



REPUBLIC OF NORTH MACEDONIA

MINISTRY OF FINANCE

„SMART PUBLIC FINANCES“

**Monitoring Report on Implementation of 2023
Action Plan for Public Financial Management
Reform Programme**

for the period January - June 2023

September 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
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
EU	European Union
GAP	Growth Acceleration Plan
HR	Human Resource
IPA	Instrument for Pre-Accession Assistance
IFES	International Foundation for Election Systems
IFMIS	integrated financial management information system
IFIs	International Financial Institution
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institution
IT	Information Technology
ITIS	Integrated Tax Information System
ICT	Internal Customers Technology
IFMIS	International Financial Management Information System
ISSAIs	International Standards of Supreme Audit Institutions
MASA	Macedonian Academy of Sciences and Art
MoF	Ministry of Finance
ME	Ministry of Economy
MJ	Ministry of Justice
MASP	Multi-Annual Strategic Plan
NAO	National Audit Institution
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
TA	Tax Administration
TSRS	Tax System Reform Strategy
UEC	Unit for Enforced Collection
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 2023 Action Plan for Implementation of the PFM Reform Programme for the period January-June 2023 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 the middle of July 2023, and finalised by end-August 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 – June 2023.

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

2023 Action Plan elaborates in details the measures and the activities under the PFM Reform Programme to be implemented in 2023,

The status of implementation of the planned activities are presented in the Annex 1: Performance Indicators Matrix on the 2023 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 2023 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

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)

Economic Reform Programme (ERP) 2023-2025 was submitted to European Commission on 01.02.2023. The assessment of the Programme was published on 18 April 2023, after EC in-country mission was carried out in the period 15-17.02.2023. The Commission's assessment of the implementation of the policy guidance jointly adopted with EU in 2022 within ECOFIN Dialogue at Ministerial level, noted partial implementation of 48.6%.

If disaggregated by policy recommendations, for those related to macro-fiscal policy, partial implementation was noted due to untargeted stimulus continuation of some energy crisis measures; primary deficit-to-GDP ratio still above pre-pandemic level; PIM Department at MoF still not operational; PPP Law not adopted and PPP registry not functional. Limited progress was noted in monitoring fiscal risks, while substantial progress noted with passing the OBL Law by the Parliament and initiating procedures for the Fiscal council to be operational and with the announced set of legislative proposals by the Ministry of Finance in line with the Tax System Reform Strategy, aiming at broadening the tax base and streamlining the existing tax exemptions, as well as with the component on upgrading the tax IT System, which is expected to support and improve the business processes of the PRO and contribute towards its digital transformation.

Regarding the progress with structural reform measures contained in the ERP 2022-2024, in the section of the activities planned for 2022, the Commission's assessment noted mixed progress, with an average score of 1.9 out of 5.

Economic and Financial Dialogue related to ERP 2023-2025 that was held on 16 May 2023¹ represented by the EU Council's chairing "trio" and the ministers of finance and central banks'

¹<https://data.consilium.europa.eu/doc/document/ST-9478-2023-INIT/en/pdf>

governors of Western Balkans and Türkiye, has adopted targeted policy guidance for the ERP cycle 2024-2026.

The Policy Guidance represents recommendations to be implemented and report on its implementation to be included within ERP 2024-2026, and for the macro-fiscal policy they refer to the following:

1. Continue to provide targeted and temporary support to vulnerable households and firms to cushion the impact of the energy crisis, if needed, and at the same time start to phase out untargeted subsidies to the energy sector. Use any revenue overperformance or spending under-execution compared to the 2023 budget to reduce the deficit. Foresee in the medium-term fiscal plan accompanying the 2024 budget a gradual reduction of the primary deficit-to-GDP ratio to its pre-crisis (2019) level by the end of the ERP period.
2. Accelerate the implementation of the Public Investment Management Action Plan, in particular by ensuring the new Department for Public Investment Management in the Ministry of Finance becomes fully staffed and operational and submit the new public-private partnership (PPP) Law and the Law on concessions of goods of general interest to the Parliament for adoption. Adopt and submit to the parliament the next set of revenue enhancing measures, as announced by the Concept for Tax Policy Reforms. Take the necessary legislative and organizational steps to enable the new Fiscal Council to take up operations with regard to the 2024 budget and the new fiscal strategy, in particular by swift appointment of its three members and provision of premises and administrative services.

ERP 2024-2026 should be submitted to EC till 15 January at latest, in accordance to EU Guidance Note for ERP 2024-2026, delivered by EC.

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.

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 2023-2030

Public administration reform is a central area of the Cluster “Fundamentals” who is crucial for the progress in negotiations with the EU 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 policies and easily accessible services for citizens and the business entities. 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 version of the Strategy for Public Administration Reform (2023-2030) with Action Plan 2023-2026 reflects the situation and challenges in public administration in the Republic of North Macedonia, as of December 31, 2022, and it was published on ENER for public consultations on 9th February 2023.²

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, aimed at streamlining the institutional framework, eliminating

² The Strategy for Public Administration Reform (2023-2030) with Action Plan 2023-2026 was adopted by the Government on 11th July 2023.

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 is in preparation

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, so that new organisational units were established and their staffing is underway.

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

In the first quarter of 2022, the Government adopted the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026, with 2022 Action Plan for its implementation. 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 prepared An Annual Monitoring Report on the Implementation of the Strategy for Strengthening the Public Procurement System and the Action Plan for 2022. The

Annual Monitoring Report presents the implementation of the measures and activities of each priority area which is part of the Strategy and the Action Plan. Furthermore, it is noted that the level of implementation of all the measures and activities from the Public Procurement Strategy in the first year of its implementation, according to the Action Plan for 2022, is satisfactory. The Annual Monitoring Report on the Implementation of the Strategy for Strengthening the Public Procurement System 2022-2026 and the Action Plan for 2023 were submitted to Government in the first quarter 2023 and were accepted in June 2023.

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.

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. At this moment the drafting of a Strategy for the development of the Customs Administration of the Republic of North Macedonia for the period 2024-2026 is ongoing.

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 2023-2026

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. In May 2023, the Risk management strategy for customs matters 2023-2026 and the Action Plan for its implementation were adopted. The strategy covers the key objectives for dealing with risks that may arise in relation to customs issues, with the main goal of achieving a: quality, comprehensiveness, effectiveness and efficient approach to risk management. The strategy establishes the main strategic priorities: 1. Strengthening the capacity of employees for risk management; 2. Improving the quality of data and IT support for efficient risk management; 3. Provision, availability and sharing of data for risk management, cooperation between institutions and international cooperation; 4. Effective control system based on risk management, pre-assessment, control where necessary and 5. Promotion of cooperation with the business community in order to facilitate and accelerate legal trade.

CEFTA Risk Management Strategy 2020-2024

The application of risk management within the framework of CEFTA has been expanded and improved, according to the CEFTA Risk Management Strategy 2020-2024 and systematic exchange of electronic data (SEED) to all agencies involved in the customs clearance of goods. In the period January-June 2023, activities continued for the harmonization of the proposal decision to establish an electronic system to facilitate risk management in CEFTA, which would include common risk profiles in CEFTA, exchange of data from reports on performed controls and rapid alerts. The activities for establishing the exchange of information through the SEED system for the CEFTA parties that do not border each other also continued.

Strategy for integrity and fight against corruption in the Customs Administration of the Republic of North Macedonia 2023-2026

A new draft text of the Strategy has been prepared being in line with the Arusha Declaration of the World Customs Organization, and the Decisions of the Government from the 50th session, as well as from the 69th session in 2021. 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. The strategy is based on 19 elements, which are also activities essential for integrity and the suppression of corruption.

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 2023-2027³

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 and adopted. Priorities and Measures within Pillar 7: External control and parliamentary oversight of 2022-2025 PFM Reform Programme are closely related to the strategic objectives contained in SAO Development Strategy for 2023-2027.

In this Strategy, SAO has set the key priorities and goals, identified through the following strategic objectives:

- Ensuring and maintaining full State Audit Office independence
- Further maintenance of internal management capacities, institutional support, endeavors for continuous improvements, relations with stakeholders/ communication, human capacities, audit methodology
- Delivery of measurable results from performed state audit, performing high quality audits, audits of public interest and increase of public trust aimed at improving the lives of the citizens
- Creation of strategic plan for defining potential audit areas by assessing challenges in the areas of interest and in line with the risk assessment for the period 2023 – 2027⁴.

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

⁴ No.03-493/1 dated 17.03.2023.

SAO Communication Strategy 2020-2023

SAO Communication Strategy 2020-2023 is in line with PFM Reform Program and SAO Development Strategy 2023-2027. 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;
- 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 1.113 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>).

For maintaining continuity of SAO communication with stakeholders and ensuring continuous growth of SAO transparency, accountability and responsibility in SAO operation as well as informing citizens about audit entities operations, a decision to form a working group for preparing the new SAO Communication Strategy 2024-2027 was adopted.

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. Decision to form working group for preparing the new SAO Strategic audit plan 2024-2027 was adopted by the AG.

Human Resource Management Strategy 2020 – 2023

The Strategy for Human Resources Management 2020-2023 is in line with SAO Development Strategy 2023-2027 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 2023. Decision to form a working group for preparing the new Human Resource Management Strategy 2024-2027 was adopted.

IT Strategy 2023-2027⁵

SAO IT strategy for the period 2023 - 2027 is the basis for implementation and development of SAO IT systems. The IT Strategy is in line with SAO Development Strategy 2023-2027 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.

3. Links to External Assessments

At the request of the Ministry of Finance, a team from the IMF's Fiscal Affairs Department undertook the Climate Module of the Public Investment Management Assessment (C-PIMA) during the period from February 13 to 21, 2023. The tasks of the mission were to: (i) assess progress in implementing the recommendation of the 2020 PIMA in areas relevant to the Climate PIMA assessment; (ii) assess the sensitivity of North Macedonia's public investment practices to climate objectives using the Climate-PIMA analytical framework; (iii) identify the main gaps and weaknesses in public investment management and its climate sensitivity and propose a prioritized action plan for addressing them; (iv) recommend follow-up areas of technical support that could be provided by FAD or other development partners.

The final Technical Assistance Report on C-PIMA was delivered to the MoF in July 2023. It proposes recommendations for incorporating a climate-change aspects in the public investment management and specific implementation steps outlined in the draft action plan.

⁵ https://dzt.mk/sites/default/files/2023-06/IT_Strategija_DZR_2023_2027.pdf

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 coordinating 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.

The Draft Report on Monitoring the implementation of the Action Plan for 2022 for the PFM Reform Programme, for the period January - December 2022 and the Draft Action Plan for 2023, were published on the website of the Ministry of Finance on March 6, 2023 for public consultation with stakeholders.

On 28 April, 2023 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 to December 2022, and the new Action plan for 2023.

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 49 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.

Through the mediation of the USAID Project, a coordination group was formed with representatives from 9 institutions in order to make proposals for the improvement of the Law on Property Taxes and the Methodology for Assessing the Market Value of Property. With technical assistance from USAID, a local expert was hired and a comparative analysis and scenario proposal was made for the model for the transformation of the Bureau for Regional Development into an Agency for Regional and Local Development. Also with the technical support of USAID, the hiring of an expert is underway to prepare a Draft Law on Municipal Debt Management.

The Ministry of Education and Science, in cooperation with UNICEF and the World Bank, has prepared a new methodology for the distribution of block grants for primary education, and it is currently being reviewed.

With the technical support of SIGMA, the development of a methodology for the distribution of the block grant for culture, kindergartens and firefighters is underway.

With the support of the UNDP, a comparative analysis will be made with some of the neighboring countries and small EU countries for the distribution of capital transfers and a Decree will be made for the distribution of capital grants, and also with the support of the UDP on the websites of the municipalities and the website of the Ministry of Finance published financial indicators from the periodic reports for the municipalities.

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.

In order to acquaint the donors with the upcoming reforms in the Public Revenue office and to avoid overlapping donor aid, the Public Revenue Office with the technical support of the IMF held the first coordination meeting on May 4, 2023 of donors and creditors involved in the reform of the Public revenue office. The meeting was also attended by representatives from the MoF, IMF, World Bank, EUD, UNDP, US Treasury and Finance Think.

The State Audit Office, the Westminster Foundation for Democracy (WFD) and UK Foreign, Commonwealth & Development Office continued in 2023 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 North Macedonia through improved implementation of SAO recommendations". The activities relate to the implementation of the remaining two phases of the Project in line with the Somunication Strategy of the SAo 2020-2023, 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 2023, 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.

SAO and the International Foundation for Election Systems (IFES) in February 2023, signed the Memorandum for cooperation with aim of both parties cooperating of increasing effectiveness in the performance of audit functions, especially in relation to managing corruption risks, public relations, advancing digitalization through innovative tools and software solutions, and improved transparency and accountability of political financing.

Strengthening cooperation with the Assembly of the Republic of North Macedonia for reviewing audit reports, strengthening parliamentary oversight of the use of public funds, increased effectiveness of SAO work in performing regular auditing functions /management, experience in executive transitions, advancing digitalization through innovative tools and software solutions, and improved transparency and accountability are envisaged as areas for cooperation in the Memorandum of cooperation signed by SAO and Nacional Democratic institute (NDI) in May 2023.

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 2023, 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 to 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 2023 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

In the period January-June 2023, by the International Monetary Fund, a workshop for the identification and analysis of key tax expenditures in the segments of profit tax, personal income tax and value added tax was held, for the purposes of preparing a report on tax expenditures, according to the obligations from the new Organic Budget Law. In the second phase, the training will continue in Q4 2023, in the field of excise and customs duties.

During March 2023, the Ministry of Finance submitted an initiative to the EUD in North Macedonia for the approval of a twinning light project named: "Further harmonization of the domestic tax legislation with the EU legislation, and improvement of the projection and reporting of tax revenues". Until June 30 2023, the Ministry of Finance has not received a feedback regarding the acceptance of this initiative from the European Commission.

The initiative for the twinning light project is the result of the fact that, within the framework of the IPA 2018 twinning project "Improving revenue collection and tax and customs policy", several activities were planned for realization/for implementation, as following:

- 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,

which have not been implemented yet, given that the twinning project has been suspended and then cancelled at the end of 2022.

Measure 2: Enhancing tax and customs modelling capacity

In the period January-June 2023, the World Bank has developed models for the simulation of the fiscal, economic and effects on human health and the environment from potential changes in public policies in the area of excise on tobacco and alcoholic beverages, as well as from the area of motor vehicle tax.

In the next period, the installation of these models in the Ministry of Finance is planned, as well as the implementation of trainings to improve the capacities for independent simulation of the fiscal effects of different scenarios of public policies in these areas.

These activities are a continuation of the activities undertaken with the support of the IMF and the World Bank, in the previous reporting period, and which refer to ongoing trainings for the application of the VAT models and the calculation of the tax gap based on the model in the programming language R, and the model in Excel, developed by the World Bank and the IMF, respectively.

Also, with the support of the World Bank, trainings for the application of the models for personal income tax and profit tax have been started, which will continue in 2023, after updating them with the latest available data for 2022.

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 implemented through a modular approach (4 modules), Module 1 is intended for the Ministry of Finance and it started to be implemented in 2022 with a plan to complete it by the end of 2023. Within the framework of module 1, five employee trainings were conducted during 2022, of which three were online and two onsite. These trainings were used to prepare map of available data for the framework for macroeconomic planning, to start preparing data by sector, i.e. data for the real and fiscal sectors, and to define the interconnection of the components of the framework between the real and fiscal sectors, as well as the relation of inflation, GDP deflator and fiscal revenues. At the same time, the seasonal adjustment of the data with the Jdemetra+ program was presented, as well as the updating data in the framework for macroeconomic planning.

During the first half of 2023, the following employee trainings were conducted:

- On January 17, 18 and 20, 2023, online consultations were held with the experts regarding the preparation of the macro-fiscal part of the Economic Reform Program (ERP) 2023-2025, that is, the calculation of potential GDP using the CF filter (Christiano-Fitzgerald) and the HP (Hodrick–Prescott) filter.
- In the period from 21.03 - 24.03.2023 training was held with onsite presence on the inclusion of data from the financial sector, with a more detailed review of public debt data (debt structure, debt financing plan, etc.) and interaction with the debt analytical tool, which was developed in cooperation with World Bank and IMF, and is used in the medium-term Strategy for Public Debt Management.
- In the period from 16.05. – 19.05.2023 onsite training for the monetary sector was held, as well as an initial overview of the resilience and interconnectedness of components within the monetary sector.

For the second half of 2023, 27 working days for training are planned, of which 20 days will be realized through 5 missions (four daily trainings), of which 4 missions will be onsite at the Ministry of Finance and 1 mission will be online, with the remaining 7 days are scheduled for consultation with experts regarding the practical application of the framework for macroeconomic planning, according to the needs of the MoF. Within the framework of the

planned trainings, the following topics will be covered: external sector and the interconnection of the components within the external sector, preparation of a basic macroeconomic scenario, that is, practical application of the Macroeconomic Planning Framework; making assumptions/assessments; understanding the implications of assumptions and potential imbalances, introducing the concept of alternative macroeconomic scenarios, i.e. assessing the impact of changing policies, as well as alternative scenarios for various external assumptions. Also, trainings are planned in connection with the deepening of the analytical abilities of the participants regarding the interpretation of economic data and projections obtained with the macroeconomic model.

Measure 2: Developing new macroeconomic models

In cooperation with the World Bank, a short-term inflation projection model was developed for the needs of the Macroeconomic Policy Department (Department for Economic Policies and Development) in 2022, taking into account the increased inflationary pressures caused by global developments and the growth of food and energy prices. During 2022, several online workshops were organized for the presentation of the model, as well as for training of the employees. The model includes short-term projections of inflation (for three main sub-components: energy, food and core inflation) using the E-views, as well as projection of food and fuel prices for the current month (nowcasting) using web scraping (automated copying and downloading of data from the Internet) with Python and R studio.

During 2023, the following additional workshops were held:

- On 06.03.2023 an online workshop was held with experts on the current use of the short-term inflation projection model, advising on the possible use of IMF food inflation projection data (GAS_foodindex_mkd) in the model.
- On March 17, 2023 an online workshop was held with the experts on overcoming the difficulties in downloading data with web scraping (automated copying and downloading of data from the Internet) from the Eurostat website due to changes the way data is presented. In addition, the calculation of chain indices for basic inflation in Excel (chain linking) was presented.
- In the period from 08.06 - 09.06 2023 a final online workshop was held with the experts at which additional elaboration and assessment of the entire inflation model was carried out, i.e. the employees with the help of the experts worked on the entire inflation projection process, and modifications were made to the model with the help of tools and techniques for updating it, as well as advice for areas where the model can further develop.

- Additionally, in the period from 12.06 - 22.06.2023 a training session was held on the basics of econometrics using E-views by experts hired by the World Bank. The training included employees from several departments in the Ministry of finance in two groups: first group from 12.06-16.06.2023. and the second group from 19.06-22.06.2023. The topics that were covered in the training are the following: basic concepts of econometric modeling, simple and multiple regression, advanced regression models, analysis of time series with one and more variables, dependent variables, volatility modeling, stationary and non-stationary time series, etc.

In the second half of 2023, it is planned to continue cooperation with experts hired by the World Bank to update and re-establish the model for short-term projection of economic growth, i.e. GDP (GDP Nowcasting), as well as the possibility of additional consultations regarding the functioning and testing (calibration) of the model for short-term inflation projection.

Measure 4: Establishment of a Fiscal Council

The new Law on Budgets adopted by the Parliament in the second half of 2022 contains provisions that provide for the establishment of a Fiscal Council. In accordance with these provisions towards the end of 2022, the Ministry of Finance addressed the Parliament, the Government, MASA, NBRNM and SAO about the obligations arising from the provisions for the establishment of the Fiscal Council. In accordance with Article 11 paragraph 6 of the Law on Budgets, MASA, NBRNM and SAO have proposed to the National Assembly members for the Fiscal Council, who meet the criteria established by the Law. All three institutions nominated candidates: academician Abdulmenaf Bedzeti at the proposal of MASA, professor Marina Trpeska from the Faculty of Economics at the proposal of the SAO and professor Gligor Bishev, a long-time banker and former vice-governor at the proposal of NBRNM.

In the first half of 2023, discussions with the World Bank continued, in order to provide support for preparation of best practice analysis (from EU and regional countries), in terms of the regulations that stipulate the scope of work of the Fiscal Councils. This will help in the preparation of relevant 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. The World Bank is working on the preparation of a draft regulation that will regulate the scope of activities and work procedures of the Fiscal Council, which should be adopted by the members of the Fiscal Council.

Key factors for achieving the following results are the operationalization of the Fiscal Council by appointing all its members, the hiring of persons in the body for professional and administrative support and the adoption of the by-laws that will regulate the working procedures, as well as

support for building the administrative and professional capacity of the body for professional and administrative support.

In the next period, the following activities are planned:

1. In the second half of 2023, it is planned to appoint the members of the Fiscal Council by the Parliament
2. Adoption of the Statute and Rules of Procedure of the Fiscal Council, on which World Bank expert is working.
3. Employment of at least 50% of the administrative staff to operationalize the work of the Fiscal Council.
4. Building the capacities of the Fiscal Council 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.

The technical support and trainings will be implemented with the support of the World Bank within the framework of the Project for strengthening fiscal management in the countries of the Western Balkans, for which an appropriate plan of activities has been adopted. Within the framework of the project of the World Bank, trainings for the employees of the Ministry of Finance are planned for building capacities for the preparation of ex-ante and ex-post analyzes and reports on the implementation of fiscal rules. In addition, it is planned to prepare procedure in the Ministry of Finance for the exchange of data with the Fiscal Council, as well as for monitoring and reporting on the compliance with the fiscal rules.

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 70% 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 first half of 2023, 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 started preparing for the issuance of the structural bond and is currently in the final phase, which means that its realization is expected during the third quarter of 2023.

During the first half of 2023, the Ministry of Finance was preparing to issue a new instrument on the financial market – a development bond for citizens. A development bond for citizens are securities that have the same characteristics as other bonds issued on domestic market but are intended for citizens who have taken advantage of the opportunity to invest in an instrument that is risk-free, reliable and brings an attractive return, protecting the value of their money of inflation. The prospectus of the civil bond was published on 30.06.2023⁶.

Pillar II - Revenue Mobilisation

Priority 1: Tax and Customs Policy

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

As regards the Activity for implementation of GAP analysis of the 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, no new activities were realized in the reporting period.

⁶ The auction was held on 13.07.2023, for which there was twice as much interest.

This considering the fact that this Activity was implemented with a support under EU-IPA 2018 “Improving Revenue Collection and Tax and Customs Policy” Twinning Project, which was canceled in December 2022.⁷

Regarding Activity 2, which refers 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:

- Draft Law on Amendments on the Personal Income Tax Law entered into force (based on the recommendations given in the Report on the progress of the MK for 2022, as well as the recommendations from the Joint Conclusions of the Joint Dialogue with the Western Balkans and Turkey, and the draft conclusions of the last Subcommittees on Economic and Financial Affairs and Statistics and on Trade, Industry, Customs and Taxation);
- Draft Law on Amendments to the Profit Tax Law has been prepared;
- Draft Law on Solidarity Tax has been prepared;
- Draft Law on Amendments to the VAT Law has been prepared;
- Draft Law on Amendments to the Law on Excise Duties has been prepared;
- preparatory activities for draft new Customs Law commenced;
- preparatory activities for a new Decree for the implementation of the Customs Law commenced;
- Decree amending the Decree on the classification of certain goods in the Combined Nomenclature in accordance with the regulations of the European Commission (11th continuation) was adopted;
- Decree on amending the Decree on the distribution of certain goods in the Combined Nomenclature in accordance with the regulations of the European Commission is in the process of being published in the Official Gazette of the RSM (12th continuation).

⁷ It is important to note that the activity in question was carried out largely within the framework of the above mentioned Twinning project, and in the period from April 2020 to June 2022, the following activities were carried out:

- GAP analysis of the Customs Law, Law on Excise Duties, VAT Law, Tax Procedure Law, Profit Tax Law, A and B Accounts (traditional own resources), Personal Income Tax Law, Motor Vehicle Tax Law, Law on Public Revenue Office, as well as the track and trace legislation, and
- Reviewing the results from the carried out GAP analysis of the Personal Income Tax Law, Law on Customs Administration, Law on Property Taxes, Law on Excise Duties, Customs Law, VAT Law, Law on Customs Measures for Protection of Intellectual Property Rights, Law on Customs Tariff, Tax Procedure Law, Profit Tax Law and preparation of recommendations for the improvement of these laws.

In addition and in order to continue the activities covered by this Measure, during March 2023, the Ministry of Finance submitted an initiative to the DEU in North Macedonia for the approval of a Twinning Light Project entitled "Further harmonization of the tax legislation with the EU Acquis, Improving Revenue Forecasting and Reporting". As of 30 June 2023, the Ministry of Finance has not received a feedback regarding the acceptance of this initiative by the European Commission.

Priority 2: Tax Administration

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

Working group – Project team established by Decision of the Director of the PRO in accordance with its task to introduce a Center of Excellence for inventory, assessment, seizure and sale of property for the purpose of tax collection, prepared project documentation that provides:

- Designing the model of operation of the Center of Excellence, the affiliation in the structure of the internal organization of the Public revenue office and the division of duties with UEC (Unit for Enforced Collection) in Regional office and LTO (Large tax office)
- Assessment of the necessary human resources in a Center of Excellence with appropriate professional qualifications
- Assessment of other conditions for the practical functioning of the Center of Excellence (accommodation space, software applications, etc.).

The proposed model refers to the introduction of a new centralized organizational unit in the PRO - Tax Enforcement Center.

The practical implementation of the Tax Enforcement Center is conditioned primarily by amendments to the acts on internal organization and systematization of jobs in the Tax Administration, in order to introduce the new organizational unit and to be able to start the recruitment of human resources through internal redeployments and new employments, public procurement etc. In the meantime, amendments to the Law on the Public Revenue office n came into force, with which the PRO is obliged within six months, that is, by November 2023, to adopt new acts for the internal organization of the PRO. With this, the formal-legal introduction of the Tax Enforcement Center as a new organizational unit in the PRO will be combined with the overall changes – the new internal organization of the PRO, which will be followed by other activities for its practical implementation.

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:

The project "Building effective, transparent and accountable institutions for the management of public finances" became effective with the conclusion of an Agreement with the World Bank through which financial resources were provided for certain modules of the new integrated TIS of the PRO, namely:

- IT solutions for the modernization of taxpayer services by improving the e-Taxes/e-Services portal and additional online opportunities to support citizen engagement in the tax domain through feedback mechanisms, smart applications or other software tools
- Data Warehousing and Business Intelligence Tools - Software and hardware required for the new DW for online analytical processing, statistics and reporting and software required for the development of compliance risk management tools and the PRO decision-making process
- Combined Call Center/Help Desk - Software and hardware required to set up a Call Center/Help Desk
- Hardware required for the implementation of the TIS modules - Procurement and installation of additional servers, data storage units, replication systems and other solutions required for the implementation of the TIS modules (including the e-invoicing module), expanding the operations of TIS in the existing PRO data center and the new joint DRC managed by the Ministry of Interior.

With the amendments to the Law on the Public Revenue Office, which are in force from 05/03/2023. the formal organization and structure for the implementation of the digital transformation reform of the PRO has been arranged. In accordance with the legal provisions, the Director of the Public revenue office with a decision dated 05/18/2023. established a Working Body for the implementation of a tax information system, whose task is: implementation, upgrading, optimization, execution, regulation, maintenance, control, staff education and analysis of all processes and functionalities related to the tax information system.

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. In the past 6 months, several trainings have been organized for the users of the customs IT systems, namely: one training for external users in which 30 representatives from diplomatic missions participated, as well as seven trainings for employees (21 participants) who manage or use the IT systems of the Customs Administration. During the second semester, the organization of at least 4 trainings is expected, which would fulfill the target by the end of 2023. 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) , which 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. The implementation of the project (system) has started in April 2023 .

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 it is ratified in June by the Assembly of the Republic of North Macedonia. 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 the National Single Window System, a consulting firm was selected in January, and has started preparing a technical specification for the software and hardware 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 are the redesign of the budget policy and fiscal consolidation, which are aimed at supporting macroeconomic stability, accelerating economic growth, and thereby strengthening the growth potential of the domestic economy. In addition to the commitment to fiscal consolidation and budget savings, the support of the economy continues with investments in infrastructure projects, redesigning the structure of public finances through an increased share of capital expenditures, as well as strengthening

transparency and accountability. Fiscal consolidation continues by supporting the economy with investments in infrastructure projects, redesigning the structure of public finances through an increased share of capital expenditures, as well as strengthening the process of planning, execution and reporting of public finances. The share of capital expenditures with over 5% in GDP on an annual level, through which economic growth and development would be generated, is of essential importance.

The fiscal policy envisages a phased fiscal consolidation, and with the new fiscal projections, the annual level of the budget deficit is consistent with the projections in the previous fiscal strategy. At the same time, the budget deficit was reduced as a percentage of GDP from: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8 % in 2027 and 2.5% in 2028.

The most significant activities that contribute to the improvement of medium-term planning and are covered by the Fiscal Strategy 2024-2028 are:

- Fiscal projections made on the basis of existing legislation and existing obligations (basic scenario) and proposal for new projects and new financial obligations (new initiatives);
- A medium-term fiscal strategy in accordance with the medium-term fiscal goals and strategic priorities of the Government of the Republic of North Macedonia through which it is possible to monitor the dynamics of revenues and expenditures in relation to fiscal goals;
- Contains limits on budget expenditures, limits by budget users, as well as mid-term projections for local government and public enterprises and state-owned joint stock companies;
- In order for the fiscal policy to be sustainable in the medium term, the fiscal projections provide a framework for achieving the numerical fiscal rules, which are designed to be harmonized and consistent with the EU fiscal rules. Numerical Fiscal Rules are introduced for the first time with the new Law on Budgets;
- 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;
- 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

The framework for conducting a sustainable fiscal policy, increasing budget discipline and responsibility is established by the new Law on Budgets, which was adopted by the Parliament of the Republic of North Macedonia in September 2022.

The 2023 budget is consistent with the Fiscal Sustainability and Economic Growth Support Plan, which is based on:

- Fiscal consolidation – by establishing measures for rationalization by separate categories of expenditures, activities and measures to improve the efficiency and effectiveness of the system for collection of public revenues;
- Consistency of policies in the budget planning process - through full connection of budget planning with the Government Program, sectoral strategies, as well as the connection with the Program for Economic Reforms;
- Development of multi-year indicators for measuring performance in the implementation of policies in the budget - in order to measure the effects of budget expenditures in relation to the results in the provision of public goods and services provided by budget users.

Through the IPA project "Strengthening of budget planning, execution and internal financial control", trainings on program budgeting and preparation of the by-laws of the new Law on Budgets were implemented and on the improvement of the Fiscal Strategy have been implemented.

At the same time, two missions were carried out with an expert from the International Monetary Fund for the development of capital budgeting and budget structure (general, special and development part), as well as a mission with the U.S. Department of the Treasury in the direction of strengthening the budget process is underway. preparation and execution, as well as reporting in accordance with the new Law on Budgets.

Measure 3: Fiscal consolidation for gradual and sustainable reduction of Budget Deficit

Fiscal consolidation continues by supporting the economy with investments in infrastructure projects, redesigning the structure of public finances through an increased share of capital expenditures, as well as strengthening the process of planning, execution and reporting of public finances.

The plan for fiscal sustainability and support for economic growth is based on Fiscal Consolidation by establishing rationalization measures for separate categories of expenditures, activities and measures to improve the efficiency of the public revenue collection system that will ensure greater collection and improvement of the revenue side. of the budget and reducing the public debt below 60% of the country's GDP in the medium term.

Priority 2: Strengthened Public Investment Management

Measure 1: Planning Sustainable Levels of Investment

Following establishing new Public Investment Management Department in end - December 2022, the process of staffing started in the beginning of 2023. Out of 13 envisaged employees, 3 employees were redeployed to the new PIM department. The procedure for new recruitments (2 new employments) and internal promotions (2 employees) is ongoing and is expected to be completed in July 2023⁸.

Measure 2: Improved project appraisal, selection and allocation of resources for capital investments

The process of developing new PIM methodology for appraisal, selection and prioritisation of public investment projects has started in June 2023, with TA support provided by the World Bank. Training of staff on project appraisal and review of preinvestment studies is planned to be carried out within the same assignment.

Measure 3: Efficient and effective monitoring of capital investments

New PIM methodology which is currently being developed with TA support by the World Bank shall set up rules and procedures for project monitoring.

At the request of the MoF, an IMF FAD mission was carried out in the period 20 - 23 March to further define the main business processes for PIM and exploring the options for integrating these into the budget preparation procedures. The mission also discussed the development of a short term Public Investment Management Information System (PIMIS) solution to capture basic public investment project information and create a database to manage project data from inception to monitoring (including climate change related impacts on infrastructure). This short term solution is expected to bridge the period until the new PIM module of the IFMIS becomes operational.

The process of implementing such short - term PIMIS solution shall continue after the PIM department designs a Project Concept Note (PCN) that will supersede existing project data capture forms.

Also, the outcomes of this mission helped the PIM department to provide input for drafting the technical specification requirements for the PIM module of the IFMIS (April 2023).

⁸ The procedure for new recruitments and promotions is completed in August 2023.

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. In this moment, the amendments from the Law on RBRNM that will enable RBRNM to establish and manage the Fund for Energy Efficiency within the framework of RBRNM are in the Government procedure. 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. The establishment of a unit for coordination of infrastructure projects is in the Government procedure, while the establishment of a unit for monitoring projects and the establishment of a unit for capacity building and training as these units should be established during the next period.

Pillar IV - Public Procurement

Priority 1: Public Procurement Policy

Measure 1: Strengthening institutional capacities

In relation to the Strategy for Strengthening of the Public Procurement System in the Republic of North Macedonia for the period 2022-2026, the Government of the Republic of North

Macedonia adopted the Action Plan of 2023 for implementation of the Strategy for the Public Procurement 2022-2026, in June 2023.

In the direction of improving cooperation among key institutions in the public procurement system, Public Procurement Bureau prepared and forwarded to the State Audit Office, State Commission for the Prevention of Corruption, and Commission for Protection of Competition, a Report of established indicators for monitoring risks in public procurements for 2022 - Red Flags Report, aiming to monitor the risks in public procurements and emphasize possible corrupt practices during the procurement procedures. This report is also published on the website of the Public Procurement Bureau.

In order to establish a new educational system of PPB, a comprehensive analysis of the educational system of the Public Procurement Bureau is commenced, which is expected to be completed in 2023. The partners from the Twinning project on "Strengthening the functions of budget planning, execution and internal control", where the Bureau is a beneficiary of Component 3, prepared an analysis and gave individual proposals regarding the Programme and the Educational System. Certain recommendations from the European Commission and SIGMA (Joint initiative of the OECD and the European Union) related to the professionalization of public procurement officials will be included in the analysis. Considering the above, the Public Procurement Bureau, based on the actual situation, will review the concept of certification and recertification of public procurement officers and will create educational programs which are modernized, advanced and improved.

However, a key challenge is the adoption of amendments of the Law on Public Procurement regarding the educational system. The analysis carried out and the new programmes for public procurement officers should enable the continuous increase of knowledge, skills and good practices of persons who conduct public procurements.

Priority 2: Public Private Partnerships (PPPs)

The goal of this priority is the introduction of new policies in the sphere of public private partnership in the Republic of North Macedonia and the provision of all prerequisites in the development of an effective system for public private partnership that will enable the activation of previously inactive funds for the construction of large buildings and public buildings interest, while stimulating competition and achieving the best value for money.

The Proposal Law on Public Private Partnership was submitted for re-opinion to the European Commission and after receiving it, it was harmonized with the comments and recommendations of the European Commission. The proposed law has been submitted for opinion to the Secretariat for Legislation and after its harmonization it will be submitted in a government procedure.

Measure 1: Establishment of a Single Electronic System for Public-Private Partnership (EEPSP)

Given that the effective implementation of the law is closely related to the establishment of the SESPPP, i.e. the entire process is digitized, it is necessary to provide financial resources for the procurement of the Single Electronic System for Public Private Partnership and the Register of Awarded Contracts for the Establishment of Public Private Partnership . The success of the implementation of the measure depends on the still open issue of providing financial resources (donors/budget) for that purpose and the completion of the process of passing the law.

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

After the adoption of the Law on Public Private Partnership, 13 by-laws will be adopted by the Minister of Economy and they will be published in the Official Gazette 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 SESPPP, 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.

Measure 3: Strengthening and development of the capacities of the Ministry of Economy in the field of public private partnership

According to the proposed regulation on public-private partnership and consistent implementation of the same, there is a need to increase the number of civil servants to timely perform all activities within their competencies. There is a great need to strengthen the capacity through the employment of professional staff who have relevant experience in this area, which would be reflected in achieving the required level of efficiency of the Ministry of Economy, and analogously to the proper functioning of the public-private partnership system in general. In the reporting period January-June 2023, no new employment was realized in the Ministry of Economy in the field of public private partnership.

Priority 3: Appeal Mechanism

Measure 1: Strengthening the legal and regulatory framework of legal protection in the public procurement process

The activity of drafting of a special law for legal protection in the field of public procurement implies complete improvement of the system for legal protection in public procurement by developing new tools for acquiring theoretical and practical knowledge, professional skills and competencies for professional, economical, efficient and effective implementation of public procurement procedures at all levels. Currently, comparative analyzes are being made and the

experiences of the EU member states are being observed so that the preparation of the special law for legal protection in the field of public procurement can begin.

Measure 2: Strengthening the administrative capacity of the SAC

In order to strengthen the capacities of the SAC to achieve the necessary level of efficiency of the SAC and for the proper functioning of the public procurement system as a whole, it is necessary to increase the number of civil servants in the professional service of the SAC which would increase the transparency, efficiency and the effectiveness of the SAC. In the reporting period January-June 2023, no new employment was realized in the SAC.

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. The main requirement for implementing this measure, i.e. the priority, is the approval of the Organic Budget Law, which governs the reforms in the public finances management. The law was approved in September 2022, but its implementation has been postponed until January 1, 2025. One of the crucial activities outlined in this Law is the establishment of an Integrated Financial Management Information System (IFMIS) which, through its essential components, will provide necessary support for implementing the reforms specified in the Law, which, among other things, include the establishment of a multi-year budgetary framework; the introduction of public investment management function; improvement of the budget execution through an automated system of supervision over commitments, including multiyear commitments and centralized data on the commitments incurred, financial and non-financial asset management, as well as improving debt management.

The project for the development and implementation of IFMIS (along with the project for the development and implementation of the Integrated Tax Information System and the project for the development and implementation of the State Aid Management Information System) is supported by a World Bank loan in the amount of 20 million euros and a grant funds from the European Commission in the amount of 5 million euros. The agreements for both a loan from the World Bank and a grant from the European Commission were concluded in January 2023.

Part of the World Bank loan funds has been allocated for the establishment of a Project Unit (PU) for the realization of the "Building Effective, Transparent and Accountable Public Financial

Management Institutions Project", which involves the development and implementation of the IFMIS system. The staffing process for this unit commenced in March and concluded in May 2023, resulting in the appointment of a PU Project Manager, a Financial Management Specialist, and a Procurement Specialist. In the coming period, a Monitoring and Evaluation Specialist, Procurement Assistant, and Environmental and Social Protection Specialist will need to be recruited.

In accordance with Article 107 of the Organic Budget Law, the Minister of Finance in May 2023 established a Working Body (WB), with a mandate of 5 years, responsible for implementation, upgrading, optimization, execution, regulation, maintenance, control, staff education and analysis of all processes and functionalities of the IFMIS system.

In the current period, the WB has adopted the Terms of Reference to engage a consulting company that will provide advisory and technical assistance to WB during the development and implementation of IFMIS, as well as in the process of change management related to IFMIS. The ToR for engaging a consulting company has been approved by the World Bank, and the WB has published a Request for Expression of Interest by economic operators, as of August 10, 2023.

Also, in the past period, WB tackled to preparation of the Tender documentation, as well as refining and supplementing the Technical Specification by introducing a new Public Internal Financial Control Module and Fiscal risks reports, as well as updating the Roadmap for IFMIS implementation. In the coming period, the formal adoption of the Tender Documentation by WB (including the Technical Specification and the Roadmap for IFMIS implementation, as an integral part of the Tender Documentation) is anticipated, after which they will be submitted to the World Bank for approval, followed by a public announcement for IFMIS procurement.

Furthermore, WB developed an action plan for preparation of the by-laws arising from the Organic Budget Law, and which are the foundation for the development of IFMIS modules. The preparation of these legal acts will be supported with technical and consulting assistance provided by the US Treasury and the European Commission (within the twinning project on "Strengthening budget planning, execution and internal control functions"). Aimed at drafting these acts, as well as to support the development of modules in IFMIS, in the coming period, the WB will establish expert commissions/working groups responsible for the process of development and implementation of IFMIS individual modules.

Priority 2: Strengthen the Accounting of Budgets and Budget Users

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

In January-June 2023, by the consultants engaged through the UNDP project were held two missions regarding the preparation of the Strategy for Improvement of Budget Institutions' Accounting. In June 2023 was presented the GAP Analysis for the introduction of accrual

accounting in the Republic of North Macedonia prepared by the consultants. The Strategy and the Action Plan is expected to be prepared by August 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

The Public Finance Academy was established by the Rulebook on Organizational Setup and the Ministry of Finance No. 01-11277/1 of December 29, 2022.

The process of staffing the Public Finance Academy has already started. The position of head of the Public Finance Academy has been filled. Also, a public announcement was published for the filling of two job positions, and this procedure is in the final stage. And there are two active procedures for transferring employees from other institutions to the Public Finance Academy. In accordance with the annual employment plan for 2023, the employment of two more employees is planned.

The process of securing premises in the ministry has started and is expected to be operational by the end of September.

Measure 2: Development and Implementation of a Curriculum

With expert support from CEF, Ljubljana, a draft version of the Rulebook and program on conducting training and examination for obtaining certificate for a certified accountant in the public sector and ToR for the training coordinator have been prepared.

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

Measure 3: Inter-institutional cooperation

In October 2023, a study visit is planned to the National Academy for Finance and Economics, Ministry of Finance of the Netherlands, through which it is expected to establish inter-institutional cooperation with the exchange of experiences, the provision of support in the work, and the improvement of the quality of the work of the Academy. Also, until the end of 2023, additional activities are planned with CEF, Ljubljana.

Pillar VI - Public Internal Financial Control

Priority 1. Financial Management and Internal 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.

The CHU in cooperation with the experts from the twinning project "Strengthening the functions of budget planning, execution and internal control" carried out the following activities in the reporting period:

- Prepared draft Rulebook on the way of carrying out the activities under the competence of the Financial Affairs Unit;
- Development of control activities for the prevention of future debt creation in 5 pilot institutions
- Two one-day workshops for the employees of the Financial Affairs Units at the central and local level on the topic "FMC-practical implementation for budget users at the central and local level";
- Managerial accountability
 - Analysis of the regulation related to managerial accountability;
 - Questionnaire and interviews with employees from 5 pilot institutions;
 - Report on the actual situation with recommendations for the pilot institutions;
- Preparation of Draft Rulebook for continuous professional development of internal auditors;

- Risk management process
- Analysis of the regulation related to risk management;
- Questionnaire and interviews with employees from 5 pilot institutions;
- Report on the actual situation with recommendations for the pilot institutions;
- Two one-day workshops for EFP employees and risk management coordinators at the central and local level on the topic "FAU-coordinating role for the development of FMC and risk management process";
- Two one-day workshops for internal auditors at the central and local level on the topic "Understanding and practical experiences in the risk-based audit process";
- A draft Guideline for the implementation of internal audit quality checks has been prepared;
- Preparation of a part of the Manual for internal audit (IT audit).

Priority 2. Internal Audit

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

According to the conclusion of the Government on the „ Annual Report on the functioning of the public internal financial control system for 2021", it was necessary for the ministries to submit plans for organizing and staffing the internal audit units in the ministries to CHU. The Ministry of Finance - CHU, based on the received data from the ministries, analyzed them and prepared and submitted Information to the Government on 31.03.2023, the same is in the governmental procedure for approval.

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.

The CHU in cooperation with the experts from the twinning project "Strengthening the functions of budget planning, execution and internal control" carried out the following activities in the reporting period:

- Two one-day workshops for internal auditors at the central and local level on the topic "Understanding and practical experiences in the risk-based audit process";
- Rulebook for continuous professional development of internal auditors is drafted;
- A draft Guideline for the implementation of internal audit quality checks has been prepared;

- Preparation of a part of the Manual for internal audit (IT audit).

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, on the 30th of January 2023 the Parliament of the RNM adopted the new Law on Financial Inspection in the Public Sector (*) ("Official Gazete of Republic of North Macedonia" no.19/23). After entering into force of the new Law, on 7th of February 2023, within the reporting period ending with 30th of June 2023, the procedure for the preparation of draft by-laws and internal acts has been initiated and is ongoing. Namely, the preparation of the Guidelines for the manner of monitoring, measuring and evaluating the effectiveness of inspectors, as a basis for awarding prize for the best inspector in accordance with the legally established criteria and Procedure for conducting financial inspections with annexes to it, is underway.

Within the IPA Twinning project "Strengthening the budget planning, execution and internal control functions", a methodology for gathering and processing of statistical data with indicators for monitoring, measuring and assessing the effectiveness of financial inspection in the public sector has been prepared.

According to the new rulebooks for organization and systematization of the Ministry of Finance, in the period January-June 2023, the procedure for the promotion of 4 employees in the financial inspection in the public sector was initiated.

Future steps/actions to be undertaken in the coming period, aimed at intensifying the implementation of the activities and achieving the planned results, include the finalization of the procedure for introducing a system of annual remuneration of the financial inspectors based on results and awarding the prize for the best financial inspector for 2023, adopting the Procedure for conducting financial inspections with annexes to it and promotion of the employees in the financial inspection.

Measure 2: Strengthening the Capacity of Financial Inspection Human Resources

Within the IPA Twinning project "Strengthening the budget planning, execution and internal control functions", a Training Program for financial inspection for 2023 is in final phase of preparation. Also, the preparation of a Program for theoretical training and practical work for obtaining a license for a financial inspector, as well as the form and content of the certificate for successfully completed training and a Program for taking an exam for obtaining a license for financial inspector is underway.

The future steps/actions to be taken in the next period refer to the adoption of the Training Program for financial inspection for 2023, as well as the finalization and adoption of the Program for theoretical training and practical work for obtaining a license for a financial inspector, as well as the form and content of the certificate of successfully completed training and the Program for taking an exam for obtaining a license for financial inspector.

Pillar VII - External Control and Parliamentary Oversight

Priority 1. External Audit

Measure 1: Strengthen the legal framework for external audit

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 Parliament. 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 Parliament, 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.

In February 2023, Ministry of Finance started the process of public consultation for the State Audit Law on the platform National Electronic Registry of Regulations (www.ener.gov.mk). Ministry of Finance submitted the draft State Audit Law to the Secretary for legislation, Ministry of Information Society and Administration and Ministry for Justice opinions were requested.

During the reporting period, the Auditor General held meetings with the Minister of Justice and the Minister of Administration and Information Society regarding the State Audit Law and in June 2023 an opinion was provided by the Secretariat for Legislation.

Upon this opinion SAO prepared a new draft SAL which was submitted to MF. During this period AG held meetings with Minister of Justice and Minister of Information Society and Administration concerning SAL.

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 the institutional capacities and HR capacities of the SAO

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

The annual implementation of SAO Development Strategy 2023-2027⁹ was carried out through the activities contained in SAO Annual Work Program for 2023. SAO Development Strategy are closely related to the priorities and measures in PFM Reform Program 2022 -2025. In 2023, SAO undertakes activities for preparing new SAO strategic documents in line with SAO Development Strategy 2023-2027, and they are expected to be adopted by the end of 2023.

SAO adopted new and improved methodology acts/programs for LSG audits, which are in line with ISSAIs, the applicable financial reporting and legal framework.

To improve presentation of audit results and recommendations, new structure and contents of audit reports for financial, compliance and performance audit were prepared in line with ISSAI, which were adopted by the State Audit Office in February 2023.

⁹ : https://dzt.mk/sites/default/files/2023-01/Strategija_za_%20razvoj_na_%20DZR_2023_2027.pdf

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

Activity 2: Strengthening capacities for conducting audits

The State Audit Office continuously invests in strengthening skills and knowledge of state auditors, which ensures additional quality in work and maintaining professional integrity as an institution-bearer of progress in the public funds management. SAO Annual Plan for Continuous Professional Development for 2023¹⁰ is implemented with internal resources and by using national and international experts in the relevant field as well as with international support and cooperation with other SAIs and other international organizations.

In February 2023 with support of the WFD, SAO completed the first block of trainings part of SAO Annual plan for Continuous Professional Development focused on improvement of the knowledge of the state auditors in the field of accounting, new amendments to the legal regulation, use of IT resources, IT tools in the audit and information security, audit on LSG, the lessons learned from the quality assurance and control of quality, as well as audit planning and risk analysis. Additionally, 2 SAO employees attended the workshop for ISO 27001 - Information Security Management System – Implementer and also 2 employees attended the workshop for handling and reporting on classified information. In March 2023, a workshop for state auditors was held in the premises of the SAO, which focused on the implementation of the new methodological tools/manuals, especially the annex documents that are part of them.

In May 2023, in Ohrid second block of continuous professional development for state auditors' part of the SAO Annual Plan for continuous professional development for 2023. This workshop was organizationally and financially supported by the Westminster Foundation for Democracy (WFD) in the country and the United Nations Development Program (UNDP).

Within the framework of the Performance Audit Training Program for the Western Balkans and Turkey, which is implemented by the Swedish National Audit Office (SNAO), several workshops on performance audit were carried out and SAO participated with 2 audit teams.

At the same period within the framework of the established institutional cooperation and the signed MOU between the SAO and the Office of the Auditor General of Norway, a two-day workshop was held in the premises of the SAO from March 7-9. The purpose of the workshop is to strengthen the capacities of the SAO to perform high-quality audits, which will promote transparency, accountability and good governance in the management of public funds in the Republic of North Macedonia, through exchange experience in the area: IT audit, using IT in financial audit and HR. Additionally SAO employees continuously attend workshops organized by Agency for the Protection of the Right to Free Access to Public Information.

¹⁰ https://dzt.mk/sites/default/files/2022-12/Godisen_plan_KPU_2023.pdf

In January 2023, 13 SAO employees attended the online Conference “Improving the efficiency and transparency of public procurement with a focus on strengthening the control framework in Portugal”, organised by Portuguese Court of Auditors and OECD.

Within the framework of the project activities which is implemented by IFES, 7 state auditors started the data science academy in order to improve their analytical skills, which are key skills for data analysis that enable them to more easily deal with business problems by forming decisions in efficient way. Additionally 3 SAO employees started the Graphic Design Academy, in order to strengthen their graphic design skills, aiming to visually improve presentation of audit reports in a friendly way. Also with support of our partner and with aim to improve SAO capacities, a new LMS is being developed as well as the first online course on Performance audit and is expected to be completed by the end of 2023.

The Annual Work Program for 2022 was successfully implemented completely and included: 188 audits, of which 170 regularity audits (financial audit and compliance audit), 12 performance audits and 6 compliance audits. SAO carried out 47 audits on entities and topics in accordance with the State Audit Law and 141 audits on entities that participated in 2021 Local Elections.

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 2022 has been prepared and will be submitted to the Assembly within the legally prescribed deadline by the end of June 2023, and published on SAO website in three languages - Macedonian, Albanian and English

(https://dzt.mk/sites/default/files/2023-06/DZR_Godisen_izvestaj_2022_mkd_0.pdf).

SAO implemented the Annual Work Program of the State Audit Office for 2023. The Annual Program 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. In defining performance audits for this Annual Program, we applied the following criteria: SAO strategic objectives, UN SDGs, and criteria set by the assessment methodology of OECD-SIGMA.

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 SAO Facebook page for all interested parties. In 2023 SAO Annual work program, out of 36 received requests for audit, the State Audit Office accepted 13 requests or 36%.

In the reporting period, SAO participated in bilateral and international meetings and events for professional development and exchange of experiences in order to improve the impact of audits, which will highlighted: Contact Committee of the Heads of SAIs of the European Union and the European Court of Auditors, in Lisbon, Portugal; second meeting of the Reference Group for

Proactive Advocacy on SAI Independence, in Prague, Czech Republic; a study visit to the National Audit Institution (NAO) and the Parliament of United Kingdom; Annual Meeting of the INTOSAI Working Group on Public Debt (WGPD) in Cairo, Egypt; meeting of the EUROSAI Project Group in Rome, Italy; 2023 OECD Global Anti-Corruption & Integrity Forum - "Working together to strengthen integrity and fight corruption"; 3rd Regional Workshop for South Eastern Europe on Enhancing Collaboration between SAIS and Anti-Corruption Bodies in Vienna, Austria; Round Table on the topic "Civil society involvement to increase the understanding and influence of the Supreme Audit Institutions", organized by SIGMA in Sarajevo, Bosnia and Herzegovina, Annual Conference on Public Finance 2023 in London, United Kingdom; study visit in SAO of Norway.

In May, the SAO hosted representatives from the Congress of the United States of America (USA) and the National Democratic Institute (NDI) in our country. Representatives from the US Congress were informed about SAO archived results from the performed audits, the effect and added value of the state audit and the commitments to ensure transparency, accountability and responsibility in SAO operations. Representatives from the US Congress expressed their satisfaction from SAO operation and the results achieved, emphasising SAO is a successful story of quality and professional work and as an institution SAO should be an incentive and example for all entities from the public sector.

In March 2023, the Auditor General signed a trilateral Cooperation agreement for the cooperative performance audit on the topic "Gender equality and emancipation of women from rural areas through their inclusion in the labor market" between the SAO of the Republic of North Macedonia, the SAO of Albania and the NAO of Kosovo, and SAO of North Macedonia as the coordinator of this audit. The Auditor General of North Macedonia and Bosnia and Herzegovina signed a Memorandum of Understanding, aimed for exchange of experience, organizing joint activities on issues of common interest, as well as conducting parallel, coordinated and joint audits. Also, a memorandum of understanding/cooperation was signed with the Financial Police and Transfusiology-Institute for Transfusion Medicine.

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

With the support of the International Foundation for Electoral Systems (IFES) and with the aim of increased transparency, accountability and openness, as well as successful promotion of SAO results and raising public awareness of areas of corruption, SAO and SPCC employees during the two-day workshop had the opportunity to gain knowledge on challenges in communication with the media.

To implement the Communication Strategy 2020-2023, SAO created a "Mailing list of stakeholders" which at the end of 2022 contained 1.113 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 2023, a total of 73.839 visits to SAO website (monthly average 11,973) and 166,994 visited contents (monthly average 27,832) were recorded, indicating that SAO maintained its high level of transparency.

In the reporting period, social media were actively used, including Facebook page, 319.843 visits were recorded (average of 1.764 visits per day) and 7.857 followers. For the period of 20 months, from November 2021 to June 30, 2023, a total of 1,047,952 visits were recorded to SAO facebook page.

SAO prepared four¹¹ promotional videos in order to increase the level of awareness of the public about SAO role and operation and to strengthen SAO role as an institution in the service of the public. The promotional video entitled "What is the State Audit Office?" received a total of 55,203 visits.

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Post Impressions	Post reach	Post Engagement
55,203	37,693	5,201

In 2023, 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 1.100 stakeholders - 620 institutions, 323 media and 157 civil society organizations, and 85% of the respondents were satisfied with the cooperation with SAO.

In April 2023, as a joint activity envisaged in the project carried out by the WFD, SAO organized a workshop for journalists. Media representatives from national televisions, internet portals and civil society organizations were informed about the results contained in the Final Audit Report on the performed financial audit and compliance audit on Joint Stock Company MEPSO Skopje. For improved visualization and promotion of SAO activities and operation, with WFD support, 4 video clips were prepared and uploaded to SAO YouTube channel.

¹¹ <https://www.youtube.com/channel/UCNOcjnJliviFwaxyG-Lyo2w>

The annual report on performed audits and operations of the SAO has been submitted to all Supreme Audit Institutions, 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 Republic of North Macedonia.

The SAO activities and efforts for continuous improvement, maintenance and introduction of new forms of communication with stakeholders in order to share information with the general public, the media and civil society organizations is highly positively evaluated in the Third systematic monitoring of the Public Administration Reform 2021/2022. This report was prepared with engagement of the European Policy Institute (EPI).

In the National Monitor for Reforms in Public Administration 2021/2022, the most positive results, according to the indicators in the area of Public Finance Management, were noted for the accountability and transparency of the SAO through the analysis of the communication and cooperation with the public and informing about the results of the exercise of the state audit.

The report states that the SAO, is a partner of the general public, the media and civil society organizations, uses various means of communication, strives to present and identify findings in the audit reports in an easy and comprehensible way through Abstracts and Press Releases in order to acquaint the public of use of public funds and also as a tool for more proactive measures to be taken upon by the competent institutions.

The highest score in the report on the work, accountability, objectivity and professionalism of the State Audit Office is elaborated in detail in the area of Public Finance Management - Principle 16: The SAO applies high standards in order to obtain neutral and objective manner and to ensure high-quality audits, which is assessed as a positive impact in the functioning of the public sector - WeBER indicator PFM P16 I1: The State Audit Office communicates and cooperates with the public regarding its work.

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: Establishing a mechanism for reviewing audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly

The State Audit Office (SAO) timely and objectively informs the Parliament about its work, about the audit findings from the conducted audits, provides support to the Parliament in fulfilling part of its competences by identifying and presenting irregularities, non-compliance with legal regulations, illegal handling of public funds and possible cases of corruption and abuse of official duty, which is why communication with the Parliament is considered particularly important.

The cooperation between the SAO and the Parliament takes place continuously in several directions and is realized through the following forms determined by the Law on State Audit and the Memorandum on Cooperation:

- submission of the Annual work programme to the Parliament for information;
- submission of the Annual Report on the performed audits and operation of the SAO to the Parliament for review, and the Parliament adopts conclusions thereon;
- submission of final audit reports to the Parliament;
- submission summary reports from final audit reports by separate areas.

Within the framework of the project activities contained in the Twinning project "Improving external audit and parliamentary supervision "MK 18 IPA FI 03 20, several activities were carried out, including the following:

- A memorandum of cooperation (MoC) between the Assembly of the Republic of North Macedonia and the State Audit Office was signed at the closing conference of the Twinning project on October 21, 2022.
- several written procedures of the SAO and the Assembly have been developed for the delivery and review of audit reports and other documents to/by the Assembly. They will be final after the adoption of the new Law on State Audit and adjustment of the content of the procedures with it.

Within the twinning project activities, in September 2022 SAO submitted the first "Summary report on conducted performance audits on the measures of the Government of the Republic of North Macedonia for dealing with the crisis caused by Covid-19". The report summarizes the key findings of the three performance audits that were conducted in line with SAO Annual Work Program for 2021.

In accordance with the signed Memorandum of Cooperation, in the first half of 2023, two more summary reports were prepared and submitted to the Parliament, which represent the sublimation of the key findings of the individual audits performed in accordance with the Annual Work Program of the SAO for 2022, namely:

- summary report on audits of the total financial statements with a specification of the costs of income and expenditure in an election campaign for elections of members of the councils of the municipalities and the Council of the City of Skopje and the mayors of the municipalities and the mayor of the City of Skopje and audit of compliance and
- summary report on regularity audits of local self-government units.

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

Within the project activities included in the Twinning project "Improving External Audit and Parliamentary Oversight "MK 18 IPA FI 03 20, within the framework of Component 3, several activities were carried out, including the following:

- 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 Parliament.
- 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 Parliament 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.

With support of National Democratic Institute NDI, in April 2023 convened the State Audit Office and Assembly of the Republic of North Macedonia, including the Committee on Finance and Budget, the Parliamentary Budget Office and Parliamentary Institute to discuss for greater cooperation between institutions and oversight of public spending.

Additionally, in end of June 2023 with support of NDI, representatives from the SAO shared their own knowledge and information within the workshop "Building capacities of the parliamentary service for the analysis and review of the reports of the State Audit Office" in which representatives from the Parliamentary Institute, the Parliamentary Budget Office, Internal audit department, and advisers from the Committee on Financing and Budget. This workshop provided in-depth knowledge on the planning, content and structure of the state audit reports to increase the importance and role of the MPs on the systemic weaknesses that need to be addressed to ensure the proper functioning of the institutions and the prevention of corruption. The workshop was supported by the National Democratic Institute (NDI) within the Project: Strengthening Oversight of Public Funds through Leadership Transitions, funded by the National Endowment for Democracy.

Pillar VIII - PFM at Local Level

Priority 1. Fiscal Decentralisation

Measure 1: Improving Fiscal Capacity and Increasing Municipal Revenues

With the latest amendments to the Law on Financing of Local Self-Government Units, the fiscal capacity is strengthened and the revenues of the municipalities are increased, through a gradual increase in the rate of income from value added tax that is distributed to the municipalities and personal income tax. Personal income tax revenues are gradually increasing from 3% to 6% until 2024, so that from the day the law came into force until the end of 2022, 4% of collected personal income tax revenues were transferred to municipalities. . The rate for 2023 is 5%, while from 2024 municipalities will receive 6% of collected income from personal income tax. As a result of the increase in the rate to 5% in 2023, an increase in income is expected to 800 million denars.

Revenues from the value added tax will be provided in the amount of 6% of the collected value added tax realized in the previous fiscal year starting from 2024. They will be distributed in three parts: basic part - 4.5% of the collected value added tax realized in the previous fiscal year, performance part - 0.75% of the collected value added tax realized in the previous fiscal year and part for equalization - 0.75% of the collected value added tax realized in the previous fiscal year. The performance section rewards municipalities that have a better realization of own revenues compared to planned own revenues and a higher collection of own revenues in the current year compared to the average of realized own revenues in the previous three years. The equalization part is intended to overcome the differences according to the fiscal capacity of

the municipalities due to limited capacity of resources, that is, the municipalities that have lower incomes from the personal income tax per inhabitant receive additional funds.

A formula and tool was 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 was adopted. In 2023, municipalities are provided with funds in the amount of 5.5% of the collected value added tax realized in the previous fiscal year, distributed in three parts: basic part - 4.5%, part for performance - 0.5 % and equalization part - 0.5%. As a result of the changes in the Law, in 2022 the municipalities received an additional 291 million denars, while in 2023 an additional 684 million denars.

Also, the revenues of the municipalities have increased taking into account the latest changes in the Law on Property Taxes, which refer to property tax rates, while the basic property tax rates have not changed, but the rate for property that is not used for more than six months during the year by the owner or is not leased, as well as the rate if it is not reported whether the real estate is used or not. The legal amendments are applied from 01.01.2022.

Through the mediation of the USAID Project, a coordinating group was formed with representatives from 9 institutions (Ministry of Finance, Ministry of Local Self-Government, Ministry of Transport and Communications, State Audit Office, Assembly of RSM - Commission for Local Self-Government, Cadastre and Real Estate Agency, municipality of Ilinden, municipality of Tetovo and ZELS). Proposals for the improvement of the Law on Property Taxes and the Methodology for Assessing the Market Value of Property have been prepared and presented to the Coordinating Group. Proposals for amending the Law on Property Taxes have been presented to the Ministry of Finance and acceptable options for the preparation of draft legal amendments have been determined. A Report with analyzes of amendments and additions to the Law on Property Taxes has been prepared. According to the prepared proposals, and taking into account the comments from the institutions, the consultant hired through the USAID Project, prepared the draft legal amendments to the Law on Property Taxes, which are currently being considered by the Project. Draft legal amendments will be submitted to the Coordinating Group and the Ministry of Finance, and according to the legislative agenda this year, a legal solution with proposed amendments should be prepared.

In cooperation with the competent ministries from which the block and dedicated grants are transferred, the possibilities for changing the criteria according to which these funds are distributed by municipalities are being considered. The Ministry of Education and Science, in cooperation with UNICEF and the World Bank, has prepared a new methodology for the distribution of the block grant for primary education, and it is currently being reviewed.

With the technical support of SIGMA, the development of a methodology for the distribution of the block grant for culture is underway, experiences are being considered for the method of distribution of earmarked grants for firefighters and determination of criteria for the

distribution of the block grant for kindergartens. 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, the experiences will be analyzed and a Decree on the distribution of capital grants will be prepared.

In the next period, the activities for the preparation of the new Law on the financing of local self-government units and compliance with the provisions of the new Law on budgets should be undertaken.

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, consisting of representatives of the Ministry of Local Self-Government, the Ministry of Finance, the Bureau of Regional Development, the Cabinet of the Deputy Prime Minister in charge of economic affairs, the Ministry for Justice, Ministry of Political System and Inter-Community Relations, Ministry of Information Society and Administration and ZELS. 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 and scenario proposals for the transformation model, and the Ministry of Local Self-Government provided information to the RSM Government.

In the coming period, the Government is expected to review the proposed scenarios and undertake the following activities regarding the establishment of the Agency for Regional and Local Development.

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

Measure 1: Increasing the Financial Discipline

With the latest amendments to the Law on Financing of Local Self-Government Units, which was adopted in August 2022, more realistic planning of municipal budgets is 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. While for 2024, the percentage will be 15% with an additional 15% if the realization of own revenues as of the third quarter exceeds 75% of the planned. 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, and at the same time the implementation of the budget is also monitored.

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 expenditures of the municipalities, the due unpaid obligations and 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 adjust 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 yet declared financial instability. With the technical support of USAID, a Manual for declaring financial instability has been prepared. Municipalities that have high outstanding obligations reported in the ESPEO system as of September 30, 2021 were given the opportunity until the end of 2022 to submit a request for the use of a structural bond. Requests from four municipalities have been received from the Ministry of Finance and the procedure for issuing a structural bond for these municipalities to settle due and unpaid obligations is underway. A draft Memorandum has been prepared for using the structural bonds issued by the Republic of North Macedonia to settle obligations towards PRO, furthermore, draft contracts for the issuance of structural bonds to be concluded between the Ministry of Finance and each individual municipality and a draft -Decision to approve the maximum amount for the issuance of structural bonds has been prepared. The entire process is expected to be finalized during Q3 2023

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, monitoring of the due unpaid obligations, monitoring of the conditions for the fulfillment of financial instability and monitoring of the measures that will be taken municipalities to overcome financial instability. With the technical support of USAID, the hiring of an expert is underway to prepare a Draft Law on Municipal Debt Management.

Measure 2: Increasing the Transparency and Accountability Through out the Operations of the Municipalities

On the website of the Ministry of Finance, the data on realized revenues and expenditures of the municipalities for the fourth quarter of 2022 and for the first quarter of 2023, data on due unpaid obligations received from the ESPEO system for the fourth quarter of 2022 and for the first quarter of 2023, Proposal The final account of the Budget of the Republic of North Macedonia for 2022, which also includes the final accounts of the municipalities for 2022. With the support of UNDP, financial indicators from the periodic financial reports of about 40 municipalities are published on the websites of the municipalities and the website of the Ministry of Finance.

On January 30, 2023, the new Law on Financial Inspection in the Public Sector was adopted. In order to strengthen control by the state, out of a total of 266 financial inspection procedures

initiated at public sector entities at the local level, a total of 159 procedures have been carried out, while 107 procedures are ongoing.

The future steps that will be taken in the coming period include the timely publication of financial data, monitoring the transparency of municipalities, especially the publication of financial data, an increased number of reports and financial data published on the websites of municipalities and the Ministry of Finance.

7. Monitoring and Coordination

2023 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 May 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–December 2022, and the Draft – Action Plan for 2023. Both documents were adopted in July 2023 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 times since, with the recent amendment made on 3th July 2023.

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 the policy and technical level.

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

In the period from January-June 2023, 2 meetings of the PFM SWG for were held, namely:

On February 24, 2023, a technical meeting of the SWG was held to discuss the possibility of using the EU Integration Facility mechanism within the IPA framework to finance new projects in the field of public finance management. Project Proposals in the area of public revenues and tax and customs policy, in the area of the Academy of Public Finance, inspection in the public sector, as well as public internal financial control were submitted to NIPAK on April 4, 2023 with the aim of forwarding them to the EU Delegation. Until now, no answer has been received as to whether they have been approved by the EC.

On April 28, 2023, 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–December 2023, and the Draft 2023 Action Plan

Annexes

Annex 1: Monitoring matrix on the 2023 Action Plan