and 31 are not achieved.

Percentage of achieved indicator targets at the measure level in the reporting period from January - December 2022



The achievement of indicator targets at the priority level for 2022 is the following: out of 30 indicator targets at the priority level 9 are achieved, 7 indicator targets are partially achieved and 14 are not achieved.

Percentage of achieved indicator targets at the priority level in the reporting period from January - December 2022



The detailed status of achievement of indicator targets for 2022 and status of implementation of the planned activities are presented in the Annex 1: Performance Indicators Matrix on the 2022 Action Plan for PFM Reform Programme.

All the activities that were initially planned to be completed in 2022, but were not realised, will be planned in the 2023. The draft 2023 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

The updated Risk assessment of the 2022 Action Plan for PFM Reform Programme is presented in Annex 2.

2. Links to Strategic Documents

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

2.1.Policies, Strategies and Programmes Linked to PFM

2022-2025 PFM Reform Programme takes into account all the relevant documents in the field of European integration, such as the Stabilisation and Association Agreement (SAA) between the European Communities and their Member States, on the one hand, and the Republic of North Macedonia, on the other hand, as well as all relevant national strategic documents in this area.

IPA III Strategic Response

Priorities set out in the PFM Reform Programme are in line with the priorities for EU financial assistance to support the Republic of North Macedonia on its path to EU accession for the period 2021 - 2027 set out in the IPA III Strategic Response.

In order to strengthen public finance system, promote transparency, accountability, fiscal discipline and efficiency when collecting, managing and using public resources, IPA plans to invest in implementing and upgrading the reform strategies to ensure fiscal sustainability and sound management of public finances as applicable in the EU, improving the capacity for domestic revenue mobilisation and effective management of public funds, through improving stability, efficiency, and quality of revenue collection system (tax system and policy and customs system), including introduction of green taxation, improving budget planning reliability, further supporting of the implementation of integrated information system for public financial management, public investment planning and management; strengthening the management of assets and liabilities; enhancing the policy-based fiscal strategy and budgeting, strengthening the public procurement through support in implementing an overall strategy for the development of the public procurement system, including aspects of innovative, green and social procurement, improving public private partnership for concessions, enhancing internal

control, strengthening decentralised managerial accountability, strengthening the accounting and reporting, enhancing the external audit.

Economic Reform Programme (ERP)

EC assessment of the ERP 2022-2024 was published on 20th April 2022¹, following the EC assessment mission in the period 17th - 18th February 2022. Commission assessment noted partial implementation of the policy guidance jointly adopted at the Economic and Financial Dialogue of 12th July 2021 with 43.1%, while with respect to the progress in implementing the reform measures from the last year's Programme, EC noted an average score of 2.6 out of 5.

Economic and Financial Dialogue is part of the pre-accession economic and fiscal surveillance of the Western Balkans and Turkey, following the example of the European Semester for EU Member States. Economic and Financial Dialogue for ERP 2022-2024 took place in the period April - May, wrapping up with the Ministerial Meeting held on 24th May 2022 in Brussels, when the joint conclusions for the upcoming ERP 2022 - 2025 were adopted.

The status of implementation of the recommendations from the joint conclusions is given within Chapter 2 of ERP 2023-2025, and is referring, among other, to the following: provided support by the government for mitigating the energy and price crisis effects by protecting the standard of living of the citizens, especially the vulnerable categories, supporting the liquidity of companies, but also supporting investments in energy efficiency and renewable energy sources; according to the Revised Fiscal Strategy for the period 2023-2025 (with prospects until 2027), foreseen gradual reduction of the primary deficit-to-GDP ratio to its pre-crisis level (0.8%), adopted new Budget Law in September 2022, that defines fiscal rules and fiscal council; adopted new acts on organizational setup and operation and systematization of working posts, envisaging establishment of a new Public Investment Management Department; drafted a package of tax policy reforms in the segments of profit tax, personal income tax and value added tax; prepared draft proposal of the Law on Public-Private Partnership (PPP Law) and sent again for re-opinion to the European Commission.

ERP 2023 - 2025, chapter 5, Structural reforms was subject to public consultation in the period 15-29 December 2022. It will be submitted to EC once adopted by the government².

National Programme for Prevention of Corruption and Conflict of Interests 2021 - 2025

Achieving the objectives and implementing the measures under the Strategy should ensure increased confidence in the institutions of the system, efficient use of public resources and strengthening the democracy, social values and exercising of human rights.

¹ https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-05/North%20Macedonia%202022%20ERP%20assessment%20SWD_2022_123.pdf

² At the session on 1 February 2023, the Government adopted the draft Economic Reform Programme 2023-2025, and has been officially submitted to European Commission and published on MoF web site:

<https://finance.gov.mk/wp-content/uploads/2022/12/DRAFT-CHAPTER-5-ERP-2023-2025.pdf>

The Strategy detects and selects priority issues that generate high risk of corruption and identifies measures to overcome them. Issues and measures envisaged by this Strategy systematised in the following areas: public procurement, public sector employment, political system, judiciary, law enforcement authorities, health, labour and social policy, urban and spatial planning, environment, agriculture, sports, economy and business, public enterprises, media and civil society.

Public Administration Reform (PAR) Strategy

Public administration reform is a key area of the Cluster Basics and therefore public administration reform remains one of the Government's key priorities. Given that the duration of negotiations for full membership depends on the speed with which reforms are implemented in the country, a new Strategy for the Reform of Public Administration (2023-2030) has been prepared, in the time period by which the Republic of North Macedonia is expected to become a full member of the EU the following vision is set: depoliticized, efficient, effective and accountable public administration that provides quality and easily accessible services for citizens and the business community. The work of public administration is based on European principles and values and contributes to sustainable economic growth, rule of law, social cohesion and well-being. The draft Strategy for Public Administration Reform (2023-2030) reflects the situation and challenges in public administration in the Republic of North Macedonia, as of December 31, 2022, and it will be published on ENER for public consultations in early 2023.

Public financial management reform is one of the key pillars of the public administration reform (PAR), accordingly being incorporated in the PAR Strategy and the Action Plan for Implementation of PAR Strategy. Given that modern public administration is basis for efficient and effective public financial management, when preparing the PFM Reform Programme and the PAR Strategy, full coherence and harmonisation of both strategic documents is ensured. Particular attention has been paid to the human resources capacity, policy planning capacity, e-services, provision of services and orientation towards results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, link between these two strategic document has been further strengthened with the Minister of Information Society and Administration participating in the process of managing and coordinating the PFM Reform Programme, as a member of the PFM Council, and its representatives in the PFM Sector Working Group, thus ensuring consistency and complementarity in the implementation of both documents. Furthermore, PFM reforms are put on the agenda of the SAA monitoring process, in particular, the progress in implementation of the reforms is discussed during the meetings of the Special Group for Public Administration Reform. In addition, agendas of the PFM policy dialogue and the Special Group for Public Administration Reform are harmonised.

Under IPA Project “Support to State Reorganisation”, implemented by the Ministry of Information Society and Administration, new Law on Organisational Setup and Operations of State Administration Bodies has been prepared, aimed at streamlining the institutional framework, eliminating the overlapping competencies and improving the efficiency of the administration, strengthening the public services, as well as the ethics, integrity, transparency and accountability of the public administration.

Organisational setup of the new Departments has been defined with a functional analysis made by the Ministry of Finance. In order to commence performing the new functions related to public investment management, concession registry, carrying out training in the area of public finances, etc., Ministry of Finance in December 2022 had amend the organisation and systematisation acts by establishing and staffing new organisational units.

2.2. PFM Sub-Areas Strategies

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

Tax System Reform Strategy covers a 5-year period (2021 - 2025), adhering to the deadlines set in the other strategic documents of the Ministry and its bodies. The Strategy outlines five priorities (1 - Increased Fairness of Taxation, 2 – Improved Efficiency and Productivity of the Tax System, 3 – Increased Tax Transparency, 4 – Improved Quality of Services, 5 – Introduction of Green Taxation) for tax policy creators and tax authorities administering the tax revenues in the period 2021-2025, with associated key activities, deliverables, responsible entities and KPIs.

Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026

Government of the Republic of North Macedonia adopted the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026, with 2022 Action Plan for its implementation, in the first quarter of 2022. Moreover, the Government adopted a conclusion for establishment of a coordinating body for monitoring the implementation of the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026.

The coordinating body for monitoring the implementation of the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026 was established on 13th April 2022. Chairman of the coordinating body is the Director of the Public Procurement Bureau, with its members being the employees in the PPB and representatives from the State Commission for Prevention of Corruption, State Appeal Commission for Public Procurement, State Audit Office, Commission for Protection of Competition, employees from the Cabinet of the Deputy Prime Minister in charge of Good Governance Policies, Ministry of Finance, Ministry of Justice and Secretariat for European Affairs.

The coordinating body will monitor the effects/results of the strategic and operational goals while implementing the Strategy, will prepare an annual report on monitoring the implementation of the Strategy and the Action Plan for the current year to serve to assess the effects/the results of the strategic and the operational goals annually.

The Strategic plan of the PRO for the period 2022-2024 is fully complementary to the Program. Within the framework of Program 3. Public finance management - revenue mobilization, subprogram 3.1. Improved stability, efficiency and quality of the revenue collection system (tax system and policy) 3.2 Improved debt administration and management sub-program, 3.3 Compliance risk management and sub-program 3.4. Establishing a Disaster Recovery Center. The plan contains activities that are in full consistency with the planned activities within Priority 2 – Tax Administration from the Program.

The IT strategy of the PRO for the period from 2019 to 2022 is in accordance with the Program for the reform of the PRO and the Tax System Reform Strategy. The key objective of the IT strategy of the PRO is to define the overall development strategy for the information and communication systems of the PRO in accordance with the development strategy of the PRO as a whole. The strategy defines the future development of IT systems, infrastructure and technical environment and the directions for the development of the Information Technology Sector and its employees, the mandatory application of IT standards and methodologies. With technical assistance from the IMF, the new IT strategy of the PRO for the period 2023-2026 is being developed.

Strategy for risk management in the processes of the PRO 2023-2025

The purpose of this Strategy is to establish and maintain a functional system for achieving the strategic goals and regular work activities of the PRO through the management of processes that contribute to greater quality, efficiency and results in all activities and at all levels. This means that risk management remains an integral part of the annual planning process.

The purpose of this Strategy is to determine the risk management process in all phases, whereby it should enable:

- improving the efficiency of risk management at the level of the PRO,
- risk management to cover all areas of the work of the PRO,
- that risk management is an integral element in the planning and decision-making process as a standard,
- raising the degree of awareness of the risks of the employees of the PRO during management, assessment and action as well as during the performance of regular work tasks,
- coordinated approach to risk management in the organization, which will cover all areas of risk.

The strategy for the development of the Customs Administration of the Republic of North Macedonia for the period 2022-2024;

The strategy has been drafted in accordance with the strategic determinations and priorities presented in the Work Program of the Government of the Republic of North Macedonia in the period 2020-2024 and the corresponding national strategies and programs in areas that have an impact on customs operations. When defining the strategic goals, the commitment of the European Union with tax and customs policies to provide support for economic recovery from the crisis with COVID-19, to raise customs administrations to a higher level of modernization, with advanced staffing that enables better protection, was also taken into account citizens and society through efficient and proactive action of the customs services. The vision of the Customs Administration is to be a leading Customs Administration in the region, recognized as a protector of borders and society and a strong supporter of the legal economy, as well as a modern and innovative customs service with fully applied European Union standards, through the four strategic priorities: 1) collection of income and protection of financial interests, 2) facilitation of trade, 3) protection of society and 4) organizational and infrastructure development. The strategy is fully in accordance with the Program through the objectives: 6.2.1 Harmonization of the national customs legislation with the legislation and best practices of the European Union; 6.2.2 Digitization of customs and excise procedures; 6.2.3 Modernization of the customs ICT infrastructure to support operations; 6.2.4 Trade facilitation through regional economic integration; 6.3.1 Suppression of illegal trade and organized crime; 6.3.3 Strengthening the area of "bans and restrictions"; 6.4.1 Strengthening the human resources management system; 6.4.2 Implementation of measures to prevent inappropriate and corrupt behavior and development of rules and control systems.

ICT development strategy in the Customs Administration for the period 2021 - 2025;

In the period 2021 - 2025, the CA plans to implement several projects from all areas of customs operations, which should be supported by IT. Most of these projects are part of the preparation process for the accession of the Republic of North Macedonia to the European Union (EU). In the foundations of this strategy are the user requirements and goals that arise from the business strategy of the CA, and are aligned with the priorities and plans at the national and European level.

The goals that are expected to be achieved through the implementation of the Strategy are related to the digitization of customs operations through: 1. Interconnectivity and interoperability with EU ICT systems, 2. Implementation of integration standards with the National Platform for Interoperability, 3. Improvement of the ICT environment, 4. Application of modern technologies and practices for the implementation of business claims and 5. Promotion of the use of the Internet, intranet and social networks in customs operations.

Risk management strategy for customs matters 2018-2022;

The need for efficient risk management in the international supply chain is of crucial importance for ensuring the safety and security of the population, protecting the financial and economic interests of the country, and at the same time facilitating legal trade. With this strategy, the Customs Administration defines the goals through which the risk management process will be constantly improved, namely: 1. Increasing the capacity of the Risk Management Department, 2. Improving the quality of data and information support for efficient risk management, 3. Provision, availability and sharing of risk management data, cooperation between institutions, multi-layered approach, 4. Effective control system based on risk management, pre-assessment, control where necessary.

Strategy for integrity and fight against corruption in the Customs Administration of the Republic of North Macedonia 2019-2022;

The strategy for integrity and fight against corruption of the Customs Administration aims to strengthen the systems of prevention and repression of corruption and conflict of interests, defining the directions for strengthening the capacities and independence of the institution in the implementation of legal powers through the development of the concept of integrity. This document is based on the following principles, which at the same time represent leading activities, essential for integrity and the suppression of corruption, such as: leadership, rule of law, publicity and transparency in operations, automation of work processes, ethical behavior of employees, strengthening the integrity of the employees, strengthening the efficiency and effectiveness in the work of the organizational units in the Customs Administration, training and professional development, strengthening the inter-institutional cooperation in the fight against corruption and crime, implementation of the National Strategies for the prevention and repression of corruption and the occurrence of conflict of interests and more.

Strategy for training and development of competencies in the Customs Administration of the Republic of North Macedonia 2021-2023;

The Strategy for Training and Development of Competencies in the Customs Administration of the Republic of North Macedonia 2021-2023 (hereinafter: Training Strategy) determines the development of employees based on competencies, priorities, roles, rights and responsibilities of the participants in the competence development process in the Customs Administration of the Republic of North Macedonia (hereinafter: CARNM). The continuous development of the competencies of human resources is aimed at supporting the implementation of the strategic goals foreseen in the Strategic Plan of the Customs Administration of the Republic of North Macedonia 2020-2022.

The intention of the strategy is in the period 2020-2023 to: 1. Improve the system for internal redeployment and the system for training and professional development, 2. To introduce customs competences in the processes of Human Resource Management, 3. To improve the knowledge and skills of customs officers, 4. To strengthen performance management mechanisms and reward and career systems and to increase awareness and commitment of employees.

SAO Development Strategy 2018-2022

Priorities and Measures within Pillar 7: External control and parliamentary oversight of 2022-2025 PFM Reform Program are closely related to the strategic objectives contained in SAO Development Strategy for 2018-2022 as follows:

Priority 1: External audit, Measure 1: *Strengthening external audit legal framework* is related to Strategic Objective 2: Further improvement of the quality of audits and Strategic Objective 3 - Further development of SAO institutional capacity;

Priority 1: External Audit, Measure 2: *Strengthening SAO institutional and HR capacities* and Priority 2: Parliamentary oversight, Measure 1: *Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM* and Measure 2: *Strengthening the institutional capacities for reviewing audit reports in the Assembly of RNM* are related to Strategic Objective 5: Improving communication and exchange of information with national and international entities and informing the public.

With the aim to update SAO strategic objectives and to adapt operation to the current state of affairs and challenges in the society, new strategy was prepared. In September 2022, SAO adopted the SAO Development Strategy³ for the period 2023 – 2027 and it's action plan for implementation.

SAO Communication Strategy 2020-2023

SAO Communication Strategy 2020-2023 is in line with PFM Reform Program and SAO Development Strategy 2018-2022. The key objective of the Communication Strategy is to increase the level of awareness of the wider public about SAO function and task and to strengthen SAO role as an institution serving the public. The Strategy defines specific objectives aimed at achieving specific results, which are directly related to SAO strategic activities as follows:

- to encourage SAO role as promoter of the principle of transparency and accountability of public funds;
- to develop and strengthen cooperation and coordination with all interest groups;

³: https://dzt.mk/sites/default/files/2023-01/Strategija_za_%20razvoj_na_%20DZR_2023_2027.pdf

- to set up public support for SAO work and to ensure public participation;
- to encourage institutions to act upon SAO reports through greater engagement of the public.

Aimed at increasing transparency and accountability in SAO operations and making available information on SAO operations and shortcomings contained in final audit reports, SAO compiled a register of stakeholders, which currently contains 930 stakeholders. For this purpose, SAO created an audit abstract and press release that contain key shortcomings / information from final audit reports presented in a comprehensible way. When final audit report is published, the information is shared with all stakeholders. Information about SAO operation and final audit reports is published on SAO website (www.dzr.mk) and FB page (<https://www.facebook.com/DrzavenZavodzaRevizija>).

SAO Strategic Audit Plan 2021-2023

The Strategic Audit Plan of the State Audit Office for 2021-2023 is corresponding with the PFM Reform Program 2022-2025. Measures within Priority 1: External audit, are in full compliance with point 2, strategic objectives and priorities of SAO audit departments, which include supervision over the spending of public funds, quality financial reporting, fight against corruption, continuous increase of responsibility and accountability and transparency etc.

Human Resource Management Strategy 2020 – 2023

The Strategy for Human Resources Management 2020-2023 is in line with SAO Development Strategy 2018-2022 and the PFM Reform Program 2022-2025. Namely, strategic objective 2 – Motivation and training of SAO employees and strategic objective 7 – communication, are closely related to priority 1: External audit, measures 1: Strengthening legal framework for external audit and measure 2: Strengthening SAO institutional and HR capacities. Increasing knowledge and skills of SAO employees is one of the main commitments of the institution, and these commitments are translated into the Annual Plan for continuous professional development for 2022.

IT Strategy 2018-2022

SAO IT strategy for the period 2018 - 2022 is the basis for implementation and development of SAO IT systems. The IT Strategy is in line with SAO Development Strategy 2018-2022 and with Priority 1: External Audit, Measure 1: Strengthening legal framework for external audit and Measure 2: Strengthening SAO institutional and HR capacities from the PFM Reform Program 2022-2025, given that they are closely related to strategic objective 1: providing and maintaining necessary resources for continuous development of SAO IT systems and strategic objective 4: presenting results of SAO operation of SAO from the IT strategy.

SAO prepared new IT Strategy for the period 2023 – 2027, which will be adopted in near future.

3. Links to External Assessments

This Programme is based on a thorough analysis of the circumstances through internal analyses by the relevant national institutions, as well as PEFA mission findings and assessments, which took place in the period April-May 2021, recommendations given by experts from both the IMF - Fiscal Affairs Department and the World Bank on prioritisation of future reforms, assessment of OECD - SIGMA on the basis of the Principles of Public Administration, which took place in March 2021, as well as other specific external diagnostic assessments. On 1st June 2022, IMF - FAD and World Bank submitted the final PEFA Assessment Report, including 2020 data, and it was published on the websites of the IMF, the World Bank and the PEFA Secretariat.

UNDP technical assistance was extended by engaging an external expert to prepare new formula and excel tool for distribution of VAT grant funds, in particular VAT grant intended for Equalisation Fund and Performance Fund, as well as technical assistance for drafting the wording of the new Decree on Distribution of VAT Revenues.

Support will be extended through USAID funded project in the form of preparation of an expert analysis of the existing system for support of local and regional development in the country and preparation of general guidelines and recommendations for its improvement based on evidence and successfully established international practice, to help in defining the most adequate model for transformation of the Regional Development Bureau into Regional and Local Development Agency.

Under the "Management of Municipal Councils" UNDP Project, municipalities are being prepared a dashboard showing data from the periodic reports and a separate link Financial Indicators is created, available on the websites of the Ministry of Finance and the municipalities.

Support is also extended under USAID Project for preparation of Financial Instability Manual and its presentation to the municipalities.

In 2022, World Bank and Global Initiative for Fiscal Transparency carried out an assessment mission, with the support of the Good Governance and Investment Climate Reforms (GGICR) Trust Fund, reviewing the transparency and the reporting about public expenditures in times of COVID-19, public procurement at national level, inclusiveness of undertaken measures and access to information amid COVID-19 induced pandemic. The experts submitted a series of recommendations for improvement of fiscal transparency in case of future crisis emergency. The Report assesses the State Audit Office as an example regional institution, with a proactive role in auditing the measures for managing the COVID-19 induced crisis, as well as constant publishing of the audit reports.

4. Development Partners Coordination

Development partners remain committed to supporting PFM reforms and maintain policy dialogues in the country with the the new PFM Reform Programme 2022 -2025 as well. Therefore, in order to ensure good planning and complementarity of external technical support, proper sequencing and successful implementation of the reforms, the MoF will continue co-ordinating the development partners' assistance by conducting an open and inclusive PFM policy dialogue with all relevant institutions.

Monitoring the new PFM Reform Programme 2022 -2025 is based on sectoral dialogue, introduced with the previous PFM Reform Programme, with all stakeholders - external partners. PFM policy dialogue was held on 13th May 2022. Draft PFM Reform Programme and draft 2022 Action Plan, as well as draft Report on Monitoring the Implementation of 2021 Action Plan for PFM Reform Programme for the period January - December 2021, were subject of public consultations with the members and the observers from civil society organisations and development partners, who are members/observers of the PFM Sector Working Group, as well as other stakeholders. On 29 September, 2022 a meeting was held with the SWG for PFM to discuss the progress in the implementation of the Action Plan for 2022 for the PFM Reform Programme for the period from January 2022 to June 2022

PFM development partners coordination is carried out on the following two levels:

Policy level - PFM Council and PAR Council. One of the main tasks of the PFM Council is to facilitate the policy dialogue with the relevant institutions and development partners. PFM Council members participate in the PFM Policy Dialogues with all relevant stakeholders.

Technical level - PFM Sector Working Group - directly related to the working groups established for development and monitoring of the PFM sub-system strategies and policy papers. Also, separate development partners coordination meetings on operational level are organised with regard to the implementation of specific PFM sub-area measures.

Starting from the beginning of 2020, the Ministry of Finance, in cooperation with other institutions (PRO, Customs Administration, PPB, State Appeal Commission for Public Procurement and Ministry of Economy) implement two major twinning projects financed under EU - IPA 2018, which are to provide support to MoF's

functions in the field of budget planning and execution, internal control, public procurement, as well as tax and customs policy and system and revenue collection:

- 1. Strengthening budget planning, execution and internal control functions**, with the following EU Member States as twinning partner: the Netherlands (National Academy of Economics and Finance of the Ministry of Finance), Croatia (Ministry of Finance), Latvia (Ministry of Finance) and Bulgaria (Ministry of Finance). The Project commenced in February 2020, with a planned duration of 36 months.

2. **Improving revenue collection and tax and customs policy**, with the following EU Member States as twinning partner: Austria (Agency for European Integration and Economic Development together with the Federal Ministry of Finance) and Croatia (Ministry of Finance - Customs and Tax Administration). The project was suspended, then canceled and the activities planned to be implemented in 2022 did not start/continued to be implemented.

IMF FAD technical assistance for the tax administration of North Macedonia is crucial for successful implementation of the foreseen strategic priorities, measures and activities. Furthermore, IMF's continuous support to the long-term modernisation processes and the already developed reform programmes will greatly contribute to ensuring smooth change management to the end of establishing electronic tax administration and improving the public finance management – revenue mobilisation.

The Public Revenue Office is in continuous coordination with international donor organizations, the EU-Twinning Partners, the World Bank and the IMF regarding the implementation of the new integrated tax system (ITIS) and related projects, in order to avoid overlapping of donors' aid.

SAO in 2021-2022 implemented the Twinning project "Improving External Audit and Parliamentary Oversight", in cooperation with the State Audit Office of the Republic of Croatia as senior partner and the National Audit Office of the Republic of Bulgaria, as junior partner. The implementation period of this Twinning project was 21 months and it was successfully completed on October 31, 2022 . The objective of the Twinning project was to improve efficiency and impact of the external audit through further harmonization of the legal framework and development of methodology tools, as well as through strengthening SAO capacities for efficient execution of external audit. In addition, the project aims to improve parliamentary control over public funds and improve cooperation between SAO and RNM Assembly.

The State Audit Office, the Westminster Foundation for Democracy (WFD) and UK Foreign, Commonwealth & Development Office continued in 2022 with the implementation of the signed Memorandum of Understanding, which provides support in the implementation of SAO Communication Strategy for 2020 - 2023, through the implementation of the project "Increasing accountability and transparency in Macedonia through improved implementation of SAO recommendations". The activities relate to the implementation of the remaining two phases of the Project focusing on the communication and cooperation of SAO with the competent institutions and non-governmental organizations.

In March 2022, the State Audit Office and the United Nations Development Program (UNDP) signed Memorandum of Understanding, which defines series of activities to be implemented in the next two years, including promotion and advancement of governance reform with public

finances and external audit; conducting audit of financial statements prepared on accrual basis, value for money audit, audit of Sustainable Development Goals and audit of local self-government units; support for institutional and organizational development capacities in managing environmental management; strengthening transparency and accountability through digitization of processes and services.

In 2022, the State Audit Office and the United Nations Body for Gender Equality and Empowerment of Women - UN Women continued the implementation of the Memorandum of Understanding and Cooperation, with the aim of both parties cooperating in promoting the implementation of gender equality obligations in accordance with national laws and policies as well as international commitments and promote gender-responsive public funds management and accountability through systematic implementation of gender-responsive budgeting as a policy-making tool.

To establish institutional cooperation of mutual interest, the State Audit Office and the Office of the Auditor General of Norway signed Memorandum of Understanding on 15 June 2022, and commenced a five-year cooperation for providing assistance for development of SAO institutional capacities based on the principles and standards for professionalization of the International Organization of Supreme Audit Institutions (INTOSAI) and the European Organization of Supreme Audit Institutions (EUROSAI). During 2022, several working meetings were held in the direction of the implementation of the Memorandum of cooperation, through the implementation of pilot performance audits, the exchange of experiences in the use of the audit management system (AMS) and the need to improve its application, as well as other areas of common interest. To strengthen its role in the fight against fraud and corruption, SAO introduced organizational changes by establishing new audit department for detecting fraud and corruption. Also, to respond to the challenges of using modern digital technology to support audit processes, to increase efficiency and effectiveness of audit work, as well as to present audit results using innovative solutions, SAO has set up "innovative laboratory" as a separate organizational unit. This new organizational changes are part of SAO new acts for organization and systematization, which were adopted at the end of 2022.

The State Audit Office, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Center of Excellence in Finance (CEF) from Slovenia signed Memoranda of Understanding on 29 June 2022, thus setting up a formal basis for continued cooperation on activities for advancing joint commitment for sound public finance management and good governance, as well as sharing best practice for improving skills and capacities of public institutions and officials.

5. Human, IT and Financial Resources - Administrative Capacities

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

1. PAR Strategy and Action Plan give particular attention to human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency across the public administration.
2. PFM Reform Programme envisages numerous measures and activities related to the development of administrative capacities and IT systems of all PFM institutions. Measures and activities under each priority are defined taking into consideration current HR capacities of the PFM institutions, but also separate activities for further capacity building based on future recruitment plans are proposed, as part of the reform process. Significant number of results in the Programme is related to capacity building of the PFM institutions through new employment, knowledge enhancement and skills development and upgrading, which will be achieved through various forms of technical support and trainings. This has the potential to attract, regenerate and develop motivated and engaged employees. Improvements in the business processes (in the area of taxation, customs, internal control, public procurement and other areas) will create space for professional development of the public servants, while the new integrated IT systems (for PRO and IFMIS for the MoF) are oriented towards a more prudent, sustainable and cost-effective management of the public administration and the public resources.
3. Also, strategic plans at institutional level are developed on 3-year basis and they provide overview of the objectives and the tasks of each separate institution, the activities for achieving the respective goals, the effects and the expected results and the human and financial resources for their implementation. In addition, pursuant to the Law on Administrative Servants, all public institutions prepare annual training plans.

All gaps identified are tackled by the relevant existing training bodies established in the respective sector, as well as within the framework of the various donor projects currently implemented and planned.

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

The analysis of costs and benefits and the regulatory impact assessment (RIA), carried out within each strategic document, envisages relevant financial resources.

Progress in capacity building of PFM institutions is further elaborated under the status of implementation of specific activities planned in the Programme (Part 4. Assessment of 2022 Action Plan Implementation).

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

6. Summary of the Progress Achieved in the Implementation of the Programme during the Reporting Period

Pillar I - Economic Analysis, Macroeconomic and Fiscal Framework

Priority 1. Revenue Forecasting and Reporting

Measure 1: Improving tax and customs reporting in accordance with the EU best practices

Within IPA 2018 Twinning Project "Improving Revenue Collection and Tax and Customs Policy", 2 workshops were held, aimed at analyzing the current state-of-play related to the availability of the data necessary for forecasting the tax revenues, and preparation of Action Plan for submission of the required data to MoF.

At the same time, workshop was held, on the topic of preparation of Report on Assessed Tax Expenditures and Report on Vat Gap.

The following activities, which were planned for realization with the support of the Twinning project "Improvement of revenue collection and tax and customs policy":

- Preparing a review of the current state-of-play related to the availability of data necessary for analysis, and preparing an Action Plan for submitting the required data to MoF;
- Drafting a protocol for submitting the required data to MoF for the purpose of projecting the public revenues.
- Calculation of coefficients for tax buoyancy and tax elasticity,
- Income Inequality and C-Efficiency Report,

did not start with implementation, considering that the twinning project was suspended and then cancelled

In the coming period, the possibilities for continuing the activities that were started with the Twinning project, and thus the implementation of this Measure by using the EU Integration Facility mechanism within the framework of the IPA for financing a new project, will be considered.

In the coming period, in cooperation with the International Monetary Fund, a workshop is planned for the preparation of a report on tax expenditures.

Measure 2: Enhanced tax and customs modelling capacity

In cooperation with the World Bank, a training was held on the application of the VAT model and it was updated with the latest available data (in the programming language R). Trainings on personal income tax and profit tax models were also held, and will continue in 2023. In addition, in cooperation with the International Monetary Fund, trainings were conducted on models for the VAT gap, the personal income tax and the profit tax, which are based on excel.

The planned trainings for the next period, which were supposed to be realized with the help of the Twinning Project "Improving Revenue Collection and Tax and Customs Policy", which was suspended and then canceled, did not start with their implementation. In the coming period, the possibilities for continuation of the activities that were started with the Twinning project, and therefore the implementation of this Measure by using the EU Integration Facility mechanism within the framework of the IPA for financing a new project, will be considered.

Also, in the next period, trainings in the area of excise duties will be organized with the assistance of the World Bank.

Priority 2. Economic Analysis and Macroeconomic Forecasting

Measure 1: Capacity building for economic analyses

In cooperation with the Swiss State Secretariat for Economic Affairs (SECO), a Macroeconomic Planning and Management Project is being implemented through a modular approach (4 modules), whereby module 1 is intended for the Ministry of Finance and it started to be implemented in 2022 and will continue until the end of 2023. Within the framework of module 1, during 2022, the following employee trainings were conducted:

- In the period from 16.05. - 23.05.2022 online training was held, which covered the following: presentation of basic models in excel and data processing; basic knowledge of key macroeconomic time series; understanding different frequencies, transformations and seasonal adjustment of data with the program Jdemetra+; selecting and visualizing series with the aim of maximally improving the content of the information and preparing a screening report for the economy (Screening report).

- On 29.09. – 30.09.2022 an online training was held aimed at mapping data for the macroeconomic planning framework, filling the framework with data, open questions for automatic data updating and consistency, preparing pivot tables.
- In the period from 03.10. - 07.10.2022 onsite training was held in the Ministry of Finance, where the interconnection of the components within the framework of the real sector (more specifically the GDP components according to the production and expenditure method) was presented. Inflation findings were also presented at this training.
- In the period from 14.11 - 18.11.2022 onsite training was held in the Ministry of Finance, where the fiscal sector and its components were presented in order to supplement the framework for macroeconomic planning. The relationship between inflation, the GDP deflator and fiscal revenues was also discussed at this training.
- On 14.12. - 15.12.2022 an online training was held that aimed to improve the structure of the model's fiscal sector and introduce new variables. An update was also made to the quarterly GDP data for N.Macedonia, as well as the GDP and inflation data of the Eurozone.

The key factors that influence the achievement of the results are insufficient human capacity and staff change, availability of appropriate data, as well as the need for additional training in the field of econometrics.

In the next period, the following activities are planned: In 2023, 25 working days are planned for training, of which 20 days will be realized through 5 missions (four daily trainings) with a physical presence in the Ministry of Finance, while the remaining 5 days are planned for online trainings and consultations with experts. During 2023, it is planned to establish basic and alternative scenarios for the growth of the Macedonian economy.

Measure 2: Developing new macroeconomic models

In cooperation with the World Bank, a model for short-term inflation projection was developed for the needs of the Department for Economic Policies and Development, taking into account the increased inflationary pressures caused by global developments and the growth of food and energy prices.

- In the period from 06.06-09.06.2022, an online workshop organized by the World Bank was held, at which the model for short-term inflation projection was presented and training was provided to the employees. The inflation model developed by World Bank experts includes:
 1. Using a model for short-term inflation projections (for the three main sub-components: energy, food and core inflation) using the E-views.
 2. Projecting food and fuel prices for the current month (Nowcasting) using web scraping with Python and R studio

3. Projections in E-views using linear trend, SARIMA model and Nowcasting of food and fuels.

- On June 24, 2022, an additional online training workshop was organized, including discussion about the issues related to the model's operation.
- On November 22, 2022, an online workshop was held to address the technical issues related to the operation of the model, creating database for the model and considering options for using other available data.
- On November 30, 2022, an online workshop was held where a solution to overcome the issues with R-studio was presented, through the use of R-cloud.
- On December 21, 2022, an online meeting was held for additional questions and issues related to the functioning of the model, as well as a brief reminder of the most important steps for updating and maintaining the projection model.

The key challenges/factors that have an impact on achieving the results are insufficient human capacity and staff turnover, as well as the need for additional training in the use of programming languages and training in the field of econometrics, issues with using the model of a technical nature (licenses and programs), lack of availability of data (use of confidential data from international institutions).

In 2023, it is planned to continue the cooperation with the expert hired by the World Bank to improve the functionality and test (calibrate) the model for short-term inflation projection.

Measure 4: Establishment of a Fiscal Council

The new Law on Budgets, which contains the provisions for the establishment of the Fiscal Council, was adopted by the Parliament in September 2022. During the preparation of the final articles related to the Fiscal Rules and the Fiscal Council, additional consultations were made with the international financial institutions (IMF and European Commission) and with the representatives of the parliamentary parties, and the final text was incorporated during the amendment discussion in the second reading of the Law on the Committee for Financing and Budget and on the Legislative-Legal Committee in July and August 2022.

- Towards the end of 2022, the Ministry of Finance informed the Assembly, the Government, MASA, NBRNM and SAO about the obligations arising from the provisions for the establishment of a Fiscal Council. In accordance with Article 11 paragraph 6 of the Law on Budgets, MASA, NBRNM and SAO were requested to propose members for the Fiscal Council to the Assembly, according to the criteria stipulated in the Law.
- Contacts and discussions with the representatives of international organizations (IMF and World Bank) were previously made about the support they would provide for the analysis of the best practices from the countries in the EU and the region in terms of the regulations related to

the work of the Fiscal Council, in the direction of preparation of the by-laws that will ensure the full establishment and operationalization of the Fiscal Council, as well as support for building the administrative capacity of the work of the Fiscal Council and the body for professional and administrative support.

Key factors that have an impact on the achievement of results are the timely election of members of the Fiscal Council and the preparation of the by-laws that will ensure the full establishment and operationalization of the Fiscal Council, as well as support for building the administrative capacity of the Fiscal Council and the professional body and administrative support.

In the next period, the following activities are planned:

1. In the first half of 2023, the competent institutions (MASA, NBRNM and SAO) should provide nominees who will be elected by the Assembly as members of the Fiscal Council in accordance with the criteria established in the Law on Budgets.
2. Start of the preparation of the by-laws for the operationalization of the Fiscal Council, and provide training to its members and professional staff. The capacities of the Fiscal Council will be built to carry out analyzes to monitor the implementation of the fiscal rules, including deviations from them, determining the form of the reports that will be prepared and the way in which the council's observations will be presented to the public.
3. The technical support and trainings will be implemented with the support of international financial institutions, and in that direction, the World Bank has prepared a plan of activities within the framework of the Project for strengthening fiscal management in the countries of the Western Balkans.
4. Within the framework of the World Bank project, trainings will be provided for the employees of the Ministry of Finance for capacity building for the preparation of ex-ante and ex-post analyzes and reports on the implementation of fiscal rules. In addition, the preparation of a special procedure in the Ministry of Finance for the manner in which data will be exchanged, the manner of monitoring and reporting on compliance with fiscal rules is also foreseen.

Priority 3. Strengthening Debt Management

Measures 1: Reducing Operational Risks at Public Debt Management

For the purpose of reducing the operational risks, and by following the digitalisation trends of foreign payment operations, digitalised payments towards foreign creditors have started to be introduced, by introducing electronic banking with NBRNM, through which repayments to foreign creditors are being made. As regards activity "Number of external debt orders paid electronically", the target has been achieved, envisaging 50% of the external debt orders to be paid electronically.

To the end of achieving the priority pertaining to strengthening public debt management capacities, Ministry of Finance needs to strengthen the public debt management capacities by employing, as well as training the existing staff. Hence, in the course of 2022, 2 persons were engaged through the Temporary Employment Agency, thus the activity “Strengthening Public Debt Management Capacities” has been partially implemented. This activity is expected to be fully implemented by employing full-time employees on the basis of a job announcement and carrying out candidate selection and appointment process.

Measure 3: Introducing New Debt Instruments

For the purpose of more efficient development of the financial markets, with the ultimate goal of advancing the government securities market, new financing instruments are envisaged to be introduced. Under the modifications and amendments to the Law on Financing Local Government Units, structural bonds, stand-by loans, as well as issuance of municipal bonds, are envisaged as instruments to overcome the financial instability. Law on Financing Local Government Units was adopted on August 1, 2022. In accordance with the law, the deadline for the municipalities to apply for providing the funds for the due and unpaid liabilities was 31 December, 2022. After the received requests from the municipalities, Ministry of Finance should start preparing for the issuance of the structural bond.

[Pillar II - Revenue Mobilisation](#)

[Priority 1: Tax and Customs Policy](#)

Measure 1: Improved Revenue Legislation Framework, Harmonised with the EU Acquis

These measures are implemented with a twinning support under EU-IPA 2018 “Improving Revenue Collection and Tax and Customs Policy” Twinning Project. In particular, Twinning Project Component 1 is related to harmonisation of legislation in the area of taxation and customs with EU acquis, EU standards and best practices. In 2022, 6 workshops were organised under Component 1.

As regards the gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation, following activities were implemented:

- reviewing the results from the carried out gap analysis of PIT Law and preparation of recommendations for its improvement;
- reviewing the results from the carried out gap analysis of Customs Administration Law and preparation of recommendations for its improvement;
- reviewing the results from the carried out gap analysis of Law on Property Taxes and preparation of recommendations for its improvement;

- With respect to preparation of new legal acts and/or amendments to the existing national tax and customs legislation (laws and bylaws) prepared on the basis of the existing EU acquis, following activities were implemented:
- preparatory activities for draft new Customs Law commenced;
- preparatory activities for draft amendments to VAT Law commenced; and
- preparatory activities for draft amendments to the Profit Tax Law commenced.

Considering that the Twinning project "Improvement of revenue collection and tax and customs policy" was suspended in June 2022, the planned activities that were supposed to start from June 2022 were canceled.

In the coming period, the possibilities for continuation of the activities that were started with the Twinning project, and therefore the implementation of this Measure by using the EU Integration Facility mechanism within the framework of the IPA for financing a new project, will be considered.

Priority 2: Tax Administration

In the part of **Measure 1: Strengthen administrative capacity for better revenue collection and tax compliance** following progress was achieved:

A working group composed of tax officials with specialized knowledge and professional experience in the scope of collection of tax arrears, in the period January - June 2022, prepared a Proposal - Instructions for the procedure and methodology for determining a tax guarantee. The same is now in By the end of the year, the phase of discussion with other functions in the PRO that are affected and through their competent organizational units are involved in this procedure has passed. On 13/12/2022 The director of the PRO adopted the final "Instructions for the methodology and procedure for determining a tax guarantee and collection of a debt from a tax guarantor as another tax debtor" which was published on the internal network of the PRO - Intranet. In the next period, trainings will be held for tax officials for operational procedures in accordance with the adopted Guidelines.

The tax guarantee measure for the founders and the manager of the trading company - the main debtor should result in a more efficient collection of the outstanding tax debts by increasing the awareness of these persons about their responsibility for the payment of the debt of the main debtor and that they are also transferred to them. of the obligation to pay the outstanding tax debt within the framework of the responsibility of these persons in accordance with the conditions prescribed by the Law on tax procedure. It is expected that the regular application of this measure after the adoption of the new Guidelines will cause reactions in the public by the persons who will be "personally" affected by the imposed transferred obligation to

pay the tax debts of the companies where they appear as founders and managers. The PRO will be up to the challenge of managing this process successfully. For this purpose, the PRO plans to implement a "campaign" to strengthen "public" awareness of the tax responsibility of the founders and managers of companies and inter-institutional compliance in practicing the mechanisms for this responsibility. This campaign will include interested external parties, and it started in a unique way with the participation and presentation of representatives from the PRO at a meeting of the Association of Lawyers of the RSM held in October 2022, as well as the publication of the professional paper "Founders and managers of trading companies through the tax guarantee institute in accordance with the Law on Tax Procedure" in the professional magazine "Pravnik".

In the period January-December 2022, the discussions in the PRO continued on new processes that should be regulated by the amendments to the Law on tax procedure. First of all, it is about harmonizing with the Ministry of Finance, the banks and the clearing house for a service from the PRO with the delivery of a payment order to a bank at the request of a taxpayer (tax order) and for introducing a prescribed order of settlement when paying tax. Several working meetings were held on these issues.

Implementation of some of the proposed legal changes related to the collection of tax debt is related to ensured institutional capacity: software solutions that should enable simplification and automation (tax order, order of settlement, simplified procedure for reprogramming, changes in the procedures for public sales, etc.), trained officials (for forced collection upon seizure of a share in a trading company), etc.

There are more activities to complete compliance for the processes that should be regulated by the legal amendments.

A draft Compliance Plan for personal services for companies that offer personal services, such as hairdressers, beauty salons, car washes and car mechanics, is being drafted in order to combat the gray economy.

A key challenge for successful implementation of the activity is the staffing of the Compliance Risk Management Unit.

In the next period a Draft Register of Risks 2023-2025 will be prepared and other compliance plans will be prepared.

In the part of **Measure 2: Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)** following progress was achieved:

Within the framework of Component 2: Support of the tax reforms of the IT strategy of the PRO and promotion of the integrated tax information system (or ITIS), from the project with the World Bank, a working meeting was held in June 2022 with the experts from the World Bank regarding the definition of the remaining projects / modules to complete the IT system,

as well as the overall project management. Part of this project is the establishment of a data warehouse and tools for business intelligence - Data Warehouse and BI and the establishment of a Disaster Recovery Center, which are part of this Program.

In the period January-December 2022, the PRO continued with the activities to complete the remaining modules from IDIS, but the activities will continue during 2023. A technical specification for the development of new modules for the integrated tax information system is prepared: for e-commerce and e-invoice.

In the area of development and restructuring of the IT subsystems of the PRO, they are currently being adjusted depending on the requirements and legal changes.

Future steps to be taken in the next period to improve the implementation of the activities and achieve the planned result is further coordination of all relevant parties to start the project with the World Bank, timely adoption of legal amendments and improvement of the tender specifications.

Priority 3: Customs

Measure 2: Modernization of customs services and their digitalization

By implementing the measure for the modernization of customs services and their further digitalization, and by following the recommendations for harmonization and connection with the EU, the system of public finances, fiscal discipline and efficiency in the management and use of public resources will be strengthened, but transparency will also be promoted and efficient services and economic development will be ensured. This goal contributes to the provisions of the Program for the Reform of the Fiscal Fund, which supports the dialogue with the EU and helps in more efficient use of EU funds through the institutions of North Macedonia, on the way to accession to the EU.

Within the framework of this measure is planned *"Implementation of modern systems in the direction of compliance with the Multi-Annual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware."* Namely, the Customs Administration strives to be *"SMART"* which is in accordance with the policy of the World Customs Organization, which means: secure borders, automation, traceability and measurability, improvement of risk management and above all monitoring and application of the latest technology.

In the context of the implementation of the measure and the planned activities in the reporting period, activities are currently being carried out through which modern standards and practices are applied in the definition and realization of the business requirements of CARNM, using an appropriate project methodology for the implementation of new concepts and IT solutions, proven in the IT market. Also, continuous work is being done to improve the flow of information

between all stakeholders in the activities related to the Customs Administration. Functionalities for data exchange data exchange from CDEPS with other with other institutions – takes place through the Interoperability Platform of the Ministry of Information Society and Administration. The web services from the customs systems are available for exchange to other government institutions. Customs Administration has signed Agreements/Memorandums for electronic exchange of data through these web services (system - system principle) with: Ministry of Interior, State Market Inspectorate, National Bank of the Republic of North Macedonia and the State Statistical Office. In the reporting period, activities for the development of the external and governmental domain and increasing transparency and timely information of all participants in customs procedures, as well as users of IT systems, are also continuously implemented, through increased use of the Internet, intranet and modern social networks.

The Customs Administration is also working on the introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multi-Annual Strategic Plan of the EU (MASP), which are compatible with the systems and procedures in the European Union. Currently, technical specifications are being prepared for the systems that will be developed in the coming period, and the funds for financing the implementation are expected to be provided by the IPA 3 funds.

In connection with the preparations for interconnection and interoperability with the EU systems in the reporting period, funds were provided from the national budget funds for the implementation of the first phase of implementation (until 2023) refer to the development of the NCTS phase 5 transit system, which had overcome the risk from the delay in the implementation of the IPA 3 program for 2021, for which the Framework Agreement and the Financial Agreement in December 2022. .

In November 2022 the application of green customs declaration was introduced, and the customs clearance is being completed in one hour. Customs clearance is conducted in a completely paperless environment, all accompanying documents are electronically attached to the declaration and the procedure ends automatically in one hour with the so-called green customs declaration. This is a great novelty in customs operations which enables the economic operators to greatly speed up the procedure, saving time and resources making the Customs Administration highly digitalized institution. recognized in the country and in the region.

Customs clearance in one hour is possible for import and export declarations that are correctly filled in and automatically validated, with all electronically attached documents and selected by the system as non-risky, i.e. green, which are not subject to additional checks and controls, and for which the customs duties are paid or secured. Training events for customs officials and economic operators were organized for this novelty. The economic operators saluted the continuous commitment of the Customs Administration for digitalization and trade facilitation

as an important factor for greater competitiveness of companies and economic development of the country.

In the reporting period, trainings were carried out to further promote the benefits for small and medium-sized enterprises for the application of e-commerce.

The Agreement for participation in the EU Customs Programme - CUSTOMS, which will cover the period 2021 – 2027 was signed by the European Commission and the Republic of North Macedonia, and its ratification is in process. Signing of the 2022-2023 Grant Agreement shall follow.

Under the Customs Programme, training courses, workshops, seminars, working visits, meetings are held, and customs officers have the opportunity to participate in events through which they will get closer to the work of the customs services of EU member states. The main goal of the Programme is study, exchange of knowledge and experiences and familiarization with the best practices in the customs operations of the countries of the European Union and the countries of the Western Balkans included in the Program, as well as the realization of strategic policies and goals of the EU.

Activities were also carried out for regular maintenance of the existing systems and hardware infrastructure for the operation of the ICT systems of the Customs Administration took place. Also, consideration of the needs and possibilities for further improvement of the services of the Customs Administration to the users is underway.

In connection with the development and implementation of a data warehouse (Data Warehouse), in the part that refers to the National Single Window System, implementation has begun and the selection of a consulting firm is underway, which, based on the identified concept, will develop the software solution.

Under the IPA 2 Project "Supply of hardware and software for the Customs Administration and the State Audit Office" for procurement of ICT equipment and system software for upgrade of ICT infrastructure of the primary location data center and equipment has been installed and configured at a remote location ("Disaster Recovery" – DR). Equipment for DR site has been delivered, installed, tested and found compliant in accordance to the supply contract's technical specification. The ICT system has been prepared for migration of the new hardware and software. After migration and data replication test scenarios are completed, the equipment for DR site was ready and is transferred and installed. Therefore the migration, upgrade of the database and replication of other ICT systems at a remote DR location is ongoing and the equipment is operational. Customs Administration has provided a Contract for maintenance of the equipment.

Pillar III - Planning and Budget

Priority 1: Budget Planning

Measure 1: Improving Medium-Term Planning

Key elements of the medium-term fiscal policy 2022-2026 are redesigned and improved public finance structure, through increased share of capital expenditures, as well as gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: from 5.3% in 2022 to 2.8% in 2027.

In this direction, the medium-term fiscal projections have a strong development component, with a significant share of capital expenditures over 5% in GDP annually and represent key elements of public finances. In the past period, Ministry of Finance focused most of its activities, as contained in the new Organic Budget Law, on improving the budget planning process, as an obligation arising from the PFM Reform Programme 2018 - 2021.

Among the more important activities contributing to improvement of the medium-term planning are the following:

- additional quality data and analyses to the end of improved and more credible planning;
- wider range of data in the narrative part, based on sectoral approach with new tables and charts for the Central Budget and the local government budget, as well as data for projects financed with IPA funds;
- comparative analysis of the projections with data from the previous Fiscal Strategy, as well as comparison with the projections of other domestic and international institutions;
- medium-term fiscal projections are based upon medium-term baseline scenario and new initiatives in the Fiscal Strategy and the budget circular;
- consolidated and medium-term approach when presenting data on state-owned companies is a solid basis for improving the medium-term planning.

Measure 2: Improved Budget Planning and Developing Measurable Performance Indicators

Improved budget planning and developing measurable performance indicators are included in the new Organic Budget Law, which was adopted on September 15, 2022. At the same time, additional indicators for monitoring the results are introduced in the 2022 Budget, in particular input and output indicators at budget user level with multi-year data.

Training for preparation of bylaws aimed at enforcing the new Organic Budget Law are being organised under the EU IPA Twinning Project “Strengthening Budget Planning, Execution and Internal Control Functions”.

Measure 3: Fiscal Consolidation for Phased and Sustainable Budget Deficit Reduction

Initial activities aimed at fiscal consolidation and strengthened budget planning require analysis and control over certain expenditures of the budget users, above all:

- current expenditures and introduction of spending standards,
- undertaking activities geared towards enhanced expenditure structure,
- budget users to project the capital expenditures in a more realistic manner,
- continuing the application of the CAPEF mechanism.

Priority 2: Strengthened Public Investment Management

Measure 1: Planning Sustainable Levels of Investment

For the purpose of strengthening the role, the supporting legal framework and the institutional setup of MoF in the PIM system, draft internal acts on MoF organisational setup and systematisation had been prepared, aimed at establishing a new Public Investment Management Department which is to perform duties pertaining to public infrastructure project appraisal, primarily from the point of view of the fiscal impact, the risks and the sustainability, giving opinions and recommendations on the projects, preparing a summary list of proposed, assessed and appraised new public infrastructure projects, consolidating the priority list of public infrastructure projects, monitoring the respective projects, as well as developing and updating the methodologies on project preparation and appraisal.

New acts on organizational set-up and systematization of the MoF were adopted at the end of December 2022, envisaging establishment of a new Public Investment Management Department.

The process of equipping the Public Investment Management Department shall commence in 2023, followed by training of staff on project appraisal and review of preinvestment studies and development of methodological acts.

Priority 3: Effective Instruments under the Growth Acceleration Plan

Measure 1: Establishment of Different Funds in the State Institutions and Development of Different Financial Instruments

This measure envisages establishment of 6 different Funds the objective of which, under this Priority, is to provide easier access to financial resources for companies, financing investments

in the field of energy efficiency, supporting export-oriented companies, encouraging innovative activities. So far, two out of six of the envisaged Funds have been established under this measure: Guarantee Fund and Research and Development Fund, established and operating within the Development Bank of the Republic of North Macedonia. External experts are engaged at the moment, where they have a task of offering several alternatives for the establishment of the Energy Efficiency Fund within the DBRNM. Options regarding the establishment of the respective Fund have been presented to the employees with the DBRNM and the MoF. Final option regarding the Fund establishment is proposed by the end of 2022. This option needs to be developed additionally and legally covered so that the Fund can be established within the DBRNM. Regarding the Fund that should be established within FEZ, amendments from the Free economic zones Law that will enable FEZ directorate to establish and manage the fund are in government procedure. Other Funds envisaged under this measure are to be established in the coming period.

Measure 2: Strengthening the Capacities of Various Institution

The measure objective is to ensure effective implementation of the Growth Acceleration Plan, by establishing a management structure which will cover the entire project management process, including feedback to accelerate effectiveness over the years. It envisages 3 activities - establishment of a Delivery Unit for infrastructure project coordination, establishment of a Project Monitoring Unit and establishment of a Capacity Building and Training Unit. All three Units are to be established in the coming period.

Pillar IV - Public Procurement

Priority 1: Public Procurement Policy

Measure 1: Strengthening institutional capacities

The Strategy for improvement of the public procurement system in the Republic of North Macedonia for the period 2022-2026 (hereinafter: Strategy) was adopted and thus the activity was completely realized and the target for 2022 was achieved. In the first quarter of 2022, the Strategy and Action Plan for 2022 were adopted by the Government of RNM. In addition, a coordinating body for monitoring the implementation of the strategy was established, and two working meetings were held. A draft Annual report for monitoring the implementation of the Strategy and Action plan for 2022 was prepared, and Action plan for implementation of the strategy for 2023, is in process of preparation.

In order to improve the cooperation of the key institutions in the public procurement system, Memorandum of Cooperation is signed among PPB, SAC, CPC, SAO and SCPC and cooperation among the key institutions in the public procurement system was established. An advisory

group composed of representatives of the abovementioned key institutions, including representatives of Ministry of Economy, was established in the fourth quarter of 2022. One working meeting was held, where different views were exchanged and positions were harmonized on issues that are not precisely regulated by the Law on Public Procurement.

In order to introduce a new system for education of PPB, an analysis of the education system of the Public Procurement Bureau is started, which is expected to be completed in 2023. A key challenge is the adoption of legal amendments regarding the education system. The next steps are to review the concept of certification and recertification of public procurement officers by rationalizing the training program and creating an improved, expanded and more flexible program. The conducted analysis should help increasing continuously the knowledge, skills and good practices of the persons who carry out public procurements.

Measure 2: Improvements in statistical data and analysis of open data

The activities related to improvement of the statistical data base has been completed and the target has been achieved. The tool for downloading published data from notices of concluded contracts has been installed on the ESPP application, which ensures more transparency and opening of data for further processing by all interested groups such as, participants in public procurement, relevant institutions and the general public.

Priority 2: Public Private Partnerships (PPPs)

Measure 1: Starting the procedures necessary to establish the Single Electronic System for Public-Private Partnership (EEPSP) as a basic database for all public-private partnership projects, which will generate a Register of awarded contracts for the establishment of public-private partnership.

The establishment of the SESPPP is closely related to the adoption of the Law on Public Private Partnership. The proposal of the Law on Public Private Partnership has been harmonized with all relevant institutions and it has been submitted for a second opinion to the European Commission, which obligation arise from the Bilateral Meeting in Brussels chapter 5 - Public Procurement. After receiving the opinion from Brussels and acting on it, the Proposal Law will be submitted to the Government procedure, after which it will be adopted by the Assembly of the Republic of North Macedonia. Considering that, according to the law, the entire process of awarding contracts for the establishment of a public-private partnership is digitized and its implementation depends on the establishment of the Single Electronic System for Public-Private Partnerships and the Register of Awarded Contracts for the Establishment of a Public-Private Partnership. The Ministry of Economy is considering options for providing financial resources for the establishment of the SESPPP. The activities for the establishment of the SESPPP will begin after the adoption of the Law on Public Private Partnership by the Assembly

of the Republic of North Macedonia and provision of financial resources (donors/budget) for that purpose.

Measure 2: Completion of the legal and regulatory framework in the area of public private partnership.

Considering that the adoption of the by-laws is closely related to the adoption of the Law on Public Private Partnership, the activities for their preparation will begin after the adoption of the law by the Assembly of the Republic of North Macedonia.

The by-laws will prescribe in more detail the rules for: the Register of awarded contracts for the establishment of public-private partnerships, the EESJPP, the criteria for the preparation of PPP projects, the feasibility study, the PPP contract, planning, reports, etc. The success of the implementation of this measure it depends on the completion of the process of bringing the law.

A key challenge is the still open issue of providing financial resources for the establishment of the Single Electronic System for Public Private Partnership and the Register of Awarded Contracts for the Establishment of Public Private Partnership (donors/budget), as an important factor on which the success of the implementation of the measure depends .

After the adoption of the Law on Public Private Partnership, future steps/actions that should be taken in the next period is the preparation and adoption of by-laws that will result from the Law on Public Private Partnership, which will regulate certain issues in the law in more detail.

Priority 3: Appeal Mechanism

Measure 2: Strengthening the administrative capacity of the SAC

The activity of developing a new WEB page of the State Commission for Public Procurement Complaints was implemented at the beginning of the month of February 2022 and with it the transparency, efficiency and effectiveness of the State Commission for Public Procurement have been increased. By preparing the new WEB page and introducing an internal information system for document management that is interoperable with the ESJN, it is possible to pull all relevant data from the ESJN multiple times, especially data related to the public procurement procedure (contracting authority, applicant, subject of procurement, etc.), as well as all the data and statistics needed for the preparation of annual reports. Specifically, with the new WEB site, economic operators and contracting authorities are enabled to search for decisions of the State Commission for Public Procurement Complaints through a keyword, in order to more easily follow the views of the Commission when making decisions. On the other hand, this process is expected to achieve a greater optimization of time and become more efficient in the resolution of complaints and the preparation of annual reports. By enabling the search through a keyword,

the transparency, efficiency and effectiveness of the work of the SAC has increased and the access to information for all interested parties has increased.

Pillar V - Integrated Public Finances

Priority 1. Implementation of an Integrated Financial Management Information System (IFMIS) to Support the Implementation of PFM Reforms and Organic Budget Law

Measure 1: IFMIS is fully operational to support the implementation of OBL reforms

This measure includes 3 activities: (1) development of IFMIS as an integrated centralised web-based system supporting decentralised operations, (2) expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS and (3) capacity strengthening (OBL Working Group), training and change management to support OBL reforms and countrywide IFMIS operations. In order to strengthen human resources dedicated to implementation of this measure, in June 2022, for the purpose of undertaking preparatory activities for establishment of IFMIS, the Working Group was additionally staffed with members.

After the adoption of the Law on Budgets by the Parliament in September 2022, begun the process of the security of the loan with the World Bank, and IPA grant from EU to finance the project. The Law on borrowing RNM with a loan from the World Bank to finance the project for building effective, transparent and accountable institutions for public finance management was adopted by the Parliament in November 2022, after which the Loan Agreement with World Bank was signed, and with that the necessary legal conditions for starting the implementation of IFMIS were provided. The next activities related to this project are the establishment of a Working Body for the implementation of the Integrated Information System for the Management of Public Finances and expert working groups/commissions for the needs of the working body, the establishment and staffing of a Project Implementation Unit, finalizing the technical specifications for IFMIS and starting the tender announcement process.

Priority 2: Strengthen the Accounting of Budgets and Budget Users

Measure 1: Strengthening the Accounting System by Applying New Accounting Practices

Preparatory activities for the Strategy for Improvement of Budget Institutions' Accounting has started in November 2022 with the drafting of Analysis of the introduction of accrual accounting in the Republic of North Macedonia, with UNDP technical assistance, and CEF Ljubljana expected to also participate. The completion of the Strategy and the Action Plan is expected to be completed by March 2023. Following the adoption of the Strategy, new regulatory framework will be prepared for implementing reforms in the field of budget

accounting in order to replace cash accounting with the so-called modified cash accounting and adoption of new accounting standards for financial reporting in the public sector.

Priority 3: Public Finance Academy

Measure 1: Establishing a Public Finance Academy

A working group was formed with the aim of providing coordination and technical support for the smooth implementation of the activities for the establishment of the Academy of Public Finance (Decision by the Minister of Finance on 29.11.2022). The Public Finance Academy was established by the Rulebook on Organizational set up and of the Ministry of Finance No. 01-11277/1 of 29.12.2022. In 2023 the staffing, training and equipping of the Academy will begin.

Measure 2: Preparing and Implementing a Curriculum

Draft version of Manual for Training Organising and Developing has been prepared Within the IPA Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions".

With expert support from CEF, Ljubljana, a Draft Guideline for the localization of the PACT project in the Republic of North Macedonia has been prepared.

After staffing and starting work of the Academy, a final version of these documents will be prepared.

Pillar VI - Public Internal Financial Control

Priority 1. Financial Management and Control

Measure 1: Establishment of a Comprehensive System of Financial Management Controls based on Risk Management

Draft Financial Management and Control Manual and draft Guidelines on the Manner of Checking the Quality of Financial Management and Control have been prepared.

Following the adoption of the Law on Public Internal Financial Control System, final versions of these draft documents will be prepared/harmonised and published on MoF's website.

As regards strengthening the capacities of the Central Harmonisation Unit (CHU) to check the quality of financial management and control, with the Rulebook on Internal Organization setup of the Ministry of Finance from 29.12.2022, the Unit for Quality Check of Financial Management and Control and the Operations of Internal Audit within the Central Harmonization Unit was established. The staffing of this unit should begin in 2023.

Priority 2. Internal Audit

Measure 1: Strengthening the Quality of Work of the Internal Audit Units at the Ministries

In Accordance to the Conclusion of the Government of RNM for the Annual Report on the functioning of the system for public internal financial control in the 2021, the submission of Plans for the organization and staffing of the internal audit units is underway by the ministries to CHU. The Ministry of Finance - CHU, based on the received data from the ministries, should analyze them and prepare and submit Information to the Government of RNM by 31.03.2023.

As regards strengthening the capacities to check the quality of operations of the internal audit units, with the Rulebook on Internal Organization and Work of the Ministry of Finance from 29.12.2022, a Unit for Quality Check of Financial Management and Control and the Operations of Internal Audit within the Central Harmonisation Unit (CHU) was established. The staffing of this unit should begin in 2023.

Priority 3. Financial Inspection

Measure 1: Strengthening the Institutional Basis of the Financial Inspection Function

Following the public consultations and its publication on ENER and wording harmonisation with DG Budget, SEA, LS and MISA, the Government adopted draft Law on Financial Inspection in the Public Sector and it is pending parliamentary procedure. Methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector have been prepared.

In December 2022, the Minister of Finance adopted the new rulebooks for the organization and systematization of the Ministry of Finance, within which changes are proposed in the direction of reorganization and increasing the number of employees in the Department of Financial Inspection in the public sector and coordination of the fight against fraud of EU funds.

Future steps/actions to be undertaken in the coming period, aimed at intensifying the implementation of the activities and achieving the planned results, include adoption of the new Law on Financial Inspection in the Public Sector, promotion/new employments in the public sector financial inspection, adoption of methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector, adoption of methodology for gathering and processing statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector, introducing a system of performance-based annual remuneration for financial inspectors, adoption of Programme for Theoretical Training and Practical Work and adoption of Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.

Measure 2: Strengthening the Capacity of Financial Inspection Human Resources

2021-2022 Training Programme for Financial Inspection has been prepared.

Future steps/actions to be undertaken in the coming period include preparation and adoption of Programme for Theoretical Training and Practical Work and adoption of Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.

Pillar VII - External Control and Parliamentary Oversight

Priority 1. External Audit

Measure 1: Strengthening external audit legal framework

Within the Twinning project "Improvement of external audit and parliamentary oversight", an assessment of the state audit legal framework was performed and recommendations were made for strengthening external audit legal framework and achieving SAO constitutional independence as well as for strengthening financial and operational independence in line with international standards and EU best practice.

As a result of these activities, with support of the Twinning project, SAO prepared:

- Proposals for draft amendments to the Constitution of the Republic of North Macedonia for regulating SAO as a constitutional category;
- Draft new State Audit Law for strengthening SAO financial and operational independence.

Proposals of draft amendments to the Constitution of the Republic of North Macedonia, prepared by the State Audit Office were submitted to the Ministry of Justice as a competent ministry, to the Parliament and the Government. The SAO has been informed by the competent authorities that this initiative aims to strengthen SAO independence and that it will be taken into account, but having in mind these proposals are only suggestions and that manner require special treatment in our legislation and involvement of all stakeholders in the process for which SAO will be further notified. In this direction SAO expects that the competent ministry, in coordination with all stakeholders in the process, to submit an initiative to the Assembly of the Republic of North Macedonia for the regulating State Audit Office in the Constitution of the Republic of North Macedonia and to strengthen SAO independence.

The new draft State Audit Law envisages strengthening financial and operational independence of the State Audit Office and acting upon audit recommendations by the audited entities, and creates opportunities for review of final audit reports by the Assembly of RNM. These are significant improvements to the state audit legislation in line with EU requirements and the International Standards of Supreme Audit Institutions (ISSAIs). Opinion on the draft law was provided from: the twinning partner SAIs of the Republic of Croatia and the Republic of Bulgaria DG Budget of the European Commission and INTOSAI Development Initiative (IDI).

In addition, the State Audit Office in cooperation with the Westminster Foundation for Democracy organized event / public hearing attended by representatives of the Government

and the Assembly of RNM, representatives of state institutions, EU Delegation in Skopje, professional institutions, academia, civil society organizations and SAO employees.

Auditor General handed over the draft State Audit Law to the Minister of Finance for further action.

Initiating procedure for adoption of the new State Audit Law as well as for adoption of constitutional amendments is expected in the upcoming period.

Measure 2: Strengthening SAO institutional and HR capacities

Activity 1: Preparing new or improved SAO strategic, planning and methodology acts

The annual implementation of SAO Development Strategy 2018-2022 was carried out through the activities contained in SAO Annual Work Program for 2022. To improve SAO strategic and annual planning, proposals for new Development Strategy with action plan for a five-year period have been prepared within the Twinning Project.

The State Audit Office in September 2022, adopted the New SAO Development Strategy for 2023-2027⁴ and its action plan for implementation. SAO Development Strategy are closely related to the priorities and measures in PFM Reform Program 2022 -2025.

In 2023, SAO will undertake activities for preparing new SAO strategic documents in line with SAO Development Strategy 2023-2027,

SAO adopted new and improved methodology acts for compliance audit, performance audit, IT audit, guidelines for audit of EU funds, for detecting fraud and irregularities, as well as recommendations for improving monitoring of implementation of audit recommendations, which were prepared within the twinning project in line with ISSAIs.

To improve presentation of audit results and recommendations, new structure and contents of audit reports was prepared in line with ISSAI within the Twinning project, which was adopted by the State Audit Office in May 2022.

Transparency, accountability and openness in promoting state audit results are priority of the management and employees and are defined as SAO strategic commitment In that regard, new policies, procedures and guidelines were adopted in May 2022, with the aim of timely and improved presentation of the audit activities and results of state audit, and improved internal and external communication in the SAO.

In cooperation with experts and logistical support of UN Women, SAO prepared the Guidelines for audit of gender equality (gender audit) in line with ISSAIs.

The remaining methodology acts will be prepared in accordance with the planned activities in SAO strategic and planning documents.

⁴: https://dzt.mk/sites/default/files/2023-01/Strategija_za_%20razvoj_na_%20DZR_2023_2027.pdf

Activity 2: Strengthening capacities for conducting audits

Based on the Memorandum of Understanding concluded between UNDP and SAO, and the Annual Plan for continuous professional development for 2022, financially supported by UNDP, in 2022, 4 workshops/training were organized: personality types, communication and team cohesion with focus on MBTI personality typology, Audit of financial statements on accrual basis, and audit of financial statements of LSG, Internal control system and functioning All SAO employees attended these workshops.

The State Audit Office successfully completed the implementation of the Annual Work Program for 2021. All final audit reports have been submitted to the Assembly of RNM and published on SAO website. The Annual Report on performed audits and SAO operation for 2021 has been prepared and will be submitted to the Assembly within the legally prescribed deadline by the end of June 2022, and published on SAO website in three languages - Macedonian, Albanian and English (<http://dzt.mk/sites/default/files/2022-06/2021-godisen-izvestaj-dzt.mk.pdf>).

The State Audit Office implemented SAO Annual Work Program of the State Audit Office for 2022⁵. The Annual Program contains 188 audits, of which 171 regularity audits, 12 performance audits and 5 compliance audits. Of all planned audits, 47 refer to entities and topics in accordance with the State Audit Law and 141 audits refer to entities that participated in the Local Elections 2021.

In December 2022, SAO adopted the Annual Plan for Continuous Professional Development for 2023, as well as the Annual Plan for Prevention of Corruption for 2023, which are published on SAO's website.

SAO submitted the Annual Work Program of the State Audit Office for 2023 to the Assembly within the legally prescribed deadline, which contains 78 audits, out of which 50 regularity audits, 13 compliance audits, 11 performance audits (minimum 4 performance audits will be conducted as parallel cooperative audits with other SAIs), and 4 follow up audits, contained in the Final audit reports from the past period.

Applying the principles of transparency and openness in the preparation of the Annual Work Program, SAO enable and place on the website a "tab" form for requesting an audit as well a post on e-mail was sent to all 943 interested parties and posted on SAO Facebook page. In 2023 SAO Annual work program, out of 36 received requests for audit, the State Audit Office accepted 13 requests or 36%.

⁵https://dzt.mk/sites/default/files/2021-12/Godisna_programa_za_rabota_DZR_2022_godina.pdf

In the reporting period, SAO participated in bilateral and international meetings and events for professional development and exchange of experiences in order to improve audit impacts, which will be highlighted: Contact Committee Meeting of the Heads of EU Supreme Audit Institutions and the European Court of Auditors in Luxembourg, Post-Congress Get-Together with EUROSAI members in Prague, bilateral visit of a delegation of the State Audit Institution of the Republic of Montenegro in Skopje, XXIV International Congress of Supreme Audit Institutions (INCOSAI), working meetings of EUROSAI Task Force on Municipality Audit (TFMA) members, panel discussion on the topic "Municipalities' own revenues for providing quality services to citizens during pandemic", conducting parallel audit on the topic "Balanced regional development with special emphasis on demography", roundtable on "Improving Communication and Cooperation between the State Audit Office, the Public Prosecutor's Office of RNM and the State Commission for Prevention of Corruption", UN workshop on "Gender Responsive Budgeting, Gender Policy and Regulatory Impact Analysis", international conference on "Making Government Services Work Better for Citizens", study visit was organized and supported by the National Institute for Democracy (NDI), practical workshop for using IDEA software, in order to strengthen the capacities of the SAO for using IDEA software during audits.

In period October – November 2022, Heads of the SAI of Republic of North Macedonia, signed a cooperation agreement with SAI of Bulgaria and Albania for the exchange of experience, organization of activities on issues of mutual interest, coordinated and joint audits. Also, a memorandum of understanding and cooperation was signed with the Institute for Democracy "Societas Civilis", which foresees several areas of common interest, especially on strategic planning and implementation of communication activities, researches, training and education.

The activities for further strengthening of capacities for conducting audits are expected to ensue in accordance with SAO strategic and planning acts as well as with planned project activities.

Activity 3: Increasing SAO visibility and communication with stakeholders

SAO participated in a workshop on public speaking and public relations, organized by the Westminster Foundation for Democracy (WFD), as an activity within the project "Support for implementation of SAO Communication Strategy 2020 – 2023".

To implement the Communication Strategy 2020-2023, SAO created a "Mailing list of stakeholders" which at the end of 2022 contained 1.110 contacts. SAO continuously informed stakeholders about the results of its operations by submitting final audit reports, press releases and abstracts for each audit report, in order to ensure the greatest coverage of stakeholders and users of the audit reports.

During 2022, a total of 100,848 visits to SAO website (monthly average 8,404) and 409,516 visited contents (monthly average 34,126) were recorded, indicating that SAO maintained its high level of transparency.

In the reporting period, social media were actively used, including Facebook page, 705,301 visits were recorded (average of 2,232 visits per day) and 6.967 followers.

In 2022, the State Audit Office also conducted public survey as a research tool for the opinion on and impact of SAO work among stakeholders. SAO sent a questionnaire/survey on the level of satisfaction with SAO cooperation and information on the work of our institution to all 1.110 stakeholders - 620 institutions, 323 media and 157 civil society organizations, and 85% of the respondents were satisfied with the cooperation with SAO.

In July 2022, within the project activities for "Implementation of SAO Communication Strategy (2020-2023)" implemented with the Westminster Foundation for Democracy (WFD), SAO organized workshop for journalists, at which the Auditor General presented to the representatives of national televisions and internet portals identified key shortcomings in the Annual Report on SAO operation for 2021, published recently on SAO website. As an established practice and to promote transparency, SAO informed all supreme audit institutions, as well as the European Court of Audit, INTOSAI and EUROSAI, the Delegation of the European Union in the Republic of North Macedonia, the missions of international organizations as well as certain diplomatic missions in the RNM for the publication of the Annual Report on SAO operation for 2021.

Also, in the coming period, it is expected that the further increase of the visibility of the SAO and the communication with the stakeholders will take place in accordance with the Communication Strategy of the SAO for 2020-2023 and the planned project activities with the WFD. The SAO, with the support of the WFD, will undertake activities for the preparation of a new Communication Strategy of the State Audit Office for the period 2024-2027.

Further increase of SAO visibility and communication with stakeholders is expected in the upcoming period in accordance with SAO Communication Strategy 2020-2023 and in accordance with planned project activities with the WFD. SAO, with the support of the WFD, will undertake activities for the preparation of a new Communication Strategy for the period 2024-2027.

Priority 2: Parliamentary Oversight

Measure 1: Setting up mechanism for reviewing audit reports and measures taken upon audit recommendations in RNM Assembly

In 2022, within the framework of Component 3 of the Twinning project "Improving external audit and parliamentary oversight", the following activities were carried out:

- several written procedures of the SAO and the Parliament of the Republic of North Macedonia have been developed for the delivery and review of audit reports and other documents to/by the Parliament. They will be final after the adoption of the new Law on State Audit and adjustment of the content of the procedures with it. The Draft Law on State Audit has been handed over by the Auditor General to the authorized proposer, that is, the Ministry of Finance for further action;
- A report was prepared for the analysis of the audit process of the Annual Account of the Budget of the Republic of North Macedonia with recommendations for improvement and
- The Memorandum of Cooperation between the Assembly of the Republic of North Macedonia and the SAO was signed at the closing conference of the Twinning project on 21.10.2022.

In March 2022, a high-level delegation of the SAO held a meeting with the President of the Parliament of the Republic of Bulgaria, and high-level delegation of the National Audit Office of the Republic of Bulgaria and the Subcommittee for Control of Public Assets in the National Assembly. The main theme of the held working meeting was the cooperation between the Assembly and the Supreme Audit Institutions, exchange of experiences on the way of reviewing and discussing the final audit reports in the parent parliamentary committees in order to more effectively implement and act on the audit recommendations.

In April 2022, high-level delegations of the SAO of the Republic of North Macedonia and the National Audit Office of the Republic of Bulgaria met with the President of the Assembly of the Republic of North Macedonia. The meeting discussed the cooperation of the Assembly with the State Audit Office, once again showing support for the important and key role of the SAO as an institution that audits all key institutions. It was emphasized that with the signing of the Memorandum of Cooperation between the SAO and the Assembly, consideration of the Final Audit Reports and the measures taken following the given recommendations will be ensured, among other things.

In order to support the activities for signing the Memorandum of Cooperation, high-level delegations from the SAO of the Republic of North Macedonia and the SAO of the Republic of Croatia, in June 2022, participated in a working meeting with the President of the Assembly of the Republic of North Macedonia, at which discussed how to improve mutual cooperation, following the positive practices of EU member states.

The Memorandum of Cooperation between the Parliament and the SAO was signed at the closing conference of the Twinning project on October 21, 2022. The Memorandum of Cooperation is expected to improve cooperation and establish professionally sustainable and efficient relations between the Assembly of the Republic of North Macedonia and the SAO, with

the aim of strengthening supervision and increasing the efficiency and transparency of public finances.

Measure 2: Strengthening institutional capacities for reviewing audit reports in RNM Assembly

In 2022, within Component 3 of the Twinning project "Improving External Audit and Parliamentary Oversight":

- a new Manual "The role of the State Audit Office and the Parliament in strengthening the efficiency in the management of public finances" is prepared and printed copies of this manual will be provided to Assembly.
- proposals for amendments to the internal acts of the Assembly have been prepared and
- an Action Plan has been prepared with activities to improve the cooperation between the SAO and the Assembly for the submission and review of audit reports.

In the next period after the adoption of the new State Audit Law, the following activities should be implemented:

- preparation of a training plan for parliamentarians and Parliament staff regarding audit reports and preparation of a debate on audit reports;
- based on the Training Plan, preparation and implementation of at least 3 training sessions (case studies as a real debate on audit reports, at least one session for each type of audit), for parliamentarians and staff of the Assembly and
- strengthening the cooperation with the Committee on Financing and Budget, the Parliamentary Institute at the Assembly of the Republic of North Macedonia and the Parliamentary Budget Office of the Assembly.

The preparation of a training plan for parliamentarians and Parliament staff in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports, as well as the preparation and realization of at least three training sessions for the parliamentarians and the staff of the Parliament, planned within of the Twinning project were cancelled by a letter from the Parliament. The main reason for the non-implementation of the activities was the unsigned Memorandum of Cooperation during the period when the activities were supposed to be implemented. The Memorandum of Cooperation was signed at the closing of the project, at the Final Conference held on October 21, 2022.

Pillar VIII - PFM at Local Level

Priority 1. Fiscal Decentralisation

Measure 1: Improving Fiscal Capacity and Increasing Municipal Revenues

In August 2022, the Law on Amendments and Supplements to the Law on Financing of Local Self-Government Units was adopted, which enables an increase in the revenues of the municipalities through a gradual increase of funds transferred from the Central budget to the budget of the municipalities. Thus, the percentage of the personal (personal) income tax that is transferred to the municipalities is gradually increasing from 3% to 6%, i.e. from the day of adoption of the Law in 2022, until the end of the year, 4% of the collected amount is transferred to the municipalities. personal income tax. Also, the percentage of the income from the value added tax that is distributed to the municipalities is gradually increasing from 4.5% to 6%, while it is distributed in three parts: basic part - 4.5%, performance part - 0.75 % and equalization part - 0.75%. For 2022, 5% of the collected VAT is provided, divided into a basic part - 4.5%, a performance part - 0.25% and an equalization part - 0.25%. A formula and an Excel tool have been prepared on the basis of which the allocated funds are distributed and a new Decree on the methodology for the distribution of value added tax revenues by municipalities for the year 2022 has been adopted, which determines the criteria according to which the funds are distributed in the basic part, the part for equalization and the performance section. With the technical assistance of UNDP, an assessment of the existing Law on the financing of local self-government units was made, and the conclusions and recommendations obtained will be a good basis for preparing for the adoption of a new Law.

In addition, municipal revenues increased, taking into account the recent amendments to the Law on Property Taxes, pertaining to property tax rates, whereby base property tax rates have not been changed, but rather the property tax rate has been increased for real estate not used or leased for more than six months in the course of the year by its owner, as well as in case the owner fails to declare whether the real estate is used or not. Legal amendments apply from 1st January 2022.

Future steps that will be taken in the coming period include the adoption of a new Law on Financing Local Self-Government Units, which is required to be harmonized with the new Law on Budgets, and then the adoption of by-laws. At the same time, in cooperation with the competent ministries from which block and dedicated grants are transferred, the possibilities for changing the criteria for the distribution of these funds by municipalities are being analyzed. Within the technical assistance of UNDP, a comparative analysis will be made with some of the neighboring countries and EU member states for the distribution of capital transfers and a Decree for the distribution of capital grants will be prepared.

Measure 2: Regional and Local Development

A working group was formed for the preparation of legal solutions for the establishment of the Agency for Regional and Local Development, composed of representatives from the Ministry of Local Self-Government, the Ministry of Finance, the Bureau of Regional Development, the Cabinet of the Vice Prime Minister in charge of economic issues. , Ministry of Justice, Ministry

of Political System and Community Relations, Ministry of Information Society and Administration and Association of Local Self-Government Units. With technical assistance from USAID, a local expert was hired and a comparative analysis was made with experiences from countries that have this type of institutions.

In the coming period, it is expected to analyze the proposed models, hold consultations with all stakeholders regarding the proposed models and select the most suitable model.

Priority 2: Financial Discipline, Transparency and Accountability at Local Level

Measure 1: Increasing the Financial Discipline

With the law on amendments and additions to the Law on Financing of Local Self-Government Units, which was adopted in August 2022, more realistic planning of municipal budgets will be ensured, whereby the percentage of planned revenues in the municipal budget from 30% is again reduced to 10 %. In doing so, if the municipality, as of the third quarter, realizes its own revenues above 75% of the planned, it is possible to further increase the planned revenues to a maximum of 20%, starting from 2025. For 2023 the percentage is 20% with an additional 10% as of the third quarter, and for 2024 the percentage is 15% with an additional 15%.

During this period, the budgets of LGUs are regularly monitored and controlled to see if they are prepared in accordance with the existing legal regulations. At the same time, the execution of the budget is monitored, especially the intended spending of the funds, especially the non-productive expenses. The registration of overdue unpaid obligations in the Electronic system for reporting and recording obligations - ESPEO is monitored on a monthly basis. The realization of the revenues and expenses of the municipalities, the outstanding obligations and the fulfillment of the conditions for declaring financial instability, as well as the indebtedness of the municipalities are monitored on a quarterly basis.

The amendments to the Law on Financing of Local Self-Government Units regulate the procedure for declaring financial instability and propose instruments for overcoming financial instability. It is monitored which municipalities meet the conditions for declaring financial instability, and the Financial Inspection is informed about the municipalities that meet the conditions for declaring financial instability according to the Law, and which have not declared financial instability. Municipalities that have high outstanding obligations reported in the ESPEO system as of September 30, 2021 have been given the opportunity until the end of 2022 to submit a request for the use of a structural bond. The Ministry of Finance received requests from 4 municipalities. With the technical support of USAID, a Manual for declaring financial instability has been prepared.

The future steps that will be taken in the coming period include regular monitoring of the actual planning of the revenues and expenditures of the municipalities, monitoring of the execution of the budgets and dedicated spending, monitoring of the due outstanding obligations,

monitoring of the conditions for the fulfillment of financial instability and monitoring of the measures that will be undertaken by municipalities to overcome financial instability.

Measure 2: Increasing the Transparency and Accountability Throughout the Operations of the Municipalities

The website of the Ministry of Finance has published data on the execution of the revenues and expenditures of the municipalities and on the arrears reported in the Electronic system for reporting and recording obligations for Q4 2021, Q1 2022, Q2 2022 and Q3 2022, the Annual Report on The budget of the Republic of North Macedonia for 2021, including the annual report on municipal budgets for 2021. With the support of UNDP, the financial indicators from the periodic financial reports of about 40 municipalities have been published on the website of the municipalities and the Ministry of Finance.

In order to strengthen control by the state, out of a total of 366 financial inspection procedures initiated at public sector entities at the local level, a total of 247 procedures have been carried out, while 119 procedures are ongoing.

Future steps to be undertaken in the coming period include timely publication of financial data, monitoring the transparency of the municipalities, in particular publication of financial data, increased number of reports and financial data published on the municipalities' and MoF's websites, adoption of the Law on Public Sector Financial Inspection

7. Monitoring and Coordination

2022 Action Plan sets indicators and targets by year for each planned activity. As regards PFM sub-sector, Performance Assessment Framework integrates the indicators and the targets for the PRFM Reform Programme, and the responsibilities for data collection and processing are

The monitoring process is based on the PFM reform management and coordination framework, comprising the following structures established at all hierarchical levels of decision-making.

- *PFM Council*
 - *PFM Working Group*
 - *Priority Coordinators*
 - *Coordination Unit within MoF*
-

being assigned on the grounds of the monitoring and reporting system envisaged in the Programme.

Strong political commitment as regards the fulfilment of the reform goals set in PFM Reform Programme 2022 - 2025 is ensured through the PFM Council.

The Government established the PFM Council on 12th February 2018 ("Official Gazette of the Republic of Macedonia", no. 28/2018), as the highest-level coordination body, the primary goal of which is to ensure full political commitment in achieving the reform goals under the PFM Reform Programme 2018-2021.

On 14th June 2022, the Government adopted a new Decision on Establishment of PFM Council, as the key body within the structure for managing, coordinating, monitoring and reporting about the implementation of PFRM reform Programme 2022 - 2025.

In October 2022 the PFM Council has conducted one consultation following a written procedure on the draft Monitoring Report on Implementation of the 2022 Action Plan for PFM Reform Programme for the period January–June 2022, and the Draft – Report was adopted in December 2022 by the Government as information material.

PFM Sector Working group is a technical working body established by the Minister of Finance for the purpose of preparing, monitoring and reporting on the PFM Reform Programme. It comprises members and observers nominated by the relevant institutions included in activities related to PFM sector (ministries and other public entities, civil society organisations, development partners). The Working Group was initially established under a Decision adopted by the Minister of Finance on 10th June 2015, and it has been modified and amended several time since, with the recent amendment made on 29th October 2021. New decision on appointment of WG members and observers is in the process of preparation, and it will be adopted in line with the new structure of the PFM Reform Programme 2022-2025.

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

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

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

PFM Policy Dialogue was held on 13th May 2022, attended by members and observers from the civil society organisations and the development partners, participating in the PFM Sector Working Group, as well as other stakeholders.

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

On September 29, 2022 a technical meeting was held with the PFM SWG to discuss the Draft Monitoring Report on Implementation of the 2022 Action Plan for PFM Reform Programme for the period January–June 2022.

8. Financing of 2022 Action Plan

The 2022 Action Plan provides details on the cost implications of the reform activities in 2022: budget funds were allocated, while part of these activities were planned to be financed with donor funds. The following table presents the realisation of the budget for implementation of the 2022 Action Plan.

Pillars	Priority	Budget(Eur)					
		National budget		Donor funds		Total	
		Planned-2022	Realised	Planned-2022	Realised	Planned 2022	Realised
I Economic Analysis, Macroeconomic and Fiscal Framework	1.Revenue forecasting and reporting	0	0	165,000	36,700	165,000	36,700
	2.Economic analysis and Macroeconomic forecasting	41,500	0	80,000	0	121,500	0
	3.Strengthening Debt Management	9,500	11,000	0	0	9,500	11,000
II Revenue Mobilization	1.Tax and customs policy	0	0	958,000	170,000	958,000	170,000
	2.Tax administration	3,270,000	246,700	0	0	3,270,000	246,700
	3.Customs	0	0	0	0	0	0
III Planning and Budget	1.Budget Planning	0	0	20,000	15,000	20,000	15,000
	2.Strengthened Public Investment Management	18,500	0	55,000	0	73,500	0

	3.Effective instruments under the Growth Acceleration Plan	57.176.000	15.000.000	0	0	57.176.000	15.000.000
IV Public procurement	1.Public Procurement Policy	115,000	4,130	0	0	115,000	4,130
	2.Public Private Partnerships (PPPs)	0	0	0	0	0	0
	3.Appeal mechanism	0	0	0	0	0	0
V Integrated Public Finances	1.IFMIS	0	0	556,000	0	556,000	0
	2.Strengthen the Accounting of Budgets and Budget Users	0	0	60,000	20,000	60,000	20,000
	3.Public Finance Academy	48,000	0	10,000	10,000	58,000	10,000
VI Public Internal Financial Control	1.Financial Management and Control	59,000	0	44,200	10,000	103,200	10,000
	2.Internal Audit	80,000	0	83,000	8,000	163,000	8,000
	3.Financial inspection	2,000	0	112,000	24,000	113,000	24,000
VII External Control and Parliamentary Oversight	1.External audit	0	0	561,000	561,000	561,000	561,000
	2.Parliamentary Oversight	0	0	94,000	63,000	94,000	63,000
VIII PFM at Local Level	1.Fiscal decentralisation	51,000	0	0	0	51,000	0

	2. Financial Discipline, Transparency and accountability on local level	35,600	0	0	0	35,600	0
Total		60.9906.100	15.261.830	2.798.200	917.700	63.703.300	16.179.530

Annexes

Annex 1: Monitoring matrix on the 2022 Action Plan

Annex 2: Risk assessment of the 2022 Action Plan for PFM Reform Programme