

**REPUBLIC OFNORTH MACEDONIA**

**MINISTRY OF FINANCE**

**DRAFT**

**Public Financial Management**

**Reform Programme**

**„SMART PUBLIC FINANCES“**

**2024 – 2027**

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**PREFACE**

*Amid global energy and price crisis, fiscal sustainability and prudent public finances are crucial factor for economic growth and prosperous future for any country. To that end, implementing coherent, integrated and sustainable policies is a key. For the purpose of maintaining the economic flows, the Government is strongly committed to the reform agenda for improved public finance management and managing the risks arising from the ongoing crisis, aimed at getting the country back to the pre-pandemic growth trajectory. Against such background, domestic economy has shown great resilience to the subsequent shocks induced by global factors. Timely response of the fiscal policy by rapid reaction, vast array of anti-crisis measures and substantial fiscal stimulus, has continuously and considerably limited the effects of these shocks. From the very outset of the crisis, in addition to continuing the measures aimed at support and recovery during and after the pandemic, the Government responded timely to the end of slowing down the spillover effect of the imported inflation, thus ensuring full and stable supply of electricity and avoiding the price shocks. The measures were targeted at the vulnerable categories of citizens and businesses affected by the crisis, with the main objectives being to protect the living standard, maintain companies’ liquidity and support investments in energy efficiency and renewable energy sources, all to the end of ensuring energy stability in the long term and basis for sustainable economic growth rates in the medium term.*

*All this can be achieved by stabilizing the inflation and speeding up the implementation of capital projects, as well as strongly focusing on the implementation of structural reforms.*

*Projected public capital investments, reaching all-time record high level of EUR 800 million in 2023, are a positive boost for the economic growth. Key projects in the field of road and rail infrastructure, energy, utilities infrastructure, etc., has already been launched. Despite the narrow fiscal room, fiscal consolidation resumes by reducing the budget deficit, optimizing the costs of the sources of its financing, fully targeting it towards financing investment projects.*

*Public Financial Management Reform Programme or “Smart Public Finances“ is designed to address all weaknesses identified in recent diagnostics of the international organisations (PEFA, PIMA, TADAT, SIGMA). It covers reforms in the area of public internal financial control, public procurement, external audit and public financial management, i.e. all aspects the European Union evaluates.*

*Growth Plan for the Western Balkans 2024-2027, an EU instrument, is expected to double the size of the economy in the coming 10 years and bring Republic of North Macedonia closer to the EU’s single market and the EU Member States’ standard. The country is expected to have EUR 860 million available to speed up the implementation of the reform agenda as regards the structural reforms under the most recent Economic Reform Programme and the ones adopted at the Economic and Financial Dialogue between the EU and Western Balkan countries and Türkiye. Most of the necessary reforms has already been implemented, with their implementation continuing through coherent, integrated and sustainable policies boosting the sustainable development.*

***Fatmir Besimi, Ph.D., Minister of Finance***

**ACRONYMS AND ABBREVIATIONS**

|  |  |
| --- | --- |
| AEO | Authorized Economic Operator |
| CRM | Compliance Risk Management |
| CHU | Central Harmonisation Unit |
| CA | Customs Administration |
| CIT | Corporate Income Tax |
| ERP | Economic Reform Programme |
| ESPP | Electronic System for Public Procurement |
| GDP | Gross Domestic Product |
| IMF | International Monetary Found |
| IFMIS | Integrated Financial Management Information System |
| ITIS | Integrated Tax Information System |
| ICT | Information and Communication Technology |
| INTOSAI | International Organisation of Supreme Audit Institution |
| MoF | Ministry of Finance |
| ME | Ministry of Economy |
| MASP | Multi-annual Strategic Plan |
| NEDC | New European Driving Cycle |
| OECD | Organisation for Economic Cooperation and Development |
| OBL | Organic Budget Law |
| PFM | Public Financial Management |
| PEFA | Public Expenditure and Financial Accountability |
| PIT | Personal Income Tax |
| PRO | Public Revenue Office |
| PPB | Public Procurement Bureau |
| PPP | Public Private Partnerships |
| PIM | Public Investment Management |
| PIFC | Public Internal Financial Control |
| PIMA | Public Investment Management Assessment |
| PAR | Public Administration Reform |
| SIGMA | Support for Improvement in Governance and Management |
| SWG | Sector Working Group |
| SAC | State Appeals Commission |
| SAO | State Audit Office |
| TADAT | Tax Administration Diagnostic Assessment Tool |
| UESPPP | Unified Electronic Public Private Partnership System |
| VAT | Value Added Tax |
| WAP | Weighted Average Price |
| WALTP | Worldwide Harmonised Light Wehicle Test Procedure |
| WB | World Bank |

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# Introduction

Even with managing the global price and energy crisis, the Government carried out major public finance reforms aimed at accelerated, inclusive and sustainable economic growth, higher standard and quality of life. Times of crisis best show the required changes to the system. New Organic Budget Law is among the major reforms implemented, introducing medium-term budgeting, as well as the reform aimed at strengthening fiscal decentralization from the aspect of financing and accountability, and the reform aimed at broadening the tax base.

Public finances reform is aimed at longer-term and better planning of budget programmes and budgets, sustainability and continuity in implementing the policies, more just model in view of revenues and expenditures and the manner of financing, as well as monitoring and measuring the performance. Among the main pillars of public finances reform are transparency, accountability, allocating public funds where greater benefits are generated when prioritizing the optimal policies in support of both the citizens and the businesses, “value for money” concept and introducing so-called key performance indicators. Such reforms are essential for rapid recovery from the crisis and accelerated economic growth. All this encompasses maintaining stable budget over 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.

Public Financial Management Reform Programme is a strategic document for development of the public financial management system, always including the civil society, the development partners and other relevant stakeholder in its preparation. Such concept of an inclusive and open dialogue with all stakeholders about the PFM policies is applied, as a good practice, for the preparation of all PFM Programmes.

The Government adopted the Public Financial Management Reform Programme 2018 - 2021 at the end of 2017, introducing a first-ever comprehensive, consistent and credible framework for improving both the efficiency and the effectiveness of public spending, fiscal discipline, debt sustainability, and efficient, transparent and modern public financial management, set as key objectives of the Government. Public Financial Management Reform Programme 2018 - 2021 was completed in December 2021.

PFM reforms were pursued under the PFM Programme 2022 - 2025 as well, reflecting the priorities determined on the basis of internal analyses of the relevant national institutions, also taking into account the findings and the assessments under the 2021 PEFA Assessment Report, IMF and World Bank recommendations, OECD - SIGMA assessment and other relevant assessments.

In June 2022, the Government adopted the PFM Programme 2022 - 2025 with the respective 2022 Action Plan. The need to continue the reforms in this area 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.

Legal framework supporting the PFM Programme 2022 - 2025 was not in force at the moment of preparing the Program, considering that the Organic Budget Law was not yet adopted by the Parliament. Adoption of the Organic Budget Law in September 2022 provides for carrying out the critical reforms in budgeting, thus strengthening the fiscal sustainability (medium–term budgeting, Integrated Financial Management Information System - IFMIS, introduction of a fiscal council and fiscal rules).The reforms are to be sped up, all to the end of implementing the comprehensive and ambitious reform incorporated in the OBL. Action plan is to be adopted, new institutional structures are to be established and key reform units at the Ministry of Finance, the PRO and the Customs Administration are to be timely and adequately staffed. Hence, a need arose for a mid-term review of the 2022 - 2025 PFM Programme’s objectives and indicators, and the Programme is thus extended by two years, until 2027.The PFM Programme covers the 2024 - 2027 period.

Mid-term review of the PFM Programme was carried out at the end of 2023 by OECD - SIGMA, with EU financial support, focusing on the following aspects: implementation of the Programme and the respective Action Plans (effectiveness); adapting the interventions so as to achieve the desired results and objectives (relevance); adaptation and efficiency of PFM managing structure (efficiency).

Preparation and implementation of the new PFM Reform Programme 2024-2027 is based on a sectoral dialogue, introduced with the previous PFM Reform Programme, on the policies with all stakeholders. The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public finance management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Political and institutional commitment to attaining the reform goals under the new Public Financial Management Reform Programme 2024-2027 is demonstrated through the structures of the monitoring and reporting system as regards the set results, indicators and targets, previously set under the PFM Reform Programme 2018-2021 (PFM Council comprising the top management of the key institutions in the public financial management system, PFM Sector Working Group and Priority Coordinators and Measure Leaders are already functioning).These working bodies also ensure the necessary coordination among certain strategies and policies in the field of PFM, as well as with the other related national strategies, such as the Public Administration Reform Strategy.

PFM Reform Programme 2024-2027 has been prepared by the PFM Sector Working Group, comprising representatives from the following institutions: Ministry of Finance, Public Revenue Office, Customs Administration of North Macedonia, Public Procurement Bureau, State Appeals Commission, State Audit Office and Ministry of Economy.

# Chapter I: Background of the PFM Reform Programme

**The economic context**

New investments, new jobs and a better living standard of citizens are the key socio-economic goals of the Government, supported by a competitive and an integrated economy.

North Macedonia kept its macroeconomic stability during the global financial and economic crisis, as well as the debt sovereign crisis in the eurozone. The pegged exchange rate to the euro successfully upheld price stability. Macroeconomic policies are prepared to support the economy and prevent macroeconomic stability, while the monetary policy quickly reacts to the potential threats on the currency peg.

In 2020, the economic activity recorded a decline by 4.7%, as a result of the health crisis which affected the activity of domestic exporting companies and the industrial production, as well as the inflow of private transfers from abroad, whereas the restrictive measures to contain the spread of the COVID-19 pandemic across the country impacted some of the service activities, such as trade, transport, hospitality industry and tourism. Fiscal policy’s response to the pandemic was quick and significant in supporting the companies and employees in the most severely affected industries, which substantially mitigated the fall of the economic activity.

Chart 1. Production structure of GDP (contribution to growth, p.p.)



In 2021, in the conditions of protracted pandemic effects, the domestic economy recovered with solid dynamics, reaching an economic growth of 4.5%. The economic growth in this period largely accounted for the activity in the services sector, while on the expenditure side of GDP, the economic growth was a result of the increased domestic demand.

Despite the global challenges and the highest inflation in the past few decades, the domestic economy in 2022 recorded a 2.2% increase, as a result of the higher private consumption and the higher gross investment. In this period, the net-export had a negative contribution to the economic growth. The recorded growth in 2022 was supported by new government stimulus packages. In this year, two new packages were adopted, focused on supporting the citizens and protecting their living standards, as well as supporting the liquidity of companies.

In 2023, the global economy was still affected by the effects of the high inflation, as well as the Russian invasion of Ukraine, with slowed down economic activity and negative growth rates in the economies that are the main trading partners. In such conditions, the domestic economy proved to be resilient and recorded a positive growth rate of 1.2% in the first three quarters of 2023. This growth was achieved amid an increase of private consumption (2.1%) and a positive contribution of net exports, in conditions of a smaller fall in exports (-0.2%) compared to the fall in imports (-5.6%).

Chart 2. Expenditure structure of GDP (contribution to growth, p.p.)



The positive movements on the labour market continue, with the unemployment dropping down to the lowest level of 12.8% in the third quarter of 2023, which is 0.3 p.p. lower compared to the previous quarter. However, due to methodology changes, these data are not comparable with the unemployment data before 2023. The average net wage in the period January – November 2023 increased by 16.2% annually on a nominal basis, while the real growth is also very strong and amounts to 12.7%.

In October 2021, the Government of the Republic of North Macedonia adopted the Plan for accelerated economic growth 2022 – 2026, which is a general framework that takes in to account all components which can contribute to enhancing mid-term growth potential. It aims to finance the recovery of the economy affected by the COVID-19 pandemic and to support accelerated and sustainable growth by maintaining fiscal stability through mobilisation of capital from the private sector to complement the budget funds and crediting.

The Plan for accelerated  economic growth 2022 – 2026 is tied with the Strategy for economic recovery and accelerated growth and it relies on four pillars: (i) economic recovery from the COVID-19 recession, (ii) accelerated, inclusive and sustainable economic growth, (iii) enhancing competitiveness of the private sector and (iv) development of human resources and equal opportunities. Through these pillars, it will secure macroeconomic stability and financial sustainability, economic recovery and accelerated economic growth.

The Plan will play a decisive role for North Macedonia’s economic growth and the creation of new jobs and its ultimate goals are:

* increasing investment – more efficient use of public investment worth 4 billion euros in the next five years by mobilising additional funds from the private sector;
* accelerating growth – increasing the rates of the mid-term economic growth to 5% annually; and
* securing fiscal consolidation through reduction of the public debt below 60% of GDP in the mid-term.

The Plan for fiscal sustainability and support of economic growth contains specific measures and recommendations that will optimize costs, with savings being made by budget users and public enterprises. The Plan will help to decrease the budget deficit and debt, achieving fiscal consolidation. Measures in the Plan are mainly divided into 3 groups:

* measures that will reduce the expenditures,
* measures for improved revenue collection, and
* measures and recommendations for public enterprises to the end of optimization of expenditures.

After the slowdown in economic growth in recent years, economic activity in 2024 is expected to pick up to 3.4%. The growth is expected to be supported by the domestic demand, while net-exports are expected to have negative contribution, amid slower export growth compared to import growth.

Economic policies and measures included in the Plan for fiscal sustainability and support to economic growth, the Plan for public investment and the Plan for accelerated economic growth as a general framework are a firm basis for increasing the growth potential and achieving higher growth rates in the mid-term, i.e. doubling the economic growth. The average growth of the economic activity in the period 2024 – 2028 is expected to reach 5.1%.

**The fiscal context**

**Budget implementation in 2023**

In 2023, total revenues of the Budget of the Republic of North Macedonia[[1]](#footnote-1) were collected in the amount of Denar 277.144 billion or approximately 98.3% of the 2023 Budget, i.e. they were higher by 14% compared to the collected ones in the last year. Denar 250.355 billion out of this amount was tax revenues, being higher by 13.7% compared to last year. All types of tax revenues experienced growth compared to the last year. Revenues on the basis of social contributions were collected in the amount of Denar 92.6 billion, being higher by 19.3% than last year.

In 2023, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 318.566 billion, or around 98.08% of the 2023 Budget, i.e. execution was higher by 14.4% in relation to the last year.

Within these frameworks, current expenditures amounted to Denar 275.042 billion or 98.3% of the projections, i.e. by 10.01% more compared to 2022.

In 2023, capital expenditures were executed in the amount of Denar 45.5 billion (96,8%), being higher by 52.0% compared to the last year. Under the Annual Law on 2023 Budget Execution, new mechanism was put into place, being aimed at executing the capital expenditures, by which budget users are obliged to execute 15% of capital expenditures as of the first quarter inclusive, 40% of capital expenditures as of the second quarter inclusive and 65% of the capital expenditures as of the third quarter inclusive. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, for the account of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures.

During this period, the State Budget deficit amounted to Denar 41.422 billion or 4.67% compared to the GDP projected in 2023, while the primary budget deficit accounted for 3.21%.

On30December 2023, general government debt of the Republic of North Macedonia amounted to EUR 7,256.2million, i.e. 50.0% of GDP, while public debt, on 30 December 2023, amounted to EUR 8,476.8million, i.e. 58.4% of GDP.

On 31st December 2023, general government debt of the Republic of North Macedonia amounted to EUR 6,080.2 million, i.e. 51.9% of GDP, while public debt, on 31st December2021, amounted to EUR 7,135.3 million, i.e. 60.9% of GDP.

**Policy strategy and medium-term budgetary outlook**

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections. Fiscal Strategy reflects the medium-term fiscal goals and strategic priorities of the Government of North Macedonia.

2024-2028 Fiscal Policy reflects the commitment to fiscal consolidation and budget savings, supporting the economy with investments in infrastructure projects, redesigning the public finance structure by increasing the share of capital expenditures, as well as strengthening the process of planning, executing and reporting as regards public finance, which is to contribute to maintaining macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the national economy.

Key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.8% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8% in 2027 and 2.5% in 2028.

Main priorities as regards the tax system are increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through further digitalisation of services, as well as by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis. In the period 2024-2028, the average share of total revenues of the Budget of the Republic of North Macedonia accounts for around 31.6% of GDP.

The Expenditure side of the Budget of the Republic of North Macedonia, in the next period, is fully created in terms of achieving the strategic priorities, accelerating the economic growth, and the EU integration process and the obligations deriving from the NATO membership and similar. Average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 34.2% of GDP in the period 2024-2028. Medium-term fiscal projections have a strong development component, with a significant participation of capital expenditures with average 5% in GDP annually, and represent key elements of public finances. At the same time, in the medium term, the golden rule in public finances is respected: capital expenditures will be exceed the budget deficit, meaning borrowing will be solely for funding investment projects.

**Table 1. 2022-2028 Budget of the Republic of North Macedonia (Denar million)**



Commitment to redesigning fiscal policy has been translated into a plan adopted by the Government of the Republic of North Macedonia, aimed at providing public finance sustainability, coupled by boosting economic growth.

Thus, activities will be undertaken, aimed at continuous improvement of the Budget planning system, better control of the costs and undertaking certain measures, pertaining to expenditures, revenues, as well as refinancing.

Main objectives of the policy aimed at reducing the current expenditures, are:

* increasing the efficiency of the public administration operations by optimising and rationalising the working posts,
* more efficient use of operating resources by improving the planning and the execution of operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards;
* better quality services at the decentralised competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds;
* ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers; and
* reducing poverty by properly targeting the use of social assistance and greater participation on the labour market.
* Current expenditures for the coming period are intended for regular payment of wages to employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-sized enterprises, as well as subsidising of innovation activities.

As for policy aimed at improving the capital expenditure structure and execution, the main objective is increased growth potential of the national economy, boosted competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures.

In the medium-term period, fiscal policy remains to focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better living conditions for the citizens. To this end, a significant amount of capital investments is projected by using budget funds, including funds under loans extended from international financial institutions and bilateral creditors. The projected amounts speak of speeding up the infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary. In addition to the major capital projects, significant projects will be implemented in the above-mentioned areas, all to the end of implementing the reform measures aimed at improving the social and the education conditions for the citizens, as well as the measures geared towards managing the consequences induced by COVID-19.

Public debt management policy is aimed at ensuring the funds necessary to finance the budget deficit and repay the due debt liabilities from the previous years, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

Medium-term projections presented in the 2024-2026 Revised Public Debt Management Strategy (with prospects until 2028), show that public debt will exceed by the end of 2023 to the stipulated limit below 60% of GDP, and in 2024 it will exceed the maximum threshold of 60% and to return to the stipulated limit below 60% of GDP from 2025 to 2028.

Limits on the general government debt are the following:

* in the period 2024 - 2028, the minimum threshold of euro-denominated debt in the debt portfolio denominated in foreign currency should be 85%;



* in the period 2024 - 2028, limit on the interest rate structure of general government debt, i.e. fixed interest rate debt should account for at least 60% of the total debt portfolio;
* in order to protect the central government debt portfolio against the re-financing risk, the minimum threshold of "average time to maturity“ indicator in 2024 should be 4 years;
* in order to protect the central government debt portfolio against the interest rate risk, the minimum threshold of "average time to re-fixing” i4 should be 3 years;
* the limit for maximum net borrowing on the basis of general government debt is set to amount to up to EUR 1,100 million in 2024;
* the limit for maximum net borrowing on the basis of guaranteed debt is set to amount to up to EUR 250 million in 2024.

Fiscal decentralisation reform offers a systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. Reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues, strengthened financial discipline of municipalities, reduced arrears and cost-effective operations, as well as increased transparency and accountability.

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**Strategic Framework of the PFM Reform Programme 2024-2027**

PFM Reform Programme has been prepared in line with the existing national programmes and commitments, as well as with the national strategies:

* Fiscal Strategy/Revised Fiscal Strategy of the Republic of North Macedonia 2024 - 2028;
* Public Debt Management Strategy 2024-2026 (with prospects until 2028);
* Economic Reform Programme 2023 – 2025;
* IPA III Strategic Response for the period 2021 - 2027;
* National Strategy for Prevention of Corruption and Conflict of Interests 2021 - 2025;
* Public Administration Reform (PAR) Strategy 2023 - 2030.

PFM sub-systems’ strategies:

* Tax System Reform Strategy 2021 - 2025;
* Strategy for Strengthening Public Procurement System in the Republic of North Macedonia 2022 - 2026; Strategy for Development of the Customs Administration of the Republic of North Macedonia 2022 - 2024;
* Customs Administration’s ICT Development Strategy 2021-2025;
* Customs Risk Management Strategy 2023 - 2026;
* CEFTA Customs Risk Management Strategy 2020 - 2024;
* Integrity and Anti-Corruption Strategy of the Customs Administration of the Republic of North Macedonia 2023 - 2026;
* PRO Strategic Plan 2024 - 2026;
* PRO Process Risk Management Strategy 2023 - 2025;
* SAO Development Strategy 2023 – 2027;
* SAO IT Strategy 2023 - 2027.

**Implementation of the Public Financial Management Reform Programme 2022-2025**

Ministry of Finance and other national institutions implemented a very ambitious agenda for PFM reforms, as part of the Public Financial Management Reform Program 2022-2025. Efforts were geared towards strengthening the legislation in several main areas: planning and budgeting, public procurement, public internal financial control, public investment management and public debt management.

Two Action Plans on Implementation of PFM Programme for 2022 and 2023 were adopted and finalised. Annual/semi-annual reports were prepared therefore, being discussed with the PFM Sector Working Group, which were afterwards approved by the PFM Council and considered and adopted by the Government. They are published on the website of the Ministry of Finance (in Macedonian and English).

National institutions implemented the following activities:

* On 15the September 2022, the Parliament adopted the Organic Budget Law, which came into force on 27th September 2022 and will star applying from 1st January 2025, except for the provisions referred to in Article 121, which are applied starting 1st January 2023.Under the OBL, numerical fiscal rules and fiscal principles have been introduced, consistent with the EU fiscal rules, providing for a more predictable and more accountable fiscal policy, establishment of Fiscal Council, medium-term budget planning, improved state and municipal funds management, and attentive monitoring of the financial performance of the state-owned enterprises. As regards OBL implementation, MoF has started preparing the relevant legislation with support from the ongoing Twinning Project “Strengthening the Functions of Budget Planning, Execution And Internal Control”, as well as with other donor assistance.
* Fiscal Council was established under the 2023 Budget, as a separate budget user. Parliament adopted the Decision on Appointment of Fiscal Council Members on 19th September, with its Rules of Procedure adopted on 12th October 2023;
* Government adopted the new Draft Law on Public Financial Control System on 28th December 2020. At the beginning of January 2021, the Draft Law was submitted to the Parliament for its adoption under two readings, the first one being already completed.
* On 30th January 2023, the Parliament adopted the new Law on Public Sector Financial Inspection. The Law is aimed at protecting the financial interests of public sector entities from serious financial mismanagement, fraud and corruption. Respective draft bylaws and internal acts are in the process of preparation.
* Latest amendments to the Law on Financing Local Government Units were adopted in August 2022, providing for a more realistic planning of municipal budgets.
* In March 2022, Government of the Republic of North Macedonia adopted the 2022 - 2026 Strategy for Development of Public Procurement System in the Republic of North Macedonia.
* In line with the EU recommendations, Draft Law on Public Private Partnership (PPP) was submitted to the European Commission for its alignment with the given recommendation on three occasions, once in 2022 and twice in 2023.European Commission confirming that the Law is fully harmonised with the relevant EU Directive. Draft Law on PPP is consulted with the Legislative Secretariat and acted upon its suggestions and an official request for opinion will be submitted to the relevant institutions, followed by its submission to the Government.
* Ministry of Economy prepared initial version of the Draft Law on Concession for Goods of General Interest. Draft Law is consulted with the Legislative Secretariat and acted upon its suggestions and an official request for opinion will be submitted to the relevant institutions, followed by its submission to the Government, alongside the Draft Law on PPP.
* Government adopted the Fiscal Strategy 2024 - 2028 on 14th June 2023.
* Government adopted the Fiscal Sustainability and Economic Growth Support Plan in October 2023, which incorporates specific measures contributing to narrowing the budget deficit and reducing the debt, a benchmark set under the Fiscal Strategy 2024 - 2028, by streamlining, savings and increased genuine revenue collection.
* Ministry of Finance prepared the Public Debt Management Strategy 2024 - 2028 and the Government adopted it at its session held on 27th June 2023.In addition, the Government adopted the 2022 Annual Public Debt Management Report on 27th June 2023.
* In the course of 2022, committed to achieving the objectives and the priorities identified in the Tax System Reform Strategy (2021 - 2025), Ministry of Finance commenced ambitious tax policy reforms aimed at improved quality of the tax system and increased mobilisation of revenues, and prepared Tax Reform Concept. As a result of the measures foreseen under the Tax Reform Concept, legal amendments were proposed in the field of personal income tax, corporate income tax and value added tax, with modifications and amendments being proposed in 2023 in the field of excise duties and motor vehicles tax.
* **as regards personal income tax,** Law on Modifications and Amendments to the Law on Personal Income Tax (“Official Gazette of the Republic of North Macedonia”, no.   |                                                                                                                                                                                                                                                       274 dated 20th December 2022) was prepared and adopted, which applies starting 1st January 2023.The Law stipulates taxation of capital gains generated on the basis of sale of securities and shares issued by investments funds, acquired from 1st January 2023.In particular, under the respective Law, tax exemption on life insurance premium, voluntary private health insurance premium and contribution for voluntary fully-funded pension insurance paid in favor of the employees is abolished and treatment of unrecognised expenditure on the whole amount of life insurance premium paid for self-employed, is prescribed.
* **as regards CIT,** Law on Modifications and Amendments to the Corporate Income Tax Law (“Official Gazette of the Republic of North Macedonia”, no. 199/23 dated 25th September 2023) was prepared and adopted. In particular, under the respective Law, treatment of unrecognised expenditure on the total amount of costs incurred on the basis of life insurance premiums paid in favour of the employees is defined, and the right to deduction of the assessed tax on the amount of funds donated to sports entities is abolished. The Law also envisages five times the amount of the tax to be paid in cases when the taxpayer fails to prove, substantiated with documents, that it applied the tax exemption, on the basis of reinvested profit, for investments in tangible and intangible assets for the purpose of expanding its business activity, as well as if the taxpayer fails to assess the tax. In addition, the respective Law is harmonised with Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, i.e. general anti-abuse rule is prescribed for an arrangement or a series of arrangements, having been put into place for the main purpose or one of the main purposes of obtaining the tax advantages regulated under the Corporate Income Tax Law.
* **as regards value added tax**, Law on Modifications and Amendments to the Value Added Tax Law (“Official Gazette of the Republic of North Macedonia”, no. 199/23 dated 25th September 2023) was prepared and adopted, with following segments being further harmonised with the Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax:
  + precisely defining the place of supply of services, as well as introducing the category of a tax representative to act on behalf of the non-resident foreign entities with no head office in the country, but performing supply therein, with respect to settlement of liabilities towards the tax authority, including the payment of VAT;
  + VAT treatment of vouchers;
  + regulating more precisely the special type of tax base;
* prescribing the tax rates, whereby: VAT rate is reduced from 18% to 5% for digital textbooks and menstrual hygiene products, with VAT rate increasing from 5% to 10% for foodstuff other than basic foodstuff for human consumption.
* **in the field of excise policy**, Law on Modifications and Amendments to the Law on Excises (“Official Gazette of the Republic of North Macedonia”, no. 209/23 dated 5th October 2023) was prepared and adopted, providing for harmonisation with Council Directive 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco, by introducing a new 2024 -2030 Excise Calendar, thus attaining the minimum excise duty on cigarettes as per the respective Directive. Increased share of total excise duty in the weighted average price (WAP) of cigarettes is also envisaged. Excise duty on other tobacco products is envisaged to increase as the specific excise duty increases, prescribed in the Excise Calendar for cigarettes. In particular, the Law on Modifications an Amendments to the Law on Excises also envisages regulating more closely the legal provisions on denatured alcohol in line with Council Directive (EU) 2020/1151 of 29 July 2020 amending Directive 92/83/EEC on the harmonisation of the structures of excise duties on alcohol and alcoholic beverages, as well as alignment with Council Directive (EU) 2020/262 of 19 December 2019 laying down the general arrangements for excise duty as regards the electronic administrative document (e-AD).
* **with respect to taxation of motor vehicles**, on 17th October 2023, the Government adopted the Decree on Modifications and Amendments to the Decree on the Manner of Assessing Motor Vehicles Tax, envisaging, for the purpose of assessing the environmental component of the motor vehicles tax, alongside the existing NEDC method (New European Driving Cycle) for measuring the emission of exhaust gases by motor vehicles by using laboratory tests, application of the new WLTP method (Worldwide Harmonised Light Vehicle Test Procedure), based on measuring the CO2 emission in real traffic conditions. Application of the WLTP method is geared towards implementing part of the environmental protection measures and the commitment to introducing “green taxation”, incorporated in the Tax System Reform Strategy of the Republic of North Macedonia.
* **as regards administrative cooperation**, in the course of 2022, Ministry of Finance prepared the first draft of the Law on Administrative Cooperation for Tax Purposes which, at the moment, is being reviewed and finalised by all competent authorities, and it is planned to be adopted by the end of 2024.By mid-2025, it is envisaged for the respective Law to be amended, incorporating provisions on automatic exchange of financial account information. The country intends to sign the Multilateral Competent Authority Agreements (MCAA-CBC and MCAA-CRS) by mid 2025. In order to effectively implement the automatic exchange, IT and administrative infrastructure is needed to be established in the PRO, as well as infrastructure for confidentiality and data safeguards, which is planned to be realised by the end of 2025, requiring additional technical assistance from the EU and the OECD. All this is also envisaged under the Tax System Reform Strategy.
* Ministry of Finance undertakes activities for establishment of Integrated Financial Management Information System (IFMIS), funded by the World Bank and the EU within the Building Effective, Transparent and Accountable Public Financial Management Institutions Project. IFMIS is part of the PFM reform, which is to provide for a modernised PFM system with digitalised processes geared towards enhanced PFM efficiency and transparency. This will be achieved by integrating the existing fragmented systems in the field of public finances into a single centralised digital platform, including, among other things, modules for budget planning and budget execution (including all expenditures, revenues and operations in a single treasury account); debt management and state funds management, etc. The system is also to provide for interoperability with other IT system within the Government, thus ensuring automated data exchange, as well as web portal for a secure access by all authorised budget users and authorised public entities. Implementation of the IFMIS system is envisaged under the OBL, as one of the preconditions for implementation of PFM reforms outlined in the respective Law. In addition to IFMIS, new State Aid Management Information System and PRO’s Integrated Tax Information System will be implemented within the Building Effective, Transparent and Accountable Public Financial Management Institutions Project. Loan and Grant Agreements with the World Bank were signed on 25th January 2023 and the Project is launched.
* On 29th December 2022, Minister of Finance adopted new acts on organisational setup and systematisation of work posts within the MoF, envisaging establishment of Public Finance Academy and Public Investment Management (PIM) Department. Staffing process for both Departments commenced in 2023.

**Lessons Learned**

Lessons learned pertaining to the implementation of PFM Reform Programme 2022-2025 as a whole:

* PFM reforms are successful and yield results when there is a strong political commitment to their implementation. Putting in place coordination arrangements - led by government officials - to monitor and guide reforms and reform models tailored to the institutional and capacity context are of particular importance. When such essential conditions are not in place, the reforms are unlikely were successful. Development of core PFM skills requires more appropriate use of the external technical support, with undertaking diagnostic assessments to raise awareness at the political level of the need for reforms. The use of PEFA diagnostic assessment on a periodic basis is useful in creating a shared understanding for PFM strengths and weaknesses and a shared perception of the degree of progress being achieved in PFM reforms.
* Reforms must be country owned: reform should not be imposed as a donor condition. While it seems to be the case that reforms happen faster when linked to budget support, it is more likely to be sustained if ownership is developed. Without reform ownership by the national authorities, the reform process stops when the money stops.
* Coordination in the preparation of annual/semi-annual reports between the members of the Sector Working Group and the stakeholders for each priority was not fully efficient: although good progress was achieved, efficiency and effectiveness were not achieved to their fullest. Monitoring and reporting on achievements and challenges in the course of Programme implementation was limited, focusing on the progress achieved at certain measures, rather than the priority as a whole. What is important is that most of the priorities are to a large extent on the right path as regards the implementation of the ongoing activities.
* Need for a more realistic planning to avoid the risk of failure - from today’s perspective, the process of planning the time limits for implementation of part of the activities was too ambitious, with the time limits not being sufficiently well projected. Hence, the reform plan is to be ambitious, but, at the same time, in harmony with the real needs realistic and attainable in terms of implementation capacity and allocated financial resources, i.e. sufficient resources from the state budget, as well as donor funds. Strengthened monitoring over the implementation and improved reporting on the status of implementation of the planned activities is an important segment for their better implementation.
* Calculation of the costs related to implementation of the activities was detailed, including the estimated additional costs, excluding the ongoing operations of the administration, making the monitoring of the use of funds under the Programme more difficult. Several crucial activities for which there were no sources of financing, i.e. they were envisaged as 100% financing gap, were not implemented due to lack of funds, such as the development of Unified Electronic Public Private Partnership System, which will generate the Registry of PPP Contracts. For the PPP Law to be applicable, budget financial support or donor support is necessary for the System to be developed. It is to be carefully decided which activities would be part of the Programme so as to avoid any failure to implement them. Moreover, monitoring the use of funds from external sources of financing (technical assistance and donor funds) was also made difficult due to lack of information from the donors.
* Human resource management is a huge challenge in the 21st century. Planning process, as part of the human resource management - number of personnel leaving the institutions on various basis (old age pension, death, voluntary termination or lay-offs, etc.) is to be strategically envisaged several years beforehand, so as to avoid shortage of personnel, considering that personnel is not developed in a month or two or in just couple of months. On the contrary, it is a matter of a planning process which takes places several years backwards so as for the personnel to be educated and trained and to gain sufficient experience in performing the tasks and the duties. Government services, with the crucial roles they perform, are an irreplaceable resource of every country. Administration reforms in line with the European standards are a necessary step towards modernising the public administration and the EU candidate countries. Working in the interest of the citizens, depoliticisation and building a sound administrative system are the fundamental features each administration is to possess. Hiring and retaining qualified personnel is a problem in particular for IT and other key sectors, such as public debt management, PIM, PPPs, tax projections, budget planning, which could adversely affect the implementation of both the projects and the reforms. Despite the built capacities and carried out training, large fluctuation in personnel adversely reflects on the sustainability/viability of the achieved results. Therefore, activities are continuously undertaken aimed at development and improved quality in all state organisational entities by preparing strategic plans and modifications and amendments to the laws governing the civil servants, i.e. by improving the process of recruitment, selection, assessment and motivation of civil servants. However, achieving this requires adoption of a systemic solution to retain the public administration staff. It is partially done with the adoption of a decree on right to wage allowance for the employees at the central-level budget users.

It is indispensable to ensure programming flexibility and adjustability so as to improve the results, which was achieved by preparing annual action plans, since the focus was placed on objectives and outcomes rather than indicators and annual targets formulated at activity level. Outcome indicators reflect the progress achieved as a result of reforms implemented.

* “Small steps lead to big results”.Considering the nature of the PFM sector, reforms are a slow process and small achievements should be valued and appropriately presented.By constantly taking small steps to reach the objectives, big results, seeming impossible, can be achieved.
* Need for integrated instead of fragmented approach is of essence for reform planning and implementing.The whole picture needs to be designed, but be implemented piece by piece on the basis of priorities and human resources, covering the whole PFM system. Cooperation needs to be encouraged and information are to be shared between the relevant institutions included in the PFM reform, all to the end of harmonising and consistency of the reform activities in different areas and maximising the value added.
* Consolidation and harmonisation of different IT systems is of considerable importance in order to avoid duplication and achieve economies of scale.
* Strengthening the process of coordination of donors and providers of technical assistance to the end of avoiding overlapping of donor interventions. This is partially overcome by organizing high-level PFM policy dialogues, with all stakeholders, among which the donors as well. Information on ongoing donor assistance for the implementation of reform activities were presented and exchanged during such dialogues.

Specific lessons learned on implementation of PFM Reform Programme 2022-2025, in particular the following:

* Delays in implementing some key reform activities under the Programme as a result of delays in the preparation and the adoption of the necessary new legislative, for instance, Organic Budget Law and PIFC Law, the adoption of which was basis for implementation of other reform processes, such as IFMIS implementation. Although modifications and amendments to the laws, the bylaws, etc. are necessary for the PFM reform, they are still not sufficient for achieving success.Such modifications and amendments have to be supported by clear interpretation and implementation of policies by the high-level management, training and development of the personnel at all levels, changes in the administrative procedures and timely and accurately reporting at all levels.
* IFMIS is to provide for more efficient public finance management by streamlining and automating the working processes and ensuring real-time data, contributing to better decision making and distribution of the available resources, as well as increasing both transparency and accountability.Thus, by meticulously monitoring the budget revenues and expenditures, fiscal discipline is expected to be strengthened, ensuring alignment with the budget limits.The system will also provide for a financial integrity and reduction of fraud risk through a strengthened system of audit controls. Still, implementation and operationalisation of IFMIS is conditioned by fulfilling the requirements - preparation of bylaws stemming from the Organic Budget Law, which pertain to implementation of specific requirements for improvement of the public finance working process, such as: development of a standard budget classification/Chart of Accounts (CoA), establishment of Registry of Public Entities, etc.
* What is of crucial importance for conducting prudent fiscal policy is prudent public debt management, i.e. monitoring the public debt stock, monitoring the risks which the debt portfolio is susceptible to, as well as improving public debt transparency.COVID-19 induced crisis reflected on the public debt amount as well, i.e. it was the reason for the increase of public debt by around 10 p.p. in the course of 2020. However, in the period that followed, despite the big challenges caused by the war in Ukraine and the energy crisis, public debt was stabilised and kept below the Maastricht criteria. Moreover, the pandemic has taught us that processes need greater digitalisation, hence, activities have been commenced for digital payment of liabilities to foreign creditors.
* To the end of a more efficient development of the financial markets, Ministry of Finance has oriented towards issuance of new instruments on the domestic securities market. In the course of 2023, two auctions of development bonds for citizens - securities bearing the same features as ordinary bonds, but intended for the citizens of the Republic of North Macedonia - were successfully carried out, The citizens recognised this new instrument as a great opportunity to make a risk-free and safe investment, thereby adding incremental value to their money in terms of generating sound earnings amid inflation. Moreover, in line with the modifications and amendments to the Law on Financing Local Government Units, Ministry of Finance issued structural bonds in September 2023.Structural bonds are securities, which Minister of Finance issues to the municipalities, thus assisting them to settle the arrears towards the creditors. This instruments helps the municipalities both to consolidate their budgets and focus on their development. In October 2023, Ministry of Finance issued green bonds.  Funds generated at the auction were intended for the Energy Efficiency Fund established within the Development Bank. They are government securities, intended to support green projects in the country, aimed at accelerating green development and development of the capital market in the country by diversifying the offer with new instruments.

# Chapter II. Pillars, Priorities, Measures and Outcomes

PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework

PILLAR II - Revenue Mobilisation

PILLAR III - Planning and Budget

PILLAR IV - Public procurement

PILLAR V - Public finance digitalization and continuоus learning

PILLAR VI - Public Internal Financial Control

PILLAR VII - External Audit and Parliamentary Oversight

PILLAR VIII - PFM at Local Level

# PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework

**Introduction**

Preparation of credible macroeconomic fiscal framework is one of the key elements for sound public finance management. Its successful preparation depends on balanced and sustainable approach when determining the revenue, expenditure and debt levels, as well as on quality economic analyses in accordance with international best practices. In that direction, the PFMRP 2024-2027 will continue to report on the necessary reforms in order to improve the operating public administration standards for the following three priorities:

* **Priority 1: Revenue forecasting**
* **Priority 2: Economic analyses and macroeconomic forecasting**
* **Priority 3: Debt management**

**Priority 1: Revenue forecasting**

Sound revenue forecasting, coupled with analysis of the tax system potential and the impact of tax policy changes and tax expenditures, is key to making informed tax policy decision.

Therefore, development of tax models that are used for enhanced tax revenue forecasting; costing tax expenditures under the different tax instruments; and simulating fiscal impact of tax policy changes , as well as systematic and comprehensive tax expenditure reporting are key measures underpinning the revenue forecasting and reporting priority.

Emphasis needs to be put on both increasing the analytical capacity for tax data collection and analysis, revenue forecasting and for tax expenditure costing and reporting by systematic usage of tax models for tax policy-making and tax administration monitoring.

**Priority 2: Economic analyses and macroeconomic forecasting**

In the field related to economic analyses and macroeconomic forecasts, the report will maintain the same structure with measures intended to strengthen capacities for economic and macroeconomic analyses, as well as measures to create new administrative capacities for fiscal risk analyzes and to build the newly formed institutional framework presented through the Fiscal Council.

Current challenges in global environment followed by negative externalities from inflationary pressures and rising energy costs, as well as the disruptions in the international trade linkages have had significant impact the country's economy, following the negative consequences from the COVID crisis and subsequent global commodity crises. This further increases the need for strengthening of the capacities for economic analyses that has so far been carried out in cooperation with SECO and World Bank, by providing technical assistance to the Ministry of Finance. Existing work plans have been implemented and building upon the existing high level of collaboration, new ones have been designed for the next period.

This includes further work on the model for financial programing and policies and the model for tracking inflation and GDP using short term data, for which MoF staff has been receiving training. Furthermore, in development stage is a macro structural model including workshops for training, which is planned to be a tool for medium term forecasting and economic analyses.

Activities for building capacities for Fiscal Risks analyses have started at the beginning of 2024 with support from the FAD/IMF, including establishment of working group at the MoF that will cooperate with other government entities. Initially the aim is to create architecture with which the gradual measurement of the most significant fiscal risks will begin.

The Fiscal Council, once fully operational, will improve public finance sustainability by independently assessing fiscal policy, economic strategies including implementation, as well as evaluating basic macroeconomic and budget projections used in the preparation of strategic documents related to public finances.

**Priority 3: Debt management**

Effective public debt management is vital for a country's economic stability. It ensures prudent borrowing, reduces financial risks, and mitigates the impact of economic shocks.

Well-managed debt contributes to sustainable development, fosters investor confidence, and allows governments to meet their financial obligations while maintaining fiscal discipline.  
The Public Debt Management Strategy plays a crucial role in the entire process of public debt management, from planning to execution. The World Bank suggests aligning the annual borrowing plan with this strategy to increase effectivenes of the public debt management.  
Aimed to reduce operational risks, it is important to introduce e-banking with NBRNM for external debt-repayment.  
Strengthening public debt management also involves hiring and training staff, ensuring timely task completion, and reconciling debt stock with creditors through more frequent procedures.

Changes in the Organic Budget Law impact public debt definitions, requiring adjustments to align with Maastricht Criteria. Efforts include modifying the Public Debt Law and integrating debt data into budget documents. Adhering to SDDS Plus standards by 2024 increase transparency and improves statistical data quality and international confidence.

Financial market development focuses on diversification through various instruments, including development bonds, structural bonds, and green bonds that support environmentally friendly projects, contributing to the country's transition to a green economy and capital market development.

# Priority 1: Revenue forecasting and reporting

***Objective***

Revenue forecasting, evidence-based tax policy making and tax expenditures reporting are enhanced to ensure a predictable and stable revenue framework over the medium term so as to better plan expenditures for the development needs of the country.

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| **Measure 1:** | **Improving tax and customs reporting in accordance with the EU best practices** |
| Activity 1: | Establish an effective and efficient tax data sharing mechanism; |
| Activity 2: | Preparation of Tax expenditures report and other tax reports in line with EU best practices; |
| **Measure 2:** | **Enhancing tax and customs modelling capacity** |
| Activity 1: | Implementation of developed tax models and further training of staff; |
| Activity 2: | Extending the tax models with new modules and installation of Power BI tool. |

***Outcome***

1. The aggregate revenue deviation and variance in revenue composition between planned and actual figures is reduced, indicating improved forecasting;
2. Enhanced public awareness of the size and scope of tax expenditures and other tax indicators;
3. Enhanced modeling capabilities of the MoF staff and advanced revenue forecasting, monitoring and analysis.

***Outcome indicator***

1.1. Aggregate revenue deviation and variance in revenue composition between planned and actual figures (asusedin PEFA)

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| To be calculated | To be defined based on past trends and pace of the reform (Separately for each tax with the following metrics: MAPE[1], MAE [2]and RMSE[3] on a monthly basis) |

2. Tax data sharing mechanism is established on a systemic basis through data sharing protocols;

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| ***Baseline 2022*** | ***Target 2027*** |
| No protocols for tax data sharing in place | Signed protocols with all relevant institutions and established effective exchange of tax data on an annual basis |

3. Tax expenditures reports are prepared and published as part of the Final Account of the State Budget;

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| ***Baseline 2022*** | ***Target 2027*** |
| 1 tax expenditure report prepared | Comprehensive tax expenditures report prepared and published on an annual basis as part of the Final Account of the State Budget;  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity, Income inequality report, C-Efficiency, Cost-of-collection ratio Report, and Effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) Report). |

1. Staff is fully trained for applying the tax models for revenue forecasting and simulating policy changes, as well as for adequate monitoring and analysis of any deviations in tax revenue mobilization and for estimating tax expenditures

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 6 staff training performed | Regular annual staff training in tax modeling |

1. Tax models are complemented with modules for tax expenditures costing and a Power BI tool is installed and utilized for revenue monitoring and analysis.

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| ***Baseline 2022*** | ***Target 2027*** |
| 1 tax model for revenue forecasting is implemented | All tax models are fully implemented, with new extensions with new modules |

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

***Measure objective***

The objective is to improve tax and customs reporting in line with the EU practices, as well as other standards (e.g. IMF Fiscal Transparency code), as well as enhance the transparency of the tax system and tax instruments .

***Reference to the external assessments findings:***

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| --- | --- |
| **IMF** | **Fiscal Transparency Evaluation (2018)**  Government does not publish estimates of the revenue loss from tax expenditures. There is no legislative requirement to report revenues foregone from tax expenditures. However, when proposing legislative or regularly amendments, budget users are required to provide estimates of their fiscal implications to the Government. Estimates of individual tax expenditures may also be prepared, on an ex ante and ex post basis, setting out the fiscal implications of different measures, but these are generally not published. Activities envisaged under the PFM Reform Program related to strengthening the forecasting analysis and capacity, will also provide for the development of a more comprehensive reporting on tax expenditures.  Based on these findings, the evaluation provides several recommendations to enhance fiscal transparency in North Macedonia. Specifically, it recommends that the authorities publish regular information on estimates of revenues forgone from tax expenditures |
| **WB** | **Public Finance Review (2018)**  Although not currently considered by the Government, North Macedonia could increase VAT revenue collection by expanding the base (moving towards a single-rate VAT) and improving compliance. The VAT revenue ratio or C-efficiency ratio for North Macedonia hovers at around 0.6, being low compared to Western Balkans peers. This indicates a loss in revenue through policy measures such as exemptions and reduced rates, as well as loss in revenue due to tax avoidance and evasion. Around 36 percent of the consumption basket is taxed at the standard 18% VAT rate. The remainder is taxed at a reduced 5% rate or input taxed (exempt without the right to deduct the VAT that has been paid on purchases). Applying a mix of standard and reduced rates creates opportunities for abuse, as sellers can classify goods and services as qualifying for the reduced rate when they should be subject to the standard rate. On the other hand, a broad-based VAT improves economic efficiency and administrative efficiency |
| **IMF** | **Article IV Consultation with the Republic of North Macedonia: IMF 2019/2020**  Key Policy Recommendations  Fiscal Policies. To increase the fiscal policy space and allow higher capital spending to meet infrastructure needs, staff recommends gradually reducing current spending and strengthening the revenue base. On the expenditure side, this should include full implementation of the pension reform and rationalizing of the agricultural subsidies. On the revenue side, additional resources can be mobilized through higher tax efficiency, in particular for VAT. |

***Context/Background***

Estimating and reporting on tax expenditures on a regular annual basis is a practice in the European countries. According to the Directive on Requirements for Budgetary Frameworks (2011/85/EU), Member States have an obligation to provide reports on tax expenditures and their impact on revenue. Such an obligation has been instigated in North Macedonia with the new Organic Budget Law (2022), whereby Ministry of Finance is be required to prepare a report on the impact of tax expenditures on revenues. This Report will be submitted to the Parliament of the Republic of North Macedonia on annual basis, as an integral part of the Final Account for the execution of the State Budget for the previous budget year. Initial tax expenditure report has been prepared in 2021 with a support of the Twinning Project "Improving Revenue Collection and Tax And Customs Policy". Nevertheless, as stipulated with the new OBL, tax expenditures reporting should be performed regularly, on an annual basis. In addition, there is a need extend the scope of tax reporting with other type of reports in accordance with the EU best practices. The preparation of the tax reports, as also the process of revenue forecasting and simulating policy changes is conditioned on a timely exchange of comprehensive data by the tax and customs administration and other relevant institutions with the Ministry of Finance Such data exchange needs to be build on a systemic basis, through appropriate data sharing protocols.

**Activity 1: Establish an effective and efficient tax data sharing arrangement**

Having data is crucial for performing sound economic and fiscal analysis of the tax policy proposals, revenue forecasting, monitoring and analysis of any deviations in revenue mobilization, and for producing quality tax reports. Therefore, putting in place a systemic arrangement to ensure timely exchange of comprehensive tax data by relevant institutions is the Ministry of Finance’s priority. Signing and continuous update of tax data sharing protocols/MoUs between the MoF and relevant institutions will formalize a proper mechanism for data exchange.

**Activity 2: Preparation of comprehensive tax expenditures report on an annual basis and other tax reports in line with EU best practices**

Proper and comprehensive estimation of tax expenditures that are embedded into the national tax legislation and preparing comprehensive tax expenditure reports on a regular, annual basis is key for providing the national legislators and the general public with detailed information about the size of foregone tax revenues through different forms of tax deductions, excemptions, tax credits etc. Other types of tax reports (C-efficiency, inequality, impact assessment of the MFN tariff rates with the EU CommonExternalTariff )are also required for providing insights into the effectiveness and efficiency of the different tax instruments.

This activity includes the following sub-activities for preparing reports on annual basis for :

Tax expenditures Report;

VAT-GAP Report;

C-efficiency;

Tax buoyancy and tax elasticity;

Income inequality report based on micro-data from PRO;

Report about Cost-of-collection ratio;

Report for effective marginal tax rates (EMTRs) and effective average tax rates (EATRs);

***Implementation***

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| --- | --- |
| **Completed in year:** | 2025 |
| **Deliverables:** | - Data sharing protocols are signed and effectively implemented;  - Prepared Tax Expenditures Report;  - Prepared other tax reports:  - VAT-GAP Report;  - C-efficiencyReport;  - Tax buoyancy and tax elasticity Report;  - Income in equality report;  - Cost-of-collection ratio Report;  - Report for EMTRs and EATRs; |
| **Costs implications:** | EUR 165,000 |
| **Responsible entity:** | MoF – Public revenues and Tax and Customs Policy Department |
| **Risk:** | - Lack of awareness and commitment from high-level officials;  - Lack of data availability;  - Internal resistance to refrom processes;  - Excessive staff turnover.  - Due to the complexity of the model, it is not fully operational. |

**Measure 2: Enhancing tax and customs modelling capacity**

***Measure objective***

Enhance tax and customs modelling capacity of the Ministry of Finance by using tax models and data-science tools.

***Reference to the external assessments findings:***

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| --- | --- |
| **OECD:** | **Competitiveness in South East Europe (2018)**  None of the economies make widespread use of micro-simulation models. These models simulate taxes, SSCs and any social benefits, in order to predict the effects of a potential tax reform and current tax policies. Albania, Kosovo and Montenegro do not implement any micro-simulation models. Bosnia and Herzegovina, the Republic of North Macedonia and Serbia have started to use micro-simulation models to assess their tax policies and reforms, although not yet on a regular basis. As a first step, micro-simulation models could be developed to assess the distributional impact of VAT in SEE economies, following the work that has been carried out in OECD countries (OECD/KIPF, 2014).  All six of the assessed SEE economies use aggregate modelling and forecasting tools, which are important for estimating future tax revenues. These models are also regularly assessed. The average score across the six SEE economies for this indicator is however 2.3 (Figure 4.5), indicating that while the ministries of finance maintain aggregate tax revenue forecasting models for each main tax, there is insufficient analysis of the information or a lack of micro-simulation models.  **Tax policy in South East Europe: Key recommendations**  Develop tax policy tools to assess tax systems and their economic impacts. Better tax revenue data, tools that assess the effective tax burdens on labour and capital, the implementation of micro-simulation models, and more systematic tax expenditure reporting are a priority for all six economies. |
| **WB:** | **Tax administration assessment for the North Macedonia Public Revenue Office-Tax Diamond (2020)**  The assessment of the tax administration for the Public Revenue Office in North Macedonia lists the several recommendations, which can be improved and for MoF as more important can be listed:  **Cost-of-collection ratio.** PRO's cost of collection ratio is around 1.24%, which is towards the higher band of the OECD countries' average. The cost of collection in OECD countries and selected non-OECD countries is normally in a band between 1 and 1.5%. In assessing the efficiency and effectiveness in collecting revenues, usually, tax administrations use the cost-of-collection ratio, by which the administration costs are compared with net tax revenue collected. It is a systematic, structured, and evidence-based methodology to assess tax administration performance, which provides a systematic and detailed view of necessary programs to implement and monitor reforms.  **Tax forecasting/Revenue targets.** Solid revenue forecasting, in conjunction with an analysis of the potential of the tax system and the impact of changes in tax policy and tax expenditures, should be key to make informed decisions in tax reform strategies. PRO is supported in this type of analysis by the Ministry of Finance. However, current analytics are not based on internationally recognized methodologies. Emphasis needs to be put on increasing the analytical capacity on revenue forecasting and on conducting additional key analytical inputs for revenue policy-making and tax administration monitoring |
| **PEFA** | **PEFA North Macedonia Assessment Report (2021)**  **Fiscal impact of policy proposals**  As part of the Fiscal Strategy, Ministry of Finance prepares forecasts of the revenues and expenditures for the budget year and the two following years. In addition to the forecasts, а brief explanation is provided for the policy changes that are planned for the next period that can have a fiscal impact on the revenues or expenditures (e.g. reforms in the pension system, in the area of expenditures for salaries and allowances, tax reforms, etc.).  Changes in the policy proposals are not explained in details and the fiscal impact is not quantified. It is noted that all changes or reforms that are foreseen in the upcoming period, are incorporated in the fiscal projections of revenues and expenditures according to the economic classification that cover the budget year and the next two fiscal years.  ERP includes detailed overview of structural reforms and the planned funding broken down by categories, which suggests the possible impact on the budget.  Since there are brief explanations of the proposed changes in revenues and expenditures, but they do not cover the next two fiscal years, and are not all quantified, the score is D. |

***Context / Background***

With a technical assistance from the World Bank, tax models have already been developed in the areas of PIT, CIT, VAT and excise duties. Nevertheless, these models remain to be fully implemented at the Ministry of Finance. At the same time, the already commenced process of training of the staff needs to continue further. Full utilization of the tax models will significantly enhance the tax revenue forecasting capabilities of the Ministry of Finance and will serve as a valuable tool for evidence-based tax policy making and for estimating tax compliance gap and tax expenditures costing. Further training are also needed for performing cost-benefit analyses of tax expenditures, periodic assessments of the tax collection costs, evaluation of compliance costs, scrutiny of tax evasion/tax avoidance trends, and overall analysis of tax administration efficiency

**Activity 1: Implementation of developed tax models and further training of staff**

The tax models developed in the arreas of PIT, CIT, VAT and Excises will bring benefits only with their full installation at the Ministry of Finance, and with timely completion of training of the staff for proper and full utilization of these models in the process of revenue forecasting, simulation of tax policy changes and tax expenditure estimation and reporting

**Activity 2: Extending the tax models with new modules and installation of Power BI tool**

There is a need to extend the already developed tax models with a new module for estimating of the tax expenditures that are embedded into the tax legislation. Such a module will help accelerate the process of cost-benefit analysis of the tax expenditures and will serve as a basis for preparing comprehensive and timely tax expenditures reporting. Installation of a Power BI tool for the different tax instruments will significantly assist the process of regular and timely monitoring of the revenue realization and of analysing any deviations with the planned tax revenues.

***Implementation***

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| --- | --- |
| **Completedinyear:** | 2025 |
| **Deliverables:** | - Full installation of the models for PIT, CIT, VAT and Excises;  - Extension of the tax models with a tax expenditures module;  - Installation of a Power BI tool for regular monitoring of tax revenues; ;  - Training of staff for proper utilization of the tax models and for preparing tax expenditures and other tax reports; |
| **Costs implications:** | EUR 165,000 |
| **Responsible entity:** | MoF – Public revenues and Tax and Customs Policy Department |
| **Risk:** | - Due to the complexity of the model, it is not fully operational.  - Lack of data availability for regular updating of the models with latest tax data;  - Insufficient training of the staff in fully utilizing the tax models;  - Excessive staff turnover  - Internal resistance to reform processes; |

# Priority 2: Economic analysis and Macroeconomic forecasting

***Progress in the implementation***

Progress in implementation of activities was achieved in 2022 and 2023, with the activities commencing and implemented as per plan. Timely technical support was provided for start of activities, by Swiss Secretariat for Economic Affairs-SECO (Activity 1) and World Bank (Activities 2 and 4). Beneficiaries duly worked with providers of TA during and between workshops, as well as on improving plans for the follow up activities.

***Objective***

The objective of this priority is to upgrade the existing macro fiscal framework and capacities for the preparation of the budget plans and forecasts. To achieve the objective, it is necessary to eliminate risks of overly optimistic growth scenarios leading to unsustainable expenditure budgeting and strengthening fiscal risks identification, monitoring, disclosure and management.

For this it is planned to conduct appropriate trainings to improve skills (Measures 1 through 4) and build upon the existing institutional architecture (Measures 3 to 4). More specifically, the objective of Priority 2 will be achieved through the following measures and activities:

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| **Measure 1:** | **Capacity building for economic analyses** |
| Activity 1: | Increasing the scope of economic analyses; |
| Activity 2: | Economic policy impact assessment; |
| **Measure 2:** | **Developing new macroeconomic models** |
| Activity 1: | Developing macroeconomic forecasting tools; |
| **Measure 3:** | **Fiscal risks** |
| Activity 1: | Establishing institutional framework for fiscal analyses at MoF; |
| Activity 2: | Preparing consolidated Fiscal Risk Chapter in the Fiscal Strategy; |
| **Measure 4:** | **Fiscal Council development** |
| Activity 1: | Putting in place an effective data sharing arrangement; |
| Activity 2: | Building administrative capacity. |

***Outcomes***

The outcome of the realization of the four measures will result in improvement in the preparation and implementation of the fiscal policies. By providing access to improved assessments of the fiscal risks, the policy makers will be in position to better plan and manage the fiscal expenditures of the country. Thus adequate capacities will be built within MoF and other institutions to detect, monitor and mitigate fiscal risks. Developing a functioning independent and expert Fiscal Council will also contribute to this outcome. Finally, by implementing the reform activities stated in this report the public institutions will retain professional and trained staff which is one of the requirements as a EU candidate country. This will also contribute towards improved planning and budgeting processes by ensuring unbiased and realistic forecasts of GDP and budget expenditures and revenues.

***Outcome Indicators***

* Deviation between realised and forecasted GDP
* Deviation between actual and budgeted expenditures for specified risk-prone expenditures

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| --- | --- |
| ***Baseline 2022*** | ***Target 2026*** |
| Analysis of current macroeconomic trends and indicators | Increased scope of economic analyses and impact assessments  (from the area of labor market, the informal economy, the assessment of the productivity and the competitiveness of the economy, etc.) |
| Nowcasting tool and a structural macroeconomic model PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+ | New tools (short term and macrostructural models) for forecasting and analyses to be developed.   PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) > = B |
| Fiscal risks/Sensitive analyses in Fiscal Strategy (2021-2023)PEFA scorePI-10. Fiscal risk reporting C+ | Updated plan of activities for strengthening capacities for fiscal risks assessment and analyses  PEFA scorePI-10. Fiscal risk reporting > = B |
| PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+ | Independent, objective and professional opinions on issues related to fiscal policy  PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) >= B |

**Measure 1: Capacity building for economic analyses**

**Progress in the implementation**

All training missions planned with SECO have been realized in the period 2022-2023. This includes establishing macroeconomic planning framework as FPP model, which is in its final stage. Currently, the process of checking the consistency of the interlinked databases is ongoing, covering all sectors of the economy, i.e. real sector (including labour market aspects), government, monetary and external sector. This framework should enable coherent analysis of macroeconomic and fiscal trends, consistent short- and medium-term forecasting of macroeconomic and fiscal variables and policy analysis, for which number of trainings were organized and additional foreseen for 2024.

***Measure objective***

Capacity building of the Ministry of Finance, pertaining to economic analyses, should provide policy makers information on the expected results of economic measures to be undertaken.

***Reference to the external assessments findings:***

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| --- | --- |
| **SIGMA 2021:** | Fiscal Strategy does not yet play a strategic role in the policy planning of the Government (Monitoring Report, 2021) |
| **EU:** | ERP’s sensitivity analysis would have benefited from a more comprehensive impact assessment. More efforts are needed to quantify the impact for each measure and make the ERP the most relevant policy document to guide economic reforms (Commission's Assessment on 2021-2023 Economic Reform Program of North Macedonia). |

***Context/Background***

Ministry of Finance prepares regular monthly and quarterly reports on economic trends, as well as the Budget and the medium-term budget framework, also coordinating and contributing significantly to the preparation of the Economic Reform Program and the Fiscal Strategy. Improving the quality of these documents also implies increasing the scope of economic analyses and providing impact assessment on economic policies, reforms or measures.

In this direction all training missions planned with SECO in the previous report have been realized in the period 2022-2023. This includes establishing macroeconomic planning framework as FPP model, which is in its final stage. Currently, the process of checking the consistency of the interlinked databases is ongoing, covering all sectors of the economy, i.e. real sector (including labour market aspects), government, monetary and external sector. This framework should enable coherent analysis of macroeconomic and fiscal trends, consistent short- and medium-term forecasting of macroeconomic and fiscal variables and policy analysis, for which number of trainings were organized and additional foreseen for 2024.

**Activity 1: Increasing the scope of economic analyses**

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| Relevant units at MoF prepare analyses of the trends, covering certain areas of the domestic economy, which include; labor market developments, the informal economy, the assessment of the productivity and the competitiveness of the economy, etc. Through trainings of staff the analytical skills will be improved and new analystical tools will be introduced. The staff should be able to prepare more sophisticated analyses on regular basis in the next period. |

**Activity 2: Economic policy impact assessment**

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| Staff will, via trainings carried out by the relevant institutions, be able to assess the impact from certain economic policies, reforms or measures. Economic policies and reforms that are part of the Government Program, as well as economic measures to be included in the Economic Reform Program are potential areas that this activity could focus on. Within this activity, trainings should provide the staff with knowledge and toolkit, in order for them to be able to conduct independently the impact assessment as regards the future economic policies, reforms or measures. |

***Implementation***

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| --- | --- |
| **Completed in year:** | 2026 |
| **Deliverables:** | * Additional economic analyses; * Conducted impact assessment; * Carried out trainings; |
| **Cost implications:** | EUR 210,000 |
| **Responsible entity:** | Ministry of Finance - Economic policy and development Department |
| **Risk:** | * Externalities, as in the case with the energy crisis, inflation pressures and war in Ukraine disrupting the quality of economic forecasting; * Availability of official national statistical data as input for economic analysis; |

**Measure 2: Developing new macroeconomic models**

**Progress in the implementation**

New model for inflation and GDP have been developed, while macrostructural model is in development phase which is planned to be a tool for medium term forecasting and economic analyses.

***Measure objective***

Strengthening the capacity of the Ministry of Finance for macroeconomic forecasting and analyses, as well as developing new econometric models.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **EU:** | The ERP’s growth scenario seems somewhat optimistic given significant downward risks to growth (e.g. uncertainties about the future course of the war in Ukraine, of global energy and commodity prices, and of global financial market conditions; domestic pressure on inflation, such as wage growth; and major implementation and management risks for both private and public investments). Commission’s Assessment on ERP 2023-2025. |

***Context/Background***

Ministry of Finance is responsible for preparing the Budget and the Fiscal Strategy, also coordinating and significantly contributing to the preparation of the Economic Reform Program. Macroeconomic forecasts are important input in the process of budget planning and fiscal policy formulation. Therefore, expanding and developing new macroeconomic models will enrich the toolkit for macroeconomic forecasting, to the end of increasing its scope and quality. Developing macroeconomic models can also help measure and evaluate economic effects of policy changes and will increase the quality of policy decisions.

In this direction according to the plan in the previous report, a new short-term forecasting model for inflation has been developed, while short term GDP and macrostructural models are in development phase and are planned to be a tools for economic analyses and medium term forecasting. Upon completion of these activities, a plan for development of CGE model will be prepared.

**Activity 1: Developing macroeconomic forecasting tools**

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| Under this activity, new tools for forecasting and analyses are envisaged to be developed. Two models for short-term forecasting are developed for forecasting Inflation and GDP through the use of nowcasting and E-views. The inflation model has been completed including training of staff, while the GDP short-term model is to be upgraded and tested with additional training to be provided. Also, building of macrostructural model for the purpose of macroeconomic forecasting and policy analyses has started and initial theoretical and hands-on trainings were organized. Further work on the models will continue in 2024 with periodical training to staff that is enivsaged to be implemented in phases up to 2026. After successful completion of these trainings it is envisaged to start preparation of a plan for development of a complex CGE model in 2027. |

***Implementation***

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| --- | --- |
| **Completed in year:** | 2026 |
| **Deliverables:** | * Developed macroeconomic forecasting tools; * Macrostructural model built; * Carried out trainings; * Plan for developing CGE model prepared; |
| **Cost implications:** | EUR 210,000 |
| **Responsible entity:** | Ministry of Finance – Economic policy and development Department |
| **Risk:** | * Over optimistic growth forecasts; * High staff turnover; * Availability of official national statistical data as input for economic forecasting and analysis; * Failure to procure appropriate software. |

**Measure 3: Fiscal risks**

***Measure objective***

To strengthen the institutional architecture of beneficiaries for fiscal risks assessment in order to provide timely information on potential threats to the country's fiscal position and an integrated approach to managing these risks.

***Reference to the external assessments findings***

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| --- | --- |
| **PEFA 2021:** | To consolidate reporting of fiscal risks including: macroeconomic risks, risks arising from public debt, arrears, as well as unpaid liabilities, risks from potential costs arising from PPPs and natural and other type of disasters. At the same time, it is recommended carry out additional analyses of fiscal risks arising from the operations of public enterprises and municipalities, as well as potential risks at central level, i.e. at the level of the State Budget. |
| **IMF:** | Government should disclose, analyze and manage risks related to the public finances and ensure effective coordination of fiscal decision-making across the public sector.  - To publish a comprehensive statement on fiscal risks.  - To strengthen long-run fiscal sustainability analysis and disclose by including projections for general government debt  - Strengthen the oversight over SOEs and PPPs (Fiscal Transparency Evaluation 2018) |

***Context/Background***

According to the analyses carried out by the international financial institutions (IFIs), the Government announces and assesses most of the existing fiscal risks, including potential macroeconomic risks, risks in the financial sector, long-term risks related to the operations of health and pension funds, which are part of the reporting obligations throughout the EU accession talks. However, it is pointed that no such analyses exist for certain areas. What is indicated in the analyses of the international financial institutions is the lack of an overall consolidated analysis of fiscal risks in order to determine their size and potential impact on public finances.

Establishing capacities in the Ministry of finance and other institutions for comprehensive fiscal risks assessments, including risks related to: macroeconomic developments, SOEs, local governments finances, loan guarantees and public debt levels, natural disasters, legal litigations and other fiscal risk; will enable the assessment of the cumulative risk exposure of these institutions, as well as the identification of systemic relationships and interactions between the risks, i.e. whether the risks arising from different sources are neutralized or reinforced by each other.

Initially, the purpose of the measure is to improve the preparation of the draft State Budget by creating a special Fiscal Risks Statement, which will be part of the Annexes, and that together with the Budget are submitted to the Parliament. Within this priority, a comprehensive fiscal risk assessment is envisaged with support from FAD/IMF, in order to provide information on potential threats to the country's fiscal position and to provide an integrated approach to managing these risks. The first mission by FAD/IMF has been already condacted in Jan/Feb 2024, and in addition to the assessment analyses, proposals were suggested for strengthening fiscal risks management and transparent disclosing of relevant information. Fiscal risks analyses will contribute to a better understanding of the public finance position, thus providing support for prudent fiscal policy, as well as strengthening risk management accountability.

**Activity 1: Establishing institutional framework for fiscal analyses at MoF**

Under this activity, activities for strengthening the fiscal risk assessment capacities will be implemented, these being the following: Identification of existing fiscal risk analyses by areas and competent institutions, as well as identification of those areas for which such analyses need to be prepared in future; trainings for employees to improve the existing fiscal risk analyses (macroeconomic and public deb risks) and preparation of new analyses (risks arising from the State Budget arrears, Public Enterprises, Local Self Governments, PPPS, liabilities from legal cases and natural disasters, etc.). Initially, the activities under this measure will be coordinated by a Working group for fiscal risks, that will be established at the Ministry of Finance with members from relevant departments.

**Activity 2: Preparing consolidated Fiscal Risk Chapter in the Fiscal Strategy**

Preparation of a procedure for preparation of a Fiscal Risk Chapter as separate section in the fiscal strategy as specified in the OBL, thus reporting on the overall fiscal risks in a consolidated manner. The Fiscal Strategy and its revised version is part of the Budget preparation process and is being submitted to the Parliament, and the new chapter on fiscal risks will increase transparency related to financial and other risks, thus contributing towards better public finance management.

A plan for commencement of both activities was drafted during the first IMF/FAD mission in the beginning of 2024, which included assessment of current conditions, designing plan for improving management and how to publish fiscal risks. Analyses of the achieved results of the 2024 plan will be prepared in 2027, including a new plan for further strengthening of the capacities to conduct fiscal risks assessment, analyses and improve transparency .

***Implementation***

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| --- | --- |
| **Completed in year:** | 2026 |
| **Deliverables:** | * Working Group for Fiscal Risks established at MoF; * Comprehensive fiscal risk assessment; * Improving the existing and preparing additional analyses related to fiscal risks; * Enhanced fiscal risk chapter in the Fiscal Strategy * Submission of Fiscal Risk Statement as part of the Annexes, which are submitted, with the draft Budget, to the Parliament; |
| **Cost implications:** | EUR 300,000 |
| **Responsible entity:** | MoF – Economic Policy and Development Department |
| **Risk:** | * Certain institutions and sectors may not be able to provide data and analyses relevant for the preparation of the Fiscal Risk Statement * Lack of adequate capacity in the Ministry of Finance to implement the activities for implementation of the fiscal risks analyses * Inadequate and incomplete trainings of employees in MoF |

**Measure 4: Fiscal Council Development**

***Measure objective***

The newly established Fiscal Council is seen as a tool for conducting independent assessments of the fiscal policy, the strategies and their implementation, as well as evaluating the macroeconomic and budget projections used in the preparation of strategic documents related to public finances, thus improving the long-term sustainability of public finances. The full operationalization of the Fiscal Council relays on its adequate administrative staffing and capacity building, as well as on setting up processes and procedures for conducting the analyses in accordance with the best regional and EU practices. A fully functional Fiscal Council will be in a position to make assessments that will strenghten the fiscal policy credibility in terms of compliance with the set fiscal rules stated in the Organic Budget Law which in turn will strengthen the transparency and the accountability in conducting fiscal policy.

***Reference to the external assessments findings***

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| --- | --- |
| **SIGMA:** | Ministry of Finance should, in line with the new draft Organic Budget Law, establish a Fiscal Council with a proper mandate and sufficient resources to monitor compliance with the fiscal rules and provide advice on fiscal policy. |
| **EU:** | EC North Macedonia Report 2023 recommendation on economic policy:  Take the necessary legislative and organisational steps to enable the Fiscal Council to take up operations and assess the 2024 budget and the new fiscal strategy; |

***Context/Background***

The Organic Budget Law adopted in 2022 envisaged establishment of independent fiscal body composed of three members experts in the field of public finances, macroeconomics or economics. In accordance with the law and the previous PFM plan the Fiscal Council was established in Q4 2023 with the task to independently, objectively and professionally prepare opinions and analyses on the macroeconomic and fiscal assumptions used in the preparation of the Budget and the Fiscal Strategy, as well as other documents relevant for the fiscal policy. The Fiscal Council will also monitor the compliance with the fiscal rules, as well as the risks of non-compliance, the occurrence of mitigating circumstances that lead to temporary deviation from the fiscal rules and the implementation of remedial measures stipulated in this Law.

In accordance with Article 11 of the Organic Budget Law, in 2023 the National Assembly has elected the three proposed members by MANU, NBRSM and SAO, and with the World Bank assistance, a Rulebook for regulating the scope of activities and work procedures has been drafted and adopted by the Fiscal Council. The Fiscal Council has issued its initial opinion on the 2024 Budget proposal in December 2023.

**Activity 1: Putting in place an effective data sharing arrangement**

Within this activity, further actions will be implemented for the purpose of preparing bylaws and other acts arising from the provisions referred to in the Organic Budget Law. In cooperation with the international financial institutions (World Bank and EC), the best practices from the EU countries and the region in terms of the regulations related to the operations of the Fiscal Councils will be analysed.

**Activity 2: Building administrative capacity**

With the entry into force of the Organic Budget Law and the selection of the members of the Fiscal Council, it is necessary to start procedures for employment of the administrative staff to fully operationalize the work of the Fiscal Council. Furthermore, it is necessary to work on 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 monitoring and reporting on the compliance with the fiscal rules.

***Implementation***

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| **Completed in year:** | 2026 |
| **Deliverables:** | * Established body for expert and administrative and technical support of the Fiscal Council of the Fiscal Council; * Data sharing protocol/s is/are signed and effectively implemented; * Prepared Work Program of the Fiscal Council and effectively implemented; * Prepared Rulebook on the Internal Organization, the Number and the Description of the Jobs of the body for expert and administrative and technical support of the Fiscal Council and effectively implemented; * Capacity building of the Fiscal Council for preparation of analyses and opinions for implementation of fiscal rules and assessment of macroeconomic and fiscal projections and issues related to fiscal policy; * Strengthening the capacity of the staff of the Ministry of Finance to implement fiscal rules; |
| **Cost implications:** | EUR 300,000 |
| **Responsible entity:** | Ministry of Finance, Fiscal Council, Parliament of the Republic of North Macedonia |
| **Risk:** | * Difficulties in recruiting suitable staff, who will be able to participate in the operations of the Fiscal Council; * Lack of adequate capacity in the Ministry of Finance and the Fiscal Council to implement the activities for implementation of the fiscal rules as per the Law; * Inadequate and incomplete trainings of employees in MoF and the Fiscal Council in relation to fiscal rules implementation. |

# Priority 3: Strengthening Debt Management

#### Objective

Improving the quality of public debt management on medium and long term.

The objective of this priority will be achieved through the following measures and activities:

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| **Measure 1:** | **Reducing operational risks at public debt management** |
| Activity 1: | Introducing e-banking with NBRNM for external debt repayment; |
| Activity 2: | Strengthening public debt management capacities; |
| Activity 3: | Reconciling the debt stock with the creditors; |
|  |  |
| **Measure 2:** | **Increasing public debt transparency** |
| Activity 1: | Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria; |
| Activity 2:  Activity 3  Activity 4 | Incorporating debt data in the Budget document;  Preparation Annual Borrowing Plan  Improving Debt Reporting |
|  |  |
| **Measure 3:** | **Introducing new debt instruments** |
| Activity 1:  Activity 2: | Issuing of Development bond for citizens Issuing of Green bonds on domestic market |

#### Outcome

1. Improved quality of the reports for public debt.
2. Strengthened Public debt management Strategy.
3. Diversification of the investor base

#### Outcome indicators

1. Increased grade for the indicator 6.4.1 - Quality of public debt management in SIGMA report.

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| ***Baseline 2022*** | ***Target 2027*** |
| SIGMA grade for quality of public debt management is 3 | Improvement of the indicator in the SIGMA report for risk mitigation in the stock of public debt |

**Measure 1: Reducing operational risks at public debt management**

#### Measure objective

More efficient public debt management by optimizing risks which public debt portfolio is susceptible to.

#### Reference to findings from external assessments

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| --- | --- |
| **PEFA 2021:** | PEFA 2021 Assessment Report contains several indicators as regards public debt management on the basis of which the assessment is made. Following findings are listed in the latest Report:   * The data is registered in the DMIS by the IFRDMD without delays. * Formal reconciliation with creditors is carried out quarterly or monthly, however, assessment findings explicitly suggests reconciliation practices could be more frequent.   Total score for public debt management indicator is A, with the ratings for the dimensions within this indicators being the following: debt recording and reporting - B, approval of debt and guarantees - A and Public Debt Management Strategy - A.  Respective activities are to be undertaken in the coming period on the basis of these ratings, all to the end of improving public debt management. |
| **SIGMA:** | Recent Report notes improvement in public debt management with the upgrading of the Public Debt Management Strategy to an independent document, separate from the Fiscal Strategy, providing data about the debt developments in the past several years, as well as targets for debt management in the medium term.  It is also stated that Annual Report on Public Debt Management is published.  Although the risk profile of the debt portfolio has improved, it is still high. Considering that total level of public debt has reached the maximum limit of 60% of GDP, measures to reduce the debt rate and the risk profile are called for.  Within 2021 SIGMA assessment as regards public debt management, values for this indicator are as follows:  1. Existence of requirements and limitations for borrowing in the legal framework 3/3  2. Existence and minimum content of a public debt management strategy 4/4  3. Clarity of reporting on public debt 3/4  4. Risk mitigation in the stock of public debt 1/6  5. Difference between public sector debt outturn from target (%) 3/3  6. Public debt as a share of GDP (%) 2/2 |

#### Context/Background

Risk management policy is of crucial importance for public debt management, being the main link between the proposing, designing, adopting and implementing the Public Debt Management Strategy. Settlement risk occurs if numerous non-automated activities are used during data processing, while error risk is closely related to the manner of segregating the tasks related to execution of transactions and their settlement across the units within the institution in charge of debt management. Public debt management is carried out by an IT system and adequate software platform, thus significantly reducing the risk of human errors.

Moreover, under the WB Debt Management Performance Assessment, indicators for assessment of the Strategy recommend for an annual plan on borrowing to be prepared as part of the budget process, which is to be aligned with the Public Debt Management Strategy, which is a medium-term document.

It is necessary to reduce the operational risk of payment. This need has become even greater with the entry into force of pandemic prevention measures, with the remote working making the process digitalization all the more important. Furthermore, it is required to improve the planning process in the field of public debt management, i.e. to present the time frame in which the government plans to borrow. In addition, risk of uninterrupted processes is perceived in the Ministry of Finance due to outflow of staff.

**Activity 1: Introducing e-banking with NBRNM for external debt repayment**

Recording and monitoring debt management transactions are essential for ensuring accuracy of debt records and for detecting error and fraud. Payments processes must also include safeguards to ensure that they are timely and accurate. For reducing the operational risks, and by following the digitalization trends of foreign payment operations, it is necessary to introduce digitalized payments towards foreign creditors, by introducing electronic banking with NBRNM, through which repayments to foreign creditors are being made.

**Activity 2: Strengthening public debt management capacities**

To the end of strengthening public debt management, Ministry of Finance needs to strengthen the public debt capacities by employing, as well as training the existing staff. Operational risk will be reduced only through a sustainable human resources framework, i.e. the risk of untimely completion of tasks will be avoided.

**Activity 3: Reconciling the debt stock with the creditors**

Ministry of Finance will develop a procedure that will formally regulate the process of reconciling the debt stock with the creditors. Reconciliation with creditors is carried out quarterly or monthly, but it is necessary to design a procedure for a more frequent reconciliation of the debt stock with the creditors.

#### Implementation

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| **Completed in year:** | 2027 |
| **Deliverables:** | * Increased number of external debt orders paid electronically; * Increased number of employees in the Department; * Prepared procedure for quarterly reconciliation of the debt with the foreign creditors; |
| **Cost implications:** | EUR 124,000 |
| **Responsible entity:** | - Mof Public Debt Management Department |
| **Risk:** | * Externalities which can cause a deterioration of the international standing of the Government’s debt; * Insufficient human capacity to carry out the activity; * Outflow of educated staff. |

**Measure 2: Increasing public debt transparency**

#### Measure objective

Transparent presentation of public debt in line with international methodologies and standards.

#### Reference to findings from external assessments:

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| --- | --- |
| IMF: | North Macedonia’s debt is assessed as sustainable in the current baseline. However, from a liquidity perspective, financing needs exceed the high-risk threshold in the baseline scenario. |

#### Context/Background

Adoption of new Organic Budget Law, coupled with measures and activities undertaken by the Ministry of Finance to improve the legal and the strategic framework for public financial management, provides a framework for more efficient PFM. In addition, in order to improve the Open Budget Index, it is necessary, within the budget process, to supplement the Budget with debt data in order to present more detailed data on debt amount and structure at the end of the year for which the Budget is adopted. In 2019, Republic of North Macedonia accessed the highest statistical data dissemination standard of the IMF - SDDS Plus, confirming the quality of the statistical system. This will contribute to greater confidence at the international financial organizations, credit rating agencies and, most importantly, at the investors. Fulfilment of the SDDS Plus requirements implies preparation of nine new categories of data, among which the public debt data. Ministry of Finance has a 5-year transition period to align the data with this standard, producing public debt data in line with the SDDS Plus by 2024.

Pursuant to the Organic Budget Law, it is envisaged for the general government definition to be changed, and accordingly general government debt will have a scope different from the one envisaged under the Public Debt Law. Therefore, Public Debt Law needs to be accordingly amended, with the definition aligned with the Organic Budget Law and the Maastricht Criteria.

**Activity 1: Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria**

For the purpose of more efficient public debt management, it is necessary for government debt definition in the Public Debt Law to be aligned with the draft Organic Budget Law, which should belong to the General Government Sector as per the latest statistical methodologies and the Maastricht Criteria.

#### Activity 2: Incorporating debt data in the Budget document

It is necessary, within the budget process, to supplement the Budget with debt data so as to present more detailed data on debt amount and structure at the end of the year for which the Budget is adopted, i.e in Budget Proposal or any supporting budget documentation to present estimates related to government borrowing and debt: the amount of net new borrowing required during the budget year; the total debt outstanding at the end of the budget year and interest payments on the debt for the budget year.

#### Activity 3: Publishing Annual Borrowing Plan

Currently, the Ministry of Finance is preparing a plan for borrowing on the domestic and foreign financial markets. At the domestic market, a calendar for the issuance of government securities is published, but for the external financing plan, there are only internal documents.

In the medium term, it is planned to improve the transparency in this segment, in order to strengthen the quality of the calendar of domestic government securities, as well as the announcement of a borrowing plan.

#### Activity 4: Improving Debt Reporting

According to the DEMPA methodology of the World Bank, the transparency of public debt data publication can be improved in the segment of data contained in the annual debt structure report by increasing the breadth of reported debt statistics, such as: ., % of the debt maturing in the next 12 months, breakdown of the stock of guarantees by currency or residency and maturity profile of government debt i.e., further information needed on the composition of debt and flows, maturity profile, risk indicators.

#### Implementation

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Compiling general government debt data in line with the Maastricht Criteria; * Compiling general government debt data in line with SDDS Plus; * Issued annual borrowing plan. * Improved document for Annual Debt report |
| **Cost implications:** | / |
| **Responsible entity:** | - MoF - Public Debt Management Department |
| **Risk:** | * Insufficient human capacity to carry out the activity; * Outflow of educated staff; * Political factors, as by amending government debt definition, general government debt stock will be increased. |

**Measure 3: Introducing new debt instruments**

#### Measure objective

Expanding investors’ database.

#### Reference to findings from external assessments:

|  |  |
| --- | --- |
| **IMF:** | The stress tests demonstrate the risks associated with the government’s high public financing needs, as well as the considerable share of FX-denominated debt. |

#### Context/Background

Budget deficit is financed in accordance with the prescribed legal framework, with government securities issued on both the domestic and the international financial markets, as well as loans from domestic and international creditors as sources of financing. More efficient development of the financial markets, with the ultimate goal of advancing the government securities market, requires further diversification of instruments on the domestic market.

#### Activity 1: Issuing of Development bond for citizens

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 in the coming period.

For a more efficient development of the financial markets, the Ministry of Finance is focused on issuing new instruments on the domestic securities market. For this purpose, starting from 2023 a development bonds for Citizens are planned to be issued on a regular basis. These securities have the same characteristics as ordinary bonds, but are intended for the citizens of the Republic of North Macedonia. With this new instrument on the financial market, citizens took advantage of the opportunity to invest in an instrument that for them is risk-free, reliable and brings an attractive return, protecting the value of their money from inflation. The first auction of the development bond for citizens was successfully completed at 13th July 2023, given that the accepted amount reached Denar 1,448,030,000, which is twice as much as the amount offered under the respective Prospectus, amounting to Denar 600 million, and 1,283 citizens participated at the auction.

After the overwhelming interest from the citizens another auction for the Development bond was held on the 07th of November 2023 where the same conditions were offered in the Prospectus including the amount, tenor, interest rate and 907 citizens participated at the auction, investing total of Denar 1,085,480,000.

**Activity 2: Issuing of Green bonds on domestic market**

Green bonds have been introduced for the purpose of supporting and encouraging projects aimed at promoting the environment protection, the ultimate goal of which is transition towards green economy and financing environment-friendly projects, thus improving the energy efficiency, preventing or reducing pollution, facilitating the waste management, supporting the agriculture, fishing and forestry, protecting aquatic and terrestrial ecosystems, providing clean transport and sustainable management of waters and cultivating environment-friendly technologies. The green bond is a financial instrument that the Ministry of Finance introduces in its portfolio as a new instrument, on 03rd October 2023. Under the respective Prospectus, the amount offered and accepted was Denar 600 milion, although the demand was nearly three times higher.

The funds collected from auction of green bond from 2023 have been directed to the established Energy Efficiency Fund within the framework of the Development Bank. These are government securities with the purpose to support green projects in the country, and the goal is also the development of the capital market in the country, through the diversification of the offer with new instruments.

#### Implementation

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | Diversification of debt instruments |
| **Cost implications:** | / |
| **Responsible entity:** | - MoF - Public Debt Management Department |
| **Risk:** | * Outflow of educated staff; * Limited demand for the new instruments. |

# PILLAR II - Revenue Mobilisation

**Introduction**

Higher government revenues would create much-needed fiscal room for maneuver and allow for more spending that drives potential growth over the medium term, including infrastructure, healthcare and education. In addition, more reliable sources of revenue would help avoid volatility in public expenditure and pro-cyclical fiscal policy.

Priorities within this pillar are directed towards improving stability, efficiency and quality of the overall revenue system in the country in order to ensure sustainable and sound public finance management, professional service to taxpayers, tax compliance and support of legal trade with strengthened mechanisms for control.

Efficient revenue collection in the country will be ensured through modernization and digitalization of institutions, by following the recommendations for harmonization and association with the EU.

This Pillar is consisted of three priorities as follows:

* **Priority 1: Tax and Customs Policy**
* **Priority 2: Tax administration**
* **Priority 3: Customs**

**Priority 1: Tax and Customs Policy**

The aim of this Priority is to improve the revenue legislation framework through its harmonization with the EU acquis and EU best practices and to align it with the country’s tax policy strategic framework.

Namely, the EU accession negotiation process remains a priority for the country, with the first step being already taken i.e analytical examination of the EU acquis (the screening process) of Chapter 16 and Chapter 29.

Therefore, and taking into consideration that according to the EU Progress Report for North Macedonia for 2023, the country is „moderately prepared“ in the area of taxation and has a „good level of preparation” in the area of Customs, further work needs to be done towards full alignement with the acquis communitaire.

In addition, following the country policy priorities to increase the fairness of taxation, to improve the efficiency and productivity of the tax system and to increase the tax transparency, the revenue legislation needs to be subjected to continuous reevaluation in terms of the tax expenditures embedded into the tax legislation.

**Priority 2: Tax administration**

The primary objective is to optimize tax administration by implementing a state-of-the-art Integrated Tax Information System. This cutting-edge technology solution is designed to simplify the tax process for both individuals and businesses, fostering transparency and efficiency. The integrated system will enable seamless data flow and real-time information sharing across different tax functions, promoting a holistic approach to revenue collection. Through the use of advanced systems, we aim to enhance compliance mechanisms, creating a more streamlined experience for taxpayers. Concurrently, our focus on risk management will fortify efforts against potential tax evasion, promoting fairness in revenue collection. By adopting contemporary approaches and aligning with international standards, tax administration endeavors to establish a resilient and progressive tax administration framework, contributing to sustained economic growth and fiscal stability.

**Priority 3: Customs**

The aim of this priority is to implement facilitated customs procedures properly controlled without causing delays in the flow of goods and passengers, with strengthened control mechanisms. Customs Administration following this priority should ensure efficient revenue collection, modernization and digitalization, by following the recommendations for harmonization and association with the EU.

Through strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime is expected to suppress illegal trade and organized crime, protect the legal economy, ensure safety and security, protect the health and safety of citizens and protect the environment. Supply chain oversight is based on risk management that ensures faster flow of goods and passengers, and controls are performed selectively to protect the financial interests of the national economy, society and the environment. The appropriate distribution of controls, before customs clearance, during customs procedures and after customs clearance, provides a balance for the proper use of available resources.

Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), would be introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, compatible with the systems and procedures in the European Union and preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems. Customs Administration is leading institution for the Chapter 29 – Customs Union where the level of approximation and harmonisation with the EU is on a high level. The cost for achieving such result is continuous vast investments into people, processes, and equipment, especially in the ICT aspects.

# Priority 1: Tax and customs policy

***Objective***

Overall objective of this priority is to improve the stability, efficiency and quality of the overall tax system in the country that will support sustainable and sound revenue mobilization.

Objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:**  Activity 1: | **Improved revenue legislation framework, harmonized with the EU acquis and best practices**  Gap analysis of the national tax and customs legislation (laws and by-laws) compared to the EU legislation and best practices. |
| Activity2: | New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted in line with the EU legislation and best practices. |

***Outcome***

Legislation in the area of taxation and customs harmonized with the Union acquis, standards and best practices and with the country tax policy strategic framework

***Outcome indicators***

1. Progress made towards fulfilment of the EU accession criteria (steady progress in the respective Chapters 16 and 29).

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Ch.29:  Good level of preparation  Good progress  Ch.16:  Moderately prepared  Limited progress | Ch.29:  Good level of preparation  Very Good progress  Ch.16:  Good level of preparation  Good progress |

**Measure 1: Improved revenue legislation framework, harmonized with the EU acquis and best practices**

***Measure objective***

Objective is to improve and harmonize legislation in line with the relevant EU acquis and the best practices in the area of tax and customs legislation.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **EU:** | **EC Progress Report 2023**  **Chapter 16: Taxation**  On indirect taxation, the VAT exemptions and preferential rates for essential products were removed at the end of 2022. A preferential VAT rate of 10 % was applied for some energy products to alleviate the effects of high international energy prices. The preferential VAT rate of 10% for electricity for households was applied until 30 June 2023. Delays still remain in the VAT refund process, as only 45% of the requests submitted in 2022 were refunded within the legal deadline of 30 days. There were some changes to direct taxation. A personal income tax flat rate of 10% was complemented with a rate of 15% for income stemming from games of chance. Exemption from taxation on interest on savings and from taxation on capital gains on securities was abolished with the amendments to the Law on personal income tax, as of 1 January 2023. The country still needs to align its legislation with the Merger Directive. On administrative cooperation and mutual assistance, North Macedonia has signed 49 double taxation agreements, including with all EU Member States except Cyprus, Malta, Portugal and Greece, with whom negotiations are ongoing. The country has not yet committed on a date to start the automatic exchange of financial account information as per the OECD standard. The country remains dedicated to implementing the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) minimum standards. In January 2023, North Macedonia amended its preferential tax regime in the free economic zones, thus meeting the Forum on Harmful Tax Practices and the EU’s requirements to promote good governance in the area of taxation.  **Chapter 29: Customs union**  The customs legislation is highly aligned with the EU acquis. The 2023 customs tariff was adopted to reflect the latest changes in the EU Combined Nomenclature. The CEFTA Additional Protocol 5 on trade facilitation was implemented, and the authorised economic 101 operators (AEO) concept was further promoted. So far, 27 companies have been AEO certified. North Macedonia is yet to ratify the Protocol on Elimination of Illicit Trade in Tobacco Products, signed in 2014. |

***Context/Background***

The EU accession negotiation process remains a priority for the country, with the first step being already taken i.e analytical examination of the EU acquis (the screening process) of Chapter 16 and Chapter 29.

Therefore, and taking into consideration that according to the EU Progress Report for North Macedonia for 2023, the country is „moderately prepared“ in the area of taxation and has a „ good level of preparation” in the area of Customs, further work needs to be done in order to be fully aligned with the acquis communitaire, which will lead to an improved legislation framework in the area of tax and customs, followed by their smooth implementation.

**Activity 1: Gap analysis of the national tax and customs legislation (laws and by-laws) compared to the EU legislation and best practices**

Conducting gap analysis of the current national legislative framework within the tax and custom areas will be crucial for preparation of new legal acts or amendments to the existing national tax and customs legislation (laws and by-laws) drafted on the basis of the EU legislation in force and the best practices. This activity includes the following sub-activities:

* Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation;
* Reports with written recommendations for improvement of the tax and customs legislation prepared, including for further consolidation of the tax basis through abolition of unproductive tax expenditures.

**Activity 2: New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted in line with the EU legislation and best practices**

Based on the gap analyses, amendments to the national legislation will be prepared; this activity includes the following sub-activities:

* New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted;
* Methodological tools (guidelines/instructions/manuals) based on the new drafted legislation developed.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Prepared remaining gap analysis, written recommendations and new legal acts and/or amendments to the existing national tax and Customs legislation (Customs Law, Customs Tariffs, Customs Measures for Protection of Intellectual Property Rights, Personal income tax, Corporate income tax, Value Added Tax, Excise Duties, Taxation of Motor Vehicles, Property Taxes, Public Revenue Office, Tax Procedure); * Prepared laws and bylaws in accordance with gap-analysis; |
| **Costs implications:** | EUR 250.000 |
| **Responsible entity:** | MoF, PRO, Customs |
| **Risk:** | -Human resources limitation;  -Lack of awareness and commitment from high-level officials;  - Internal resistance to modernization processes;  - Continuous outflow of staff. |

# Priority 2: Tax administration

***Purpose***

Improve taxpayer services, including tax collection and compliance, and overall to establish a professional taxpayer service model recognized for best practice and quality standards

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Strengthen of administrative capacity for better revenue collection and tax compliance** |
| Activity1: | More effective and efficient management of overdue tax debt |
| Activity2: | Improving the Compliance risk management |
| **Measure 2:** | **Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)** |
| Activity1: | Completion of the remaining modules of the Integrated Tax Information System |
| Activity2: | Ensuring IS security (Information System) and smooth functioning of the integrated tax information system |

***Outcome***

1) improved stability, efficiency, and quality of the revenue collection system (IT system)

2) more effective and efficient management of the overdue tax debt

3) a fully established systematic process for managing tax compliance risks

***Outcome indicator***

1)percentage of digitized tax services

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 83% | 100% |

2)improved tax payment timeliness rate (VAT)

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Rate on number of timely payments - 60%  Rate on amount of timely payments - 70% | Rate on number of timely payments – 90%  Rate on amount of timely payments - - 90% |

3) improved age structure of the tax debt (VAT) – reduced share of the debt older than 12 months in the total tax debt

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Share of VAT debt (principal debt) over 12 month sold in the total VAT debt at the end of FP - 77% | Share of VAT debt (principal debt) over 12 month sold in the total VAT debt at the end of FP - 50% |

4)Increased number of taxpayers who voluntarily comply

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Percentage of timely submitted tax returns and tax payments | Percentage of timely submitted returns and tax payment compared to the previous year |

**Measure 1: Strengthen of administrative capacity for better revenue collection and tax compliance**

***Measure outcome***

- The purpose of the measure is to build the capacities of the tax administration for the administration of tax revenues and contributions by strengthening administrative resources, more effective and efficient management of the overdue tax debt and management of compliance risk.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| PJRFO | **PEFA Assessment Report, March 2022**:  In the area of ​​tax administration, the institutional reforms determined by the Public Finance Management Reform Program 2018-2021 and the Strategy for the Reform of the Tax System (2021-2025) are operationalized through the Strategic Plan of the PRO for the period 2021-2023. The plan establishes three strategic programs for the tax administration: (i) strengthening of administrative capacities, (ii) protection against tax fraud and reduction of the volume of the shadow economy, and (iii) mobilization of tax revenues. |
| PPRU | **SIGMA Monitoring Report - Principles of Public Administration, November 2021**  However, the analysis of a sample of services shows that only the filing and payment of personal tax has significantly improved with the introduction of the new e-Personal Tax system in 2018, including the preparation of pre-filled annual tax returns for all taxpayers. |
| IMF: | In the period from December 7, 2020 to February 5, 2021, an assessment of the tax administration of the Republic of North Macedonia was carried out using the Tax Administration Diagnostic Assessment Tool (TADAT).  The TADAT performance evaluation report notes that while the Public Revenue Office (PRO) has developed some strong components within overall tax management, there are more important functions that are either at an early stage of development. Most of the strengths of the PRO are in the area of ​​services to taxpayers: a high degree of electronic filing that leads to good and timely filing; use of pre-filled tax returns, tax withholding at the time of payment and arrangements in the form of advance payments; extensive publication of data from its work. The benefits of these strengths, however, are not fully exploited due to the poor state of the information (IT) system, limited implementation of compliance risk management (CRM) and inadequate management of large taxpayers. |
| WB: | Project on building effective, transparent, and accountable public finance institutions, October 2022  Development objective of the project - To improve the efficiency, transparency, and sustainability of public expenditures and to increase the effectiveness of revenue management.  Indicators that reflect the achievement of the project's development objective (DPD) include, among others:  (d) VAT compliance gap (Target: compliance gap reduced to 19 percent) (effectiveness)  Component 2: Strengthening tax management practices and systems in the PRO  The objective of component 2 is to strengthen the operational effectiveness of the work of the PRO with a focus on strengthening its tax compliance management system and certain administrative functions. Funding of certain activities is foreseen, which complements the current investments of the PRO in the development of the basic modules (registration, submission and service management, accounting, payment and refund, debt management, assessments, legal affairs, and audit) of the integrated tax information system which is implemented within the national budget. |
| EU: | EU Report 2023 (Chapter 16-Taxation)  North Macedonia is moderately prepared in the area of ​​taxation. Some progress has been made, more specifically in the changes to its preferential tax regime in technological and industrial development zones. As a result, North Macedonia was removed from the list of non-cooperative jurisdictions for tax purposes in Annex II. The country has not yet started the automatic exchange of financial account information according to the Organization for Economic Co-operation and Development (OECD) standard.  Since last year's recommendations were not fully implemented, they remain in effect. In the coming year, North Macedonia especially needs:  → to develop a new integrated IT tax system for the Public Revenue Office (PRO), to improve its compliance in risk management and the process of strategic reforms of the PRO;  → to start preparations for establishing a mechanism for the effective implementation of the automatic exchange of information on financial accounts with the EU member states, in accordance with the global standard of the OECD. |
| US Treasury | US DEPARTMENT OF THE TREASURY – “North Macedonia Public Revenue Office and Customs Administration (PRO/CUSTOMS) and US Department of the Treasury-Office of Technical Assistance (OTA)-The Revenue Policy and Administration Program”.  The project is implemented in cooperation between the Public Revenue Office and Customs, which have special components as well as joint activities.  Objective: The goal of this project is to strengthen the capacity of the Public Revenue Office to increase voluntary compliance and domestic resource mobilization through technical assistance in: 1) General Audit Capacity, 2) Debt Management, 3) Taxpayer Service, 4) Project Management, 5) Anti-Corruption, and 6) Human Resources, Training, and Development. |

***Context/Background***

The primary objective of the Public Revenue Office is to ensure the realization of tax revenues, reduction of the loss of tax revenues (tax gap) and protection of the tax base, to ensure that every taxpayer reports and pays the correct amount of tax owed in accordance with by law, which guarantees maintaining trust in the tax system and in the tax administration. In the coming period, the Public Revenue Office will continue to strengthen its administrative capacities in several key areas of its operations. Particular attention will be paid to the strengthening of human resources, as well as in the area of more effective and efficient management of overdue tax debt and management of compliance risks, by establishing management structures and applying management strategies that will ensure that non-compliance with tax laws and other risks in tax operations are kept to a minimum.

In the past few years, the Public Revenue Office has been establishing the foundations for effective tax debt management. We implement activities for early identification and quick intervention towards new debt, with proactive management of communication with debtors and application of an approach of indirect positive influence to improve compliance in debt payment. In doing so, we use the data we have as a knowledge base for building approaches to debtors.

We are also working on determining the real value of the recoverable tax debt and the compliance of the recorded debt with the actual situation. We identified the gaps in the regulation and proposed legal changes. At the same time, we are gradually updating the internal regulation for collection and management of the overdue tax debt, in order to ensure unified action and consistency of the PRO through unambiguous and precise regulation of internal methodologies and work procedures. The newly adopted internal regulation also includes a regulation on the procedures for establishing a tax guarantee for the most complex cases of unpaid tax debts, for which the responsibility for payment is transferred to third parties in accordance with the law. Through the project to introduce a center of excellence, a model has been developed for the functioning of a new organizational unit in the internal structure of the PRO, which will unite specialized professional knowledge and centrally for debtors from the entire territory of the North Macedonia will carry out actions for inventory, assessment, seizure and public sale of movable property and real estate as a supplement to the other actions under the competence of the Debt Collection Departments in the Regional Directorates and the Directorate for Large Taxpayers for the collection of arrears of tax debts in a forced collection procedure, securing a tax claim before forced collection and deferred payment of a tax debt. In the coming period, the activities for the establishment and functioning of the new organizational unit Center for tax enforcement will continue, with which we expect to achieve greater efficiency in the collection of debts through the specialization of human resources and the centralization of work processes (saving resources, optimal use of specialized resources) and other benefits.

In accordance with the recommendations from the IMF to strengthen compliance management as well as the Risk Management Strategy in the processes of the PRO 2023-2025 - the Compliance Management Committee was established with more powers and responsibilities, including:

- Performs assessment and analysis with the compliance of the operation;

-Identifies the risks that significantly affect tax compliance and determines the priority risks for which measures should be taken;

- Prepares a plan to improve compliance (annual operational plans with measures to deal with risks) adopted according to the prioritization of risks;

- Coordinates activities for the implementation of the adopted annual plan;

- Approves the indicators for monitoring tax compliance;

Reviews the reports and monitors the results of the measures and activities carried out according to the Plans for improving compliance;

- Revises the measures for dealing with compliance risks;

- Proposes reengineering of certain business processes, in order to improve compliance in operations;

- Adopts/revises guidelines and operational work instructions in order to improve tax compliance;

- Coordinates certain activities with the reform committee and the working body for ITIS;

- Delegates tasks to the organizational units and employees needed for the implementation of the compliance management system, monitors the implementation, approves reports, and takes specific measures to remove non-conformities in the compliance management system, organizes meetings and gives directions for improving the functioning of the system for compliance management;

- Makes proposals - decisions to improve the compliance of operations;

- Performs other tasks in the function of establishing and managing the compliance system.

The strategic plan of the PRO provides the general guidelines as priority goals, the measures that should be taken for their realization and the activities, which, with consistent application by the employees and with provided adequate funding, will ensure the realization of the basic mission and vision of the institution and will represent the foundation for building a modern tax authority with a high reputation and integrity among taxpayers, the domestic and international public - trust in professionalism, efficiency, transparency and service orientation.

**Activity 1: More effective and efficient management of overdue tax debt**

• Establishment of a Tax Enforcement Center

• Prevention of the increase in unpaid tax liabilities, especially with targeted assistance and reduction of the "administrative" pressure on low-risk debtors, as well as by facilitating the payment of tax debt

• More effective provision of payment and monetization of debts in proportion to the degree of risk of the debtor, through specialization of employees and consolidation of the internal organization

• Resolving cases of old (accumulated) debts

• Adequate reactions of the PRO to the main causes of non-compliance and accumulated unpaid tax debts

Foundations for better management of tax debts - improvement of the framework (law, procedures, internal organization, etc.)

**Activity 2: Improving Compliance risk management**

#### • Further strengthening of risk management capacities within the Compliance Management Unit

#### • Developing analytical capabilities within the Compliance Management Unit and the Compliance Committee as a prerequisite for risk management through appropriate training

#### • Preparation of a Plan to improve the compliance of the PRO

#### Within the framework of the annual Action Plans for the implementation of the PFM program, additional activities for this measure can be defined, which would result from the revised Strategic Plan for the relevant period.

#### Implementation

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Implemented measures and activities to strengthen "social" awareness of the tax responsibility of the founders and managers of companies and inter-institutional compliance in practicing the mechanisms for this responsibility * Proposal for changes and additions to the Law on Tax Procedure (which are not related to the redesign of business processes) - harmonized with the Ministry of Finance and launched in the adoption procedure * Established and functional Tax Enforcement Center * Adopted Plan to improve the compliance of the PRO |
| **Costs implications:** | 212,000 euros |
| **Responsible entity:** | Public Revenue Office |
| **Risk:** | * Organizational and other risks that are related to the implementation of CDI * Failure to implement compliance risk management * The process of enacting legal amendments has been delayed * Failure to introduce compliance risk management |

**Measure 2: Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)**

***Measure objective***

The purpose of this measure is to continue strengthening the administrative capacity of the tax administration by improving business practices and making changes in accordance with the overall digital transformation, with the aim of improving the administration of tax revenues and contributions, providing quality service to customers, improving the skills and knowledge of tax officials

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **PJRFO** | ***PEFA Assessment Report, March 2022***:  In the area of ​​tax administration, the institutional reforms determined by the Public Finance Management Reform Program 2018-2021 and the Strategy for the Reform of the Tax System (2021-2025) are operationalized through the Strategic Plan of the PRO for the period 2021-2023. One of the key activities envisaged is the installation of a new integrated information technology (IT) system that will support the basic functions of the tax administration and replace the existing information systems that are outdated, fragmented, incomplete or too rigid to cope with the changes of the laws and with the basic functions of the tax administration. After reviewing the detailed project and business processes, the PRO started developing the integrated Tax Information System. |
| **PPRU** | ***SIGMA Monitoring Report - Principles of Public Administration, November 2021***  However, the analysis of a sample of services shows that only the filing and payment of personal tax has significantly improved with the introduction of the new e-Personal Tax system in 2018, including the preparation of pre-filled annual tax returns for all taxpayers. |
| **IMF:** | In the period from December 7, 2020 to February 5, 2021, an assessment of the tax administration of the Republic of North Macedonia was carried out using the Tax Administration Diagnostic Assessment Tool (TADAT).  The TADAT performance evaluation report notes that while the Public Revenue Office (PRO) has developed some strong components within overall tax management, there are more important functions that are either at an early stage of development. Most of the strengths of the PRO are in the area of ​​services to taxpayers: a high degree of electronic filing that leads to good and timely filing; use of pre-filled tax returns, tax withholding at the time of payment and arrangements in the form of advance payments; extensive publication of data from its operations. The benefits of these strengths, however, are not fully exploited due to the poor state of the information (IT) system. |
| **SB:**  **WB:** | Project on building effective, transparent and accountable public finance institutions, October 2022  Component 2: Strengthening tax management practices and systems in the PRO  The objective of component 2 is to strengthen the operational effectiveness of the work of the PRO with a focus on strengthening its tax compliance management system and certain administrative functions. Funding of certain activities is foreseen, which complements the current investments of the PRO in the development of the basic modules (registration, submission and service management, accounting, payment and refund, debt management, assessments, legal affairs, and audit) of the integrated tax information system which is implemented within the national budget.  Subcomponent 2.2– Improvement and expansion of the tax revenue management information systems of the PRO: This subcomponent will support the ongoing modernization of the PRO tax revenue management information system through a series of complementary activities that serve as a critical foundation of efforts to increase management effectiveness of income.  **TAX DIAMOND**  A World Bank (WB) team conducted an assessment of the tax administration of the PRO from June 15 - July 30, 2020.  The assessment of the tax administration for the Public Revenue Office in North Macedonia lists the following recommendations, for which there is an opportunity for improvement:  • Data integration and development of a new integrated IT system that supports all basic tax administrative functions  • Change management process to ensure new system is developed, tested and introduced on time and within budget  • Hardware / software upgrade  • Filling vacant IT positions  • Starting with measuring the processing time of basic processes  • Use of new technologies (eg, expanded use of big data, third-party data-responsive systems, use of artificial intelligence)  • Improvement of the business continuity plan |
| **EU:** | **EU Report 2023 (Chapter 16-Taxation)**  North Macedonia is moderately prepared in the area of ​​taxation.  Since last year's recommendations were not fully implemented, they remain in effect. In the coming year, North Macedonia especially needs:  → to develop a new integrated IT tax system for the Public Revenue Office (PRO), to improve its compliance in risk management and the process of strategic reforms of the PRO;  → to start preparations for establishing a mechanism for the effective implementation of the automatic exchange of information on financial accounts with the EU member states, in accordance with the global standard of the OECD. |
| **Others:** | Development and reengineering of work processes for the new tax integrated IT system – IPA2/EUIF The project "Development and restructuring of work processes for the new tax integrated IT system" was completed on 31.01.2019 and the modeled business processes (BPM2) were delivered that show the global scheme of the business processes to be reengineered and integrated into the new IT system ("TO-BE" system), a technical specification for the hardware and software for the new integrated IT system and for quality control - technical support for implementation has been delivered.  ***Twinning project of the EU with Austria and Croatia***  The twinning project "Improving revenue collection and tax and customs policy" is implemented in the period 2020-2023 with the support of twinning partners from Austria and Croatia.  The activities under Component 4: Operational and administrative capacities of the Public Revenue Office for the implementation of national legislation, IT services and procedures improved by the IPA twinning project "Improving revenue collection and tax and customs policy", relating to the Authority's capacities for public revenue for the implementation of improved tax legislation, the capacities in the areas of tax debt management, tax collection and tax assessment, detection of tax evasion using indirect methods for assessment of the internal audit function of undeclared income in the systems of internal control, professional and ethical standards for employee behavior, human resource management, public procurement, international exchange of information and improved modernization process of tax administration; Quality assurance for the new IT system, implemented e-services and business processes and Designed warehouse for data (prepared plan for data integration and establishment of data warehouse and plan for utilization of data for different analysis). |

***Context / Background***

The Public Revenue Office has a vision to become a model professional organization recognized for best practices and quality standards. In this direction, the mission of the PRO is to provide high quality services for taxpayers, simplified tax procedures for timely and accurate fulfillment of obligations and fair and efficient collection of taxes and other public charges.

The use of information technology has always been an integral part of the effective functioning of modern tax administration. Historically, the use of such technology was limited only to automation of taxpayer registration functions, automation of filing and processing of returns and management of taxpayer accounts, but now its use has been extended to almost all functions of tax administration. Also, the information systems for tax administration management have been developed from the former "basic tax system", which mainly consisted of the register of taxpayers, the database of tax returns and the accounts of taxpayers, to today's modern integrated "Information Systems for tax administration management" that provide a holistic view of the taxpayer across all aspects of tax administration.

Legacy systems, which were used and some are still used, are limited in their functionality and have not evolved to meet the changing needs of tax administration. The key weakness of the PRO information system is the lack of real-time information and a reliable and clear picture of the taxpayer's compliance status. In addition, there are several ongoing reforms and initiatives aimed at promoting voluntary taxation, improving the effectiveness of taxpayer services and improving the business environment. These initiatives require the strengthening of IT systems and the development of appropriate functionalities in order to effectively utilize these efforts.

In that context, the implementation of the new tax system should not only address the current demands of the tax authorities, but should also address the most critical issues and limitations of the existing systems, thus removing (or reducing) the current shortcomings. The new tax information system (IDIS) aims to improve the operational efficiency of tax administration functions, as well as increase revenues by strengthening compliance monitoring and improving taxpayer services.

A 2014 PRO IT system study found that the PRO's existing IT system is outdated, fragmented, incomplete and inflexible in dealing with legislative changes. As a first step towards the introduction of a new integrated information system in the PRO from November 1, 2017 to January 31, 2019, the IPA 2 Project "Development and reengineering of business processes for the new tax integrated IT system" was implemented.

Based on the work processes defined in this project, a future model of an integrated tax IT system of the PRO was proposed, which will provide optimal processes for collection, reporting, analysis and risk management in accordance with the tax legislation.

Several logical units are defined: registration, management of filling out tax returns and their receipt, assessment, forced collection, payments, refunds, accounting, audit, legal affairs, international cooperation, compliance management, service management and data exchange with external systems. Each of the logical units consists of several processes that support the required functionality. This project also defined the hardware architecture of the new IT system needed to support these workflows.

In January 2019, the Public Revenue Office adopted an IT strategy 2019-2022, which envisages using modern information and communication technology to provide a reliable and secure information system for the development of a flexible, efficient, effective, and service-oriented tax administration.

The new ITIS is being developed as proprietary software (a web-based application based on an Oracle database) rather than COTS (due to budget / time constraints and sustainability issues).

Considering the above, the activities/sub-activities related to the establishment of the new Integrated Tax Information System (ITIS), which in the PFM Program 2018-2021 are foreseen to be realized in the period 2022-2024, are transferred to the new PFM Program 2024-2027.

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. In the month of August 2023, the working body proposed a holistic and comprehensive Draft Program for the implementation of the Tax Information System 2023-2028, which presents the vision for redesigned business processes and new tax services that will be automated and digitized through the new information system, the vision for compliance management based on the processing of mass data and the use of tools for business intelligence and the provision of IT security and stability. By the end of 2023, the working body will prepare a complete Program with all supporting documents that will set the road map for implementing this holistic reform in the PRO. In order to monitor the implementation of the program more effectively, the PRO established a Reform Committee.

Part of the financial resources for the new Tax Information System have been provided through the project "Building effective, transparent and accountable institutions for the management of public finances", which became effective with the conclusion of an Agreement with the World Bank, namely:

(i) 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

(ii) Data warehouse 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 risk management tools for compliance and decision-making process in the PRO

(iii) Combined Call Center/Help Desk - Software and Hardware Required to Set Up a Call Center/Help Desk

(iv) Hardware required for the implementation of the tax information system modules - Procurement and installation of additional servers, data storage units, replication systems and other solutions required for the implementation of the tax information system modules (including the e-invoicing module), expansion of the tax information system operations in the existing the PRO data center and the new joint Disaster Recovery Centre managed by the Ministry of Interior.

#### This activity is expected to end in 2027, during which the following activities will be implemented:

**Activity 1: Component 1. Completion of the remaining modules of the Integrated Tax Information System**

#### - Development of functional and technical specification and initiation of public procurement procedure for a new tax information system to support the tax functions of the PRO

#### - Starting with a phased implementation of the performance of a new Tax Information System

#### - Continuation of the phased implementation of the performance of a new Tax Information System

**Activity 2: Component 2. Ensuring IS security (Information System) and smooth functioning of the integrated tax information system**

#### - Increasing the security of IT systems of the PRO

#### - Development and restructuring of the IT subsystems of the PRO

#### - Establishment of a Disaster Recovery Center

#### Implementation

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| **Completed in year:** | 2027 |
| **Deliverables:** | * New SOFTWARE * New HARDWARE |
| **Costs implications:** | EUR 13.145.000 |
| **Responsible entity:** | Public Revenue Office |
| **Risk:** | * Insufficient commitment to reform * Lack of finance * Lack of capacity and commitment of the employees of the PRO, especially the IT staff * Major changes in legal provisions |

# Priority 3: Customs

***Objective***

Implementation of accelerated and facilitated customs procedures properly controlled without causing delays in the flow of goods and passengers, with strengthened control mechanisms. Ensure efficient revenue collection, modernization and digitalization, by following the recommendations for harmonization and association with the EU.

The goal of this priority will be achieved through the following measures and activities:

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| **Measure 1:** | **Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime** |
| Activity 1: | Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade |
| **Measure 2:** | **Modernization of customs services and their digitalization** |
| Activity 1: | Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware. |
| **Measure 3:** | **Adequate monitoring of excise good sand collection of excise duties** |
| Activity 1: | Establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system |

***Outcomes***

1. Availability of innovative equipment and training of staff for detection and control in order to: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search;
2. Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and staffing with appropriate hardware for those systems.
3. Introduction of system for marking and tracking of tobacco products ( cigarettres)and availability of high level data for the cigarettes into free circulation that strongly decreases the possibilities for illicit trade and tax evasion

***Outcome indicators***

1. Percentage of physical controls that resulted in the detection of irregularities in relation to the total number of performed physical controls using the new equipment;

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| ***Baseline 2022*** | ***Target 2027*** |
| / | 15% of the total number of performed physical controls using the new equipment |

1. Implemented at least two (2) new IT systems / modules from the EU Multiannual Strategic Plan (MASP) at national level on appropriate hardware (ICS2 and e-commerce).

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| ***Baseline 2022*** | ***Target 2027*** |
| 0 | 2 |

3) Establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system

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| ***Baseline 2022*** | ***Target 2027*** |
| 0 | High level of preparation for implementation of TRACK&TRACE system |

**Measure 1: Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime**

***Measure objective***

The purpose of the measure is to suppress illegal trade and organized crime, protect the legal economy, ensure safety and security, protect the health and safety of citizens and protect the environment.

***Reference to findings from external assessments:***

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| EU: | **EU Report for 2023**  North Macedonia has a good level of preparation in this area. Limited progress was made  on consolidation, application and upgrade of IT systems while the Concept of authorised  economic operators (AEO) was further promoted, including through regional cooperation  initiatives among the customs administrations of the WB6 countries. |

***Context/Background***

The goals and measures for the implementation of the CA strategy are covered by strategic priorities and strategic goals is the suppression of illegal trade and organized crime, protection of the legal economy, ensuring safety and security, protection of the health and safety of citizens and protection of the environment.

Supply chain oversight is based on risk management that ensures faster flow of goods and passengers, and controls are performed selectively to protect the financial interests of the national economy, society and the environment.

A key factor for quality data analysis is the employees and they will be constantly trained to strengthen their capacity. The appropriate distribution of controls, before customs clearance, during customs procedures and after customs clearance, provides a balance for the proper use of available resources.

The motivation of the employees and their interest in achieving higher professional standards is constantly nurtured. One of the goals is to direct the activities towards providing more customs experts in the field of control, which will be especially important when starting the negotiations with the European Union.

The more intensive application of new technologies will bring with it new and more frequent forms of crime, such as data-related criminal acts, cyber threats. Customs will need to be dedicated to preparing for action by improving capacity, applying the best tools and innovative technologies and appropriate training.

Activities will be undertaken in accordance with the Action Plan for Suppression of the Gray Economy, for improvement of the professional staff in the field of inspection services in the competent institutions in order to achieve effective results in the fight against the gray economy, conducting relevant comparative analysis and appropriate application of positive comparative examples experiences, preparation of precise registers in order to efficiently locate the relevant sectors in which the highest level of gray economy is recorded.

**Activity 1: Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade**

In order to be modern and efficient and ready to adapt to the inevitable changes, the CA will raise the level of quality and professionalism of the work performed by the customs officers, in accordance with the principles of simplification, fairness and efficiency. Customs strives to be "SMART" which is in line with the policy of the World Customs Organization, which means: secure borders, automation, traceability and measurability, improving risk management and above all monitoring and application of the latest technology.

All activities that will be undertaken for the modernization of the customs service will be in accordance with the commitment of the modern European services to be proactive, to act homogeneously with all participants, with a commitment to innovation and sustainability. Establishing a data channel with trusted partners and effective data sharing mechanisms remains a challenge.

The Customs Administration, as one of the state bodies responsible for prosecuting perpetrators of crimes, will participate in the implementation of coordinated measures to prevent money laundering and terrorist financing, which will be undertaken by the competent institutions and will act to strengthen inter-institutional and international cooperation, devoting adequate technical and human resources. Success in detecting, documenting and prosecuting money laundering and terrorist financing cases will depend on the quality of the information exchanged.

Special attention will be paid to the operational units that should be composed of a sufficient number of employees with an appropriate profile, to be characterized by the ability to act in all situations, as a solid factor in preventing and detecting illegal actions, discouraging the intention to die. such activities and resolutely dealing with them.

Joint actions are taken to improve the capacity to fight organized crime: improved electronic recording and exchange of information at national and international level, modernization of border control equipment, procurement of new CCTV equipment and improved mobility; and rapid response capabilities.

Joint control mechanisms for a more efficient and coordinated response to illicit trade and organized crime through selected controls will be strengthened.

*Strategic action activities for strengthening the joint control mechanisms by equipping* with modern and reliable control equipment that will help the customs authorities to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from disloyal and illicit trade:

* Improving the capacities of the control and prosecution bodies for fight against crime
* Synergy between law enforcement agencies and improved security situation
* Strengthening the capacities of national institutions and their coordination in monitoring the flow of money, as well as detecting possible concealment and transfer of illegally acquired property
* Criminal investigations to result in confiscation of property and property gain
* Increased efficiency in detecting, prosecuting and adequately sanctioning perpetrators of money laundering and terrorist financing
* Access to electronic databases to be established and functional
* Trained staff for performing the legal competencies in accordance with the identified risks
* Improving the professional staff in the field of inspection services in the competent institutions, in order to achieve effective results in the fight against the shadow economy.

Adequate customs controls with results that will not disrupt, but will facilitate cross-border trade.

Successful management of the challenges arising from the ever-changing models of global business operations and supply chain, which depends not only on the human factor, but also on the availability and proper functioning of modern and reliable customs control equipment. Challenges over increased e-commerce, digitalisation and resistance to cyber threats also increase the need for effective customs controls

Improved compliance with the implementation of customs controls and prevention of situations where a certain flow of goods is redirected to places with weaker customs control.

***Implementation***

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| **Completed in year:** | 2027 |
| **Deliverables:** | Availability of innovative equipment and training of staff for detection and control in order to: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search. |
| **Costs implications:** | EUR 2,000,000 |
| **Responsible entity:** | * Customs Administration |
| **Risk:** | * Different levels of customs staffing can be an incentive for organized crime networks to redirect their operations to border points with weaker customs control; * Timely and quality implementation of trainings for handling the new sophisticated control equipment; |

**Measure 2: Modernization of customs services and their digitalization**

***Measure objective***

By achieving this goal through modernization and continuation of the digitalization process, and at the same time by following the recommendations for harmonization and association with the EU, the system of public finances, fiscal discipline and efficiency in the management and use of public resources will be strengthened, transparency will be promoted and efficient services and economic development will be provided. This goal contributes to the provisions of the PFM Reform Program, which supports the dialogue with the EU and helps in more efficient use of EU funds through the institutions of North Macedonia, on the road to EU accession.

***Reference to findings from external assessments:***

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| **EU:** | **EU Report for 2023**  North Macedonia has a good level of preparation in this area. Limited progress was made  on consolidation, application and upgrade of IT systems while the Concept of authorised  economic operators (AEO) was further promoted, including through regional cooperation  initiatives among the customs administrations of the WB6 countries. In the coming year, the country should, in particular continue the consolidation and full application of its IT systems, including alignment with the Commission's Multiannual Strategic Plan (MASP) modules, ensure their continuous upgrade, and business continuity. |
| **Others:** | **Ensuring continuity of business processes in the Customs Administration and data storage through consolidation of ICT systems and establishment of a joint Data Center in case of crisis and natural disasters ("Disaster Recovery Centre") (IPA2 - IPA 2018)** Through this project, equipment for establishment of a joint Data Center in case of crisis and natural disasters was procured; As part of this project, procurement of 200 personal computers for border crossings and internal customs offices was realized.  **Implement System for Identity and Access Management (IAM) and Registration of Economic Operators (EORI2), in line with the latest EU requirements (IPA 3 – IPA 2021-2022)**  This should be harmonized at national level with the standards defined in the Multi-Annual Strategic Plan of the EU for the implementation of the eCustoms program - MASP - C. The funds for realization are planned from the EU IPA funds.  The Customs Administration is working on preparation of the new legislative framework – Customs Law and respective implementing regulation to harmonise with the current Union Customs Law (UCC). The UCC main feature is digitalisation of all the processes related to the trade and customs. Hence, the programs, hardware, and software that are in use in the Customs Administration is necessary to be properly aligned with EU requirements. It is important to point that from the ICT perspective and e-customs, the Multi-Annual Strategic Plan for electronic Customs MASP – C1 of the EU is the ultimate goal to be achieved for the digitalisation in the customs area/union. The task of the Customs Administration in the following years is to prepare necessary infrastructure in hardware and most important in software for the upcoming reforms and upgrades of ICT systems.  ICT Customs systems:  - Import System (AEI, SP, ICS2, e-Com&CP),  - Export System (AES, SP),  - NCTS System phase 6.  ICT infrastructure:  The needs of Customs Administration in area of the ICT infrastructure are extensive due to the  scope of activities and procedures implemented in digital format. In the estimations of the CARNM the next procurement of the ICT infrastructure equipment (Hardware and System software) that needs to be procured is around 1mil EUR (within the period of three years). This equipment shall fill the gaps that will be generated by development of new Customs Systems; or due to the need to renew some of the existing equipment. Further, the Hardware infrastructure installed in the CARNM shall be renewed every 3 years and the approximate value based on the  latest available data to CARNM is indicatively 0,6mil EUR/renewal. The same amount is necessary  for acquisition of Licenses for the new EU systems as approximate amount.  **Modernization and digitalization of E-Customs systems of Customs administration of the Republic of North Macedonia**  The Customs Administration gets a 4.8 million US dollars grant from the Government of the Republic of Korea for development and implementation of a risk management system and data warehouse. The establishment of this system will enable better targeting of declarations with risk of paying duties in an amount lower than the real price of the goods, incorrect customs classification or incorrect origin of the goods declaration. Future policies based on this system will be aimed at developing the Customs Administration and improving risk management. |

***Context/Background***

An important strategic goal of the CA will be the establishment of interoperability and interconnection with European systems, but also integration with systems at the national level.

In exploiting the opportunities, special emphasis will be placed on the constant consolidation of IT systems and their upgrading and maintenance according to technological development, which will provide better quality and greater availability of electronic public services as a benefit for service users who would fulfill their obligations within of customs procedures without the obligation of physical presence.

With the implementation of modern technologies, the knowledge of the customs officers will be improved, who would have the opportunity for more analysis and better supervision. The training system needs to be strengthened to be able to follow the vocational training needs imposed by digitalisation and modernization in general.

The work processes will be subject to optimization, rationalization and further editing with acts.

The motivation of the employees and their interest in achieving higher professional standards will be nurtured. One of the goals will be to direct the activities towards providing more customs experts who will be especially important when starting the negotiations with the European Union.

The Customs Administration will also strive to improve the working conditions of its employees.

Within the IPA 2018 national program, the Customs Administration procured equipment - Improving the quality of customs controls and combating fraud and illicit trade in goods from the Project "Increasing quality of customs controls in combating fraud and illegal trafficking of goods". as well as equipment for the Disaster Recovery Center, in order to ensure continuity of business processes in the Customs Administration and data storage through consolidation of ICT systems and establishment of a joint Data Center in case of crisis and natural disasters.

In 2021, the activities related to the harmonization of tax and customs legislation continue, which are implemented with twinning support within the EU-IPA 2018 twinning project "Improving Revenue Collection and Tax and Customs Policy". The full text of the new Customs Law (UCC) and the full bylaws (implementing and delegating) have been prepared. In this project, the Customs Administration appears as a participant in Component 1 (Alignment of Legislation) and holder of Component 3 (Capacity Building of the Customs Administration).

The Strategic plan 2024-2026 builds on the previously realized activities and is complementary to the strategic activities defined by the separate strategies of the Customs Administration that refer to specific domains of implementation of the missions of the service: Strategy for development of ICT of the Customs Administration 2021-2025; Customs Risk Management Strategy for Customs Issues 2023-2026; Integrity and Anti-Corruption Strategy in the Customs Administration of the Republic of North Macedonia 2019-2022; Strategy for training and development of competencies in the Customs Administration of the Republic of North Macedonia 2021-2023;

Digital Customs remains a driving factor in facilitating the exchange of information, the complexity of procedures and physical contacts with economic operators. The concrete benefits are recognized in reduced costs, lower efficiency risk and prevention of corrupt practices.

One of the most important strategic goals of the CA will be the establishment of interoperability and interconnection with European systems, but also integration with systems at the national level.

**Activity 1: Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware.**

In order to be modern and efficient and ready to adapt to the inevitable changes, the CA will raise the level of quality and professionalism of the work performed by the customs officers, in accordance with the principles of simplification, fairness and efficiency. Customs strives to be “SMART” which is in line with the policy of the World Customs Organization, which means: secure borders, automation, traceability and measurability, improving risk management and above all monitoring and application of the latest technology.

Modern working conditions, including equipment and IT support, is key to achieving this priority. Special attention will be paid to additional digitalization of processes and upgrading of existing equipment (hardware, software and licenses) for its implementation.

Implementation of interoperability standards in accordance with the National Interoperability Platform is an area covered by the CA in the stages of planning, defining needs and implementing projects for the development of new ICT systems, taking into account national regulations in the field of e-government and e-services electronic documents, electronic identification and confidential services and by appropriately applying the needs and standards for interconnection and interoperability with EU ICT systems.

All activities that will be undertaken for the modernization of the customs service will be in accordance with the commitment of the modern European services to be proactive, to act homogeneously with all participants, with a commitment to innovation and sustainability. Establishing a data channel with trusted partners and effective data sharing mechanisms remains a challenge.

Strategic action activities for modernization and digitalization of customs services:

Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), which are compatible with the systems and procedures in the European Union.

The engagement for preparation for interconnection and interoperability with EU systems and implementation of systems harmonized with EU systems, which can be established before EU accession, continues. The activities from the first phase of implementation (until 2023) refer to the development of the NCTS transit system phase 5, as well as the national development of the other ICT systems, in accordance with the ICT Development Strategy of the Customs Administration 2021-2025. In parallel, further analysis will be carried out for full harmonization with the EU systems through the implementation of future projects from the second phase (2024-2025).

Further promotion of the benefits for small and medium enterprises for the application of e-commerce;

Application of modern standards and practices in defining and realizing the business requirements of CA, using appropriate project methodology for implementation of new concepts and IT solutions, proven in the IT market.

Improving the flow of information between all stakeholders in the activities related to the Customs Administration;

Development of the external and governmental domain and increase of the transparency and timely information of all participants in the customs procedures, as well as of the users of the IT systems, through increased application of internet, intranet and modern social networks.

Interoperability and interconnection with EU systems, as well as integration with systems of the national government domain;

Consolidation and modernization of the systems and hardware infrastructure for operation of the ICT systems of the Customs Administration;

Increasing the administrative capacity and improving the measures for ensuring continuity and stability in the use of ICT systems.

Planned development and implementation of a data warehouse (Data Warehouse) in order to provide conditions for integrity, unambiguity and maximum utilization of data and data models in the Customs Administration.

A remote location data center (Disaster Recovery) will be established to provide the necessary requirements and standards for data protection, ensuring adequate protection of systems from disasters, as well as continuity of operation.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and equipping with appropriate hardware for those systems. |
| **Costs implications:** | EUR 15,000,000 |
| **Responsible entity:** | Customs Administration |
| **Risk:** | Untimely implementation of all phases in the process of harmonization with EU systems. |

**Measure 3: Adequate monitoring of excise goods and collection of excise duties**

***Measureobjective***

The goal of this measure is through introduction of procedures and instruments for appropriate monitoring of excise goods ,to combat against illicit trade in tobacco products and to increase collection of excise duties. Adequate monitoring of excise goods is important due to the increased volume of trade in such goods, the harm to health (especially found in tobacco products), registered tax evasion, illicit trade in excise goods as a source of financing for organized crime.

***Context/Background***

Introduction of procedures and instruments for appropriate monitoring of excise goods and collection of excise duties is a bigchalengefor CA, taking into account the current EU Track & Trace system. Adequate monitoring of excise goods is important due to the increased volume of trade in such goods, the harm to health (especially found in tobacco products), registered tax evasion, illicit trade in tobacco products as a source of financing for organized crime. With the measures taken for the appropriate collection of excise duties, special attention is paid to the reliability and the possibility that the competent authorities and citizens can check the authenticity of the products.

TRACK&TRACE system is based on digital product identification by applying a unique identifier in the form of a digital code to the product packaging during the production process. The digital code contains security measures against forgery and enables subsequent tracking of the movement of the specific product from the manufacturer to the first retail outlet

The complexity of data provided by the Track & Trace system enables the detection of cigarettes that appear illegally on the market and avoid payment of excise duty.

Bearing in mind that the Track & Trace system is part of the EU regulation, the Republic of North Macedonia will develop a system based on the example of the EU Track & Trace system, compatible with it and with a technical possibility for intercommunication in a certain period. However, the fact that RSM is not yet an EU member state will inevitably require certain modifications during implementation, especially due to the impossibility of using the common depository, to which only EU member states have access.

In the process of implementing the Track & Trace system as a complex and multidisciplinary one, several state institutions with different responsibilities will be involved, as well as economic operators as a key link in the process.

The introduction of this system necessarily requires the provision of a test period for trial work before putting it into use.

**Activity 1: Establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system**

For the successful implementation of the Track & Trace system, changes and adjustments to the legal and by-law regulations are necessary, which will be the subject of the work of a specially formed Working Group.

The cooperation started with the economic operators affected by the Track & Trace system will be intensified, which will have significant financial implications for its introduction.

A significant part of the introduction of this system is the process of providing all the necessary resources for its application, which will mainly cause financial implications for the economic operators who will be part of the Track & Trace system. This implies the purchase of expensive equipment for marking and tracking cigarettes in the entire supply chain, starting from production to the first retail outlet. Also, economic operators have an obligation to choose and finance a primary depository for storing the unique codes.

A particularly key step in the implementation process of the Track & Trace system is the selection of an issuer of unique product identifiers - codes, as well as the selection of a secondary depository for storing all issued codes.

Also, for the practical implementation of the Track & Trace system, consulting assistance from the EU countries, which already have experience with the application of the system, will be needed.

Finally, it is of particular importance to mention the necessary alignment of the Track & Trace system with the existing electronic system of the Customs Administration, which must be compatible.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Available track & Trace system that provide adequate monitoring of excise goods (cigarettes).decreases illicit trade and tax evasion in tobacco products |
| **Costsimplications:** | * Funding cannot be planned at the moment |
| **Responsible entity:** | * Customs administration |
| **Risk:** | * Resistance of economic operators due to large financial investments and request for a transitional period * Uncertainty of the duration of the process of providing necessary prerequisites for implementation (choice of code issuer, secondary depository) * Lack of organizational experience in the operation of such a system * Unpredictability of the system testing process   (mandatory trial period)   * Risk of problems when harmonizing the Track & Trace system with the existing customs electronic system |

# PILLAR III: Planning and Budget

**Introduction**

The new Budget Law is an extremely important, systemic and reform law.

The budget is one of the most important instruments of economic policy for any Government and state, but on the other hand of equal importance is the systemic budget law that defines the procedures for preparation and adoption of the Budget.

In the current Law on Budgets from 2005, with several additional amendments and clarifications, it regulates the procedures for preparation, adoption, execution of the Budget of the Republic of North Macedonia and the budgets of the local self-government units and the City of Skopje, as well as reporting on execution of the budget.

However, new trends, recommendations and directives require new solutions for public financial management in accordance with the recommendations of international institutions and European Union directives. For the above reasons, the Ministry of Finance saw the need to draft a completely new law.

In direction of ensuring better financial reporting through the establishment of new accounting practices, also it is necessary to determine a strategic direction for the development of new accounting practices. Тhe development of new accounting practices also imposes the need to develop the capacity of the accounting profession in the public sector.

Three priorities are distinguished in this pillar:

* **Priority 1: Budget Planning**
* **Priority 2: Strengthened Public Investment Management**
* **Priority 3: Strengthen the accounting of budgets and budget users**

**Priority 1: Budget Planning**

The new Budget Law fits into the concept of SMART Finance, i.e it aims to provide a framework for conducting sound, predictable and sustainable fiscal policy and increase budget discipline and accountability.

Improving the management of public finances and strengthening the medium-term budget planning is one of the biggest priorities of the Government of the Republic of North Macedonia in the process of accession to the European Union.

The proposed law contains provisions regarding:

* publishing a register of public entities, which will group the public entities of the country into: budget users, public enterprises and other public entities;
* preparation of budget classifications;
* fiscal rules and fiscal principles;
* Establishment of the Fiscal Council, which should provide independent and professional analysis and opinions on macroeconomic and fiscal assumptions, fiscal strategy, budget, budget implementation reports, fiscal risks and the like;
* fiscal policy statement, should contain the directions for the fiscal strategy during the mandate of the Government;
* improved medium-term budget planning;
* five-year fiscal strategy;
* improved structure and content of the budget;
* temporary suspension of execution and rebalance of the budget;
* improved management of public financial and non-financial assets;
* borrowing and issuing guarantees;
* improved transparency by improving the quality and quantity of reports; as well as
* Integrated information system for public financial management - IFMIS.

**Priority 2: Strengthened Public Investment Management**

For the purpose of improving the planning, the allocation and the implementation of public infrastructure projects, reforms would be gradually introduced for increasing the efficiency of the public investment management practices, which will:

* contribute to greater harmonization of budget allocations with the Government’s investment priorities;
* improve the comprehensiveness of the budget documentation so as to include all public expenditures for capital investments and information on the financial needs of ongoing and new projects; and
* strengthen central oversight of the national public investments portfolio as a whole, including monitoring and management of the overall delivery risks.

**Priority 3: Strengthen the accounting of budgets and budget users**

The aim of this Priority is adoption of Strategy for Improvement of Budget Institutions’ Accounting, and action plan for implementing the activities provided by the Strategy. Before the adoption of the Strategy, a gap analysis is required to identify the non-compliance of public sector accounting with the international practice, followed by determining the need, priorities and the objectives for introduction of the new accounting practices

# Priority 1: Budget Planning

***Objective***

In the medium-term, improve public expenditures structure, enhance the performance-based budget planning process, as well as gradually consolidate public finances by reducing the budget deficit as a percentage of GDP.

Objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Improving medium-term planning** |
| Activity 1: | Medium-Term Fiscal Strategy based on a sectoral approach; |
| Activity 2: | Determination of medium term expenditures celiings; |
| Activity 3: | Strengthening medium-term planning at public enterprises and companies at central level. |
| **Measure 2:** | **Improving sectoral approach of budget planning and development and implementation of bylaws** |
| Activity 1: | Preparing and implementing OBL bylaws |
| Activity 2: | Preparing and implementing several types of classifications - administrative/organizational, economic, program, functional classifications, as well as classification of sources of financing; |
| Activity 3: | Strengthening of capacities, training of employees of the MoF and budget beneficiaries |
| **Measure 3:** | **Introducing performance based budget (value for money)** |
| Activity 1: | Developing multi-year indicators for measuring the success in the implementation of budget policies; |
| Activity 2:  **Measure 4:**  Activity 1:  Activity 2:  Activity 3: | Preparing procedures for monitoring the impact of sectoral policieson performance indicators.  **Spending review**  Build capacity at the MoF and line ministries for conducting Spending Reviews  on a regular base  Prepare and adopt methodology with defining criteria and procedures for conducting Spending review  Spending review as a basis for appropriate budgeting for the next mid-term period |

***Outcome***

Predictable and reliable budget allocations for budget organisations considering consolidation in public spending and reducing the budget deficit.

***Outcome indicator***

1. Deviation between the original estimates and actual outturns

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| (-)4,5 % of БДП | -2,8% of GDP |

**Measure 1: Improving Medium-Term Planning**

***Measure Objective***

Fiscal Strategy reflects the medium-term fiscal goals and strategic priorities of the Government of North Macedonia.

Fiscal Strategy should have a strategic role in the planning process, which will reflect government priorities at the level of key sectors / areas, as well as provide information and analyses on new measures.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **PEFA 2021:** | -Strengthened medium-term planning, by presenting new policies and explaining the circumstances in which they deviate from the initial projections,  - Consolidated data coverage, pertaining to public enterprises and state-owned companies at central level, as part of the budget documentation. |
| **SIGMA 2021:** | - Fiscal Strategy should be transformed, thus playing a strategic role in the policy planning, which will reflect government priorities at the level of key sectors/areas, as well as provide information and analyses about new measures,  - Improving the credibility of projections (1-year and multi-year). |
| **EU 2021:** | On 15th of September 2022, Parliament of the Republic of North Macedonia, adopted new Budget Law. The Organic Budget Law foresees the establishment of fiscal rules, an independent fiscal oversight body and a medium-term budgetary framework. The initial outcome of the fiscal policy response to mitigate socio-economic consequences of the COVID-19 pandemic is satisfactory. |

***Context/Background***

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections. Fiscal Strategy reflects the medium-term fiscal goals and strategic priorities of the Government of North Macedonia.

Improving the management of public finances and strengthening medium-term budgeting for the next 5 years is one of the biggest priorities. The fiscal strategy in accordance with the time frame determined by the provisions of the new Law on Budgets includes more information with qualitative and quantitative data, through sector analysis of expenditures and tax expenditures. In order to make the fiscal policy 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.

The fiscal strategy contains the medium-term directions and objectives of the fiscal policy, the basic macroeconomic projections, the amounts for the main categories of estimated revenues and expenditures, the projections for the budget deficit and the debt, the limits of the budget expenditures, the limits by budget users, as well as the projections of the medium deadline for local government and public enterprises and state-owned joint stock companies.

Key elements of the medium-term fiscal policy 2024-2028 are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows:4.8% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8% in 2027 and 2.5% in 2028.

In the past period, Ministry of Finance was, with respect to its activities, most focused on improving the budget planning process, as contained in the new Organic Budget Law, as an obligation of the previous PFM Program.

**Activity 1: Medium-Term Fiscal Strategy based on a sectoral approach**

In the period to come, the Fiscal Strategy should be the basis for pursuing a predictable and sustainable fiscal policy, in order to increase budget discipline and accountability. By having pre-defined procedures in place, the medium-term document needs to contain a wide range of data including all levels of government, projections, which will be aligned with the determined strategic priorities and macroeconomic parameters.

Significant elements that contribute to the improving the medium-term planning are:

- sectoral approach of budget planning with additional quality data and analyses in order to achieve improved and more credible planning;

-wider range of data in the narrative part, based on sectoral approach planning 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.

**Activity 2: Determination of medium term expenditures celiings**

When creating the medium-term fiscal framework, a high-quality medium-term budget planning is of great significance therefor. Thus, one should take into account that in the coming period, medium-term fiscal projections are based upon medium-term baseline scenario and new initiatives.

The Fiscal Strategy contains the medium-term guidelines and objectives of the fiscal policy, the basic macroeconomic projections, the amounts for the main categories of estimated revenues and expenditures, the projections for the budget deficit and the debt, the limits of the budget expenditures, the limits by budget users, as well as the medium-term projections for the local government and public enterprises and state-owned joint stock companies.

Baseline scenario implies that the determination of fiscal projections arises from the performance of the "usual competencies" of budget users defined in the existing legislation, existing obligations and tasks, which are the result of the already approved multi-year commitments, contracts and ongoing projects.

Baseline scenario does not cover new funding initiatives.

New initiatives generally pertain to new projects and new financial obligations, significant changes in the time and financial framework of the projects, as well as changes in the legislation causing fiscal implications upon the budget.

This provides for greater credibility of the projections, reflecting the government priorities through the proposals of budget users, thus providing information and analyses about the new measures.

In line with the latest revised Fiscal Strategy 2024-2028, key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows:4.8% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026, 2.8% in 2027 and 2.5% in 2028.

**Activity 3: Strengthening medium-term planning at public enterprises and companies at central level**

Continuous monitoring of the operations of public enterprises and companies at central level provides Ministry of Finance to generate and publish data on revenues and expenditures, on a regular basis. Consolidated approach when presenting data on state-owned companies is a solid basis for improving the medium-term planning of these entities.

For the purpose of their long-term sustainability, it is necessary to improve medium-term planning in the next period, which should include activities to improve the current liquidity of state-owned public enterprises and companies, reduce the liabilities, as well as collect the revenues, all to the end of providing better-quality services.

The modern concept of public finance management designed in the new Budget Law is aimed at improving public finance management and strengthening medium-term budgeting, as one of the biggest priorities of the Government of the Republic of North Macedonia in the process of joining the European Union. That concept includes public enterprises and state-owned trading companies as a significant segment in the public sector, so activities are planned in the coming period to introduce medium-term planning for these entities as well.

The strengthening of medium-term planning among these institutions is imposed by the need to reduce the negative results in operations caused by the world economy and the energy crisis, which caused the impossibility of settling current obligations. In the direction of ensuring financial stabilization, the Government of the Republic of North Macedonia through budget support (subsidizing the electricity system to preserve the standard of living of citizens and the liquidity of companies), in the period 2021 - 2023, subsidized on average about 1.1% of GDP.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Improved Fiscal Strategy. |
| **Cost implications:** | / |
| **Responsible entity:** | Ministry of Finance, Budget and Funds Department |
| **Risk:** | * Human potential for implementation. |

**Measure 2: Improving sectoral approach of budget planning and development by implementation of bylaws**

***Measure objective***

New trends, recommendations and directives call for new solutions as regards public financial management, in line with the good practices of the international financial institutions and the EU Directives.

Due to the mentioned reasons, Ministry of Finance realized that it was necessary to prepare completely new law and by-laws, in order for the budget planning and the performance indicators to provide a framework for pursuing predictable and sustainable budget policy, as well as increasing the budget discipline and accountability.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **PEFA 2021:** | * Budget preparation process, as well as its structure to reflect the reforms envisaged in the Organic Budget Law, * Establishing and prescribing the classifications necessary for the Budget preparation (Organizational, Functional, Program classifications, as well as classification of sources of financing) and other bylaws for implementation of the planned reforms in the field of public finance, * Developing and monitoring program goals and indicators. |
| **SIGMA 2021:** | * Improving the credibility of projections (1-year and multi-year), * Creating conditions for having a functional role of the budget user (sectoral) in place and its competence as per the new legal framework. |

***Context/Background***

The Budget is one of the most important instruments of economic policy. Hence, the Organic Budget Law, which defines the procedures for preparation and adoption of this document, is equally significant. Existing Organic Budget Law dates from 2005, with several additional amendments and clarifications, it regulates the procedures for preparation, adoption and execution of the Budget of the Republic of North Macedonia, and the budgets of the local government units and the City of Skopje, as well as the reporting on the budget execution.

However, the new trends, recommendations and directives call for new solutions as regards public financial management, in line with the good practices of the international financial institutions and the EU Directives.

Due to the mentioned reasons, Ministry of Finance realized that it was necessary to prepare completely new law and by-laws, in order for the budget planning and the performance indicators to provide a framework for pursuing predictable and sustainable budget policy, as well as increasing the budget discipline and accountability.

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 by budget users, which are part of the Fiscal Strategy, the Budget of the Republic of North Macedonia and the Final Account of the Budget of the Republic of North Macedonia.

Given the new legal solution, it is expected for the fiscal policy to be focused on consolidation of public expenditures by gradually reducing the deficit level, as well as redesigning public expenditures through scaled up investments in the field of infrastructure.

**Activity 1: Preparing and implementing OBL bylaws**

Application of the new Organic Budget Law is related to the preparation of bylaws, which are envisaged to be adopted within 24 months from the entry into force of the Law (Article 119).

Ministry of Finance, in cooperation with the World Bank, as well as through the EU IPA Twinning Project “Strengthening Budget Planning, Execution And Internal Control Functions”, works on preparing by-laws, guidelines, manuals, etc., aimed at enforcing the new Organic Budget Law, further improvements of the public financial management system, as well as developing a detailed plan for all working process.

Application of the New Organic Budget Law has been postponed, which is to start as of 1st January 2023, with the exception of certain provisions pertaining to the Fiscal Council (Article 11), strategic planning (Article 13), macroeconomic projections (Article 14), Fiscal Strategy (Articles 16, 17, 18 and 19), internal financial control (Article 104) and OBL Reform Working Group(Article 107), which will be applied with the entry into force of the Organic Budget Law.

New Organic Budget Law covers all reform activities and processes, which would significantly improve the budget planning and the Fiscal Strategy through comprehensive data and programmatic approach, increased quality in scope and contents, harmonization of definitions with international methodologies and new classifications, in order to develop and monitor the measurable indicators.

This legal solution extends the commitment to strategic planning and medium-term public finance framework, through:

-introducing fiscal policy statement, covering the Government’s terms of office and including the fiscal strategy guidelines, which should be submitted to the Parliament;

- Fiscal Strategy with a wide range of data including all levels of government, projections, which will be aligned with the determined strategic priorities and macroeconomic parameters;

**Activity 2: Preparing and implementing several types of classifications – administrative / organizational, economic, program, functional classifications, as well as classification of sources of financing**

In the coming period as a major reform that will be implemented by the Ministry of Finance in cooperation with the U.S. Department of the Treasury, is preparation of a new budget classifications (administrative/organizational, economic, program, functional classifications, as well as classification of sources of financing), of which the administrative classification is particularly significant, which is planned to be prepared by June 2024 at the latest. At the same time, training courses are planned for employees and budget users as well as capacity building.

Budget will be presented more clearly through plenty of well-structured information, and it will be divided into general, special and development parts;

Such designed Budget implies application of several bylaws, which are used to identify specific purposes, as well as for systematic monitoring.

Budget is based on the application of the following classifications, as follows:

-organizational (administrative) classification-structure of codes for classification of budget users, primarily defining the role of the parent budget users;

-economic classification-structure of codes for classification of revenues and inflows, expenditures and outflows;

-functional classification-structure of codes for classification of the functions of the central government according to the International Classification of the United Nations;

-program classification-structure of codes for classification of Programs and sub-Programs, and

-classification of sources of financing.

**Activity 3: Strengthening of capacities, training of employees and budget beneficiaries**

In the direction of strengthening the budget process, Ministry of Finance through the IPA project "Strengthening of budget planning, execution and internal financial control" and with the U.S. Department of the Treasury, organised trainings on program budgeting and preparation of the by-laws of the new Law on Budgets.

**Implementation**

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * By-laws and types of classifications |
| **Cost implications:** | EUR 1,826,000 |
| **Responsible entity:** | Ministry of Finance, Budget and Funds Department |
| **Risk:** | * Human potential for implementation. |

**Measure 3: Introducing performance based budget (value for money)**

Results-based budgeting, i.e. performance - based budgeting, aimes to improve the efficiency and effectiveness of public expenditures by linking public sector expenditures to the results achieved. Budgeting should not be viewed as an isolated initiative, but rather as part of a set of broader reforms aimed at achieving the results.

In its most basic form, results-based budgeting aims to ensure that the key decision and policy makers systematically take into account the results to be achieved by spending.

**Activity 1: Developing of multi-year indicators for measuring the success in the implementation of budget policies**

Results-based budgeting fits within the medium-term budget framework. The best way to improve the spending policy is to make use of the performance information. To achieve this, a concept should be applied, including clearly defined:

* General objectives (linked with the policies);
* Specific objectives (linked with programmes);
* Оutput, i.e. indicators (linked with sub-programmes).

The general objective defines the final state to be achieved.

The general objective is measured through **impact indicators (policy level)** – indicators for measuring long-term effects, and they generally measure the impact of a set of measures. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

Specific objectives of the programmes support the general objectives of the respective policy. With respect to each programme, it is necessary to define 1-3 specific objectives. **Outcome indicators (program level)** – indicators for measuring medium-term or long-term effects of specific government measures and projects, which are presented as broader socio-economic consequences at programme level. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

There should be 1-3 objectives as expected results (indicators) under each sub-programme. The indicator gives thorough description of what we want to achieve over a certain time period, displaying the expected results as values. They are the basis for measuring and monitoring the SMART objectives. While setting them, different types of indicators may be used, depending on the level of detail of the objective. Objectives should have at least one indicators so as to be measured and monitored by:

Input indicator is the total sum of budget spent for a specific objective;

Output indicator (sub-programme level) - indicator that measures specific results - outputs (direct effects of measures or projects), supporting the realisation of the specific objectives. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

**Activity 2: Preparing procedures for monitoring the impact of sectoral policies on performance indicators**

Through performance-based budgeting, key decision-makers and policy-makers are expected to systematically take into account the results to be achieved when making expenditures. The best way to improve expenditure policy making is by using sustainability data.

The development of procedures in the direction of monitoring multi-year indicators for measuring the success in the implementation of policies in the budget is aimed at measuring the effects of budget expenditures in relation to the results of the provision of public goods and services by budget users. In this direction, a predictable and sustainable fiscal policy is expected, as well as increased budget discipline and responsibility. Fiscal policy focused on the consolidation of public expenditures through a gradual reduction of the deficit level, as well as the redesign of public expenditures through extensive investments in the area of infrastructure, is the ultimate goal of the entire process.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Budget in accordance with the provisions of the new OBL. |
| **Costs implications:** | EUR 166,000 |
| **Responsible entity:** | Ministry of Finance-Budgets and Funds Department |
| **Risk:** | * Human potential for implementation. |

**Measure 4: Spending review**

***Measure objective***

Expenditure reviews are an institutionalized process for analyzing existing expenditure in order to identify options for reducing or redirecting expenditure and/or increasing value for money. Expenditure reviews include helping to design and implement fiscal consolidation, creating fiscal space to fund new priorities (either for the entire budget or for a specific line ministry or program).

These include an in-depth analysis of existing public expenditures to identify options for reducing or redirecting expenditures that are of low priority, and represent inefficient spending.

Fiscal consolidation is a process of aligning the public revenues and expenditures by reducing the expenditures and/or increasing the revenues, for the purpose of reducing the budget deficit and the public debt.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **IMF 2023:** | Mission report on the introduction of spending reviews |

***Context / Background***

The current budget preparation process is not well suited to develop targeted optimization and saving proposals. It is a complex process integrating multiple inputs within a constrained timeline. Frequent budget supplements contribute to limiting budget analysts in the MoF and line ministries capacity to thoroughly analyze budget proposals. As a result, consolidation measures are often developed and integrated in the budget process without sufficient analysis of their implications on financial and non-financial performance.

Spending review can support the budget process by systematically examining expenditures and operationalizing high-level savings options spell out in the Plan for Fiscal Sustainability and Support for Economic Growth. Spending review can also create fiscal space to accommodate new priorities and increase value for money. More broadly, Spending review can contribute to a cultural change toward performance orientation in budgeting.

The international benchmark (IMF and World Bank) indicates a significant potential for improving the efficiency and effectiveness of government activities. In order to realize improvements in efficiency, it is necessary to identify specific measures to improve the efficiency and effectiveness of spending without having negative impacts on the implementation of fiscal policies. Through the cost reviews, the budget process will be supported with a systematic examination of expenditures and operationalization of savings options at a high level, thereby contributing to fiscal consolidation by reducing total expenditures.

The process of expenditure reviews will create fiscal space to adapt to new priorities and increase value for money, promote spending efficiency and contribute to greater value for money in public spending, i.e. a greater performance orientation of budgeting.

**Activity 1: Build capacity at the MoF and line ministries for conducting Spending Reviews  on a regular base**

The MoF has requested capacity development from the FAD in setting up a framework for the introduction of Spending review which it views as a tool to increase the efficiency of public spending and support fiscal consolidation. Such a framework will lay the groundwork for future World Bank capacity development in selecting and conducting Spending review. Capacity building and analysis done in the context of Spending Reviews  can help budget analysts in the MoF and in line ministries to integrate more analytical elements in their regular work. Over the medium term, the work of budget analysts can shift to a more strategic and analytical approach, as experienced in most advanced countries across trainings and on-going support to staff in the Spending Review Units and spending review teams (incl. budget analysts, members from line ministries).

Activities aimed at building capacities for the implementation of Spending Review in the MoF (including Spending Review Units staff and budget analysts) and line ministries:

* Coordinate and deliver training to staff in Spending Review Units and spending review teams (incl. budget analysts, members from line ministries)
* Amend job descriptions of budget analysts to include conducting SRs
* Capacity building synergy with other entities such as the Academy of Public Finance and the State Audit Office
* Systematic analysis of revenues and expenditures
* In-depth analysis of budget and performance information to identify options for savings and efficiency gains
* Preparation of reports/plans for the conducted analyzes and researches

**Activity 2: Prepare and adopt methodology with defining criteria and procedures for conducting Spending review**

A shared methodology can contribute to strengthening the quality of budget projections. The methodology should cover how to assess current levels of spending, identify and apply medium term cost drivers and aggregate cost items to the level required by the analysis. The methodology should also clarify the distinction between a no-policy change scenario and the costing of new policy measures. Trainings and on-going support to line-ministries’ budget analysts should be considered.

Activities that will be necessary to undertake in the direction of Enhance the quality of baseline projections:

* Prepare and adopt methodology with defining criteria and procedures for conducting Spending review;
* Provide training and on-going support to line ministries and
* publish the Methodology.

**Activity 3: Spending review as a basis for appropriate budgeting for the next mid-term period**

Spending Reviews is a process of aligning the public revenues and expenditures by reducing the expenditures and/or increasing the revenues, for the purpose of reducing the budget deficit and the public debt. Spending Reviews require mixture of measures on both budget revenue and budget expenditure side. Limited resources and necessity to finance priority projects impose a need to strengthen the performance-based budget planning process, rationalize certain expenditures and introduce adequate spending standards.

At the end of the day, the Spending Reviews can support the budget process by systematically examining expenditure and operationalizing the high-level savings options outlined in the Fiscal Sustainability and Economic Growth Support Plan and contribute to achieving a budget deficit level in line with Organic Budget Law.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Fiscal consolidation and phased reduction of the budget deficit. |
| **Costs implications:** | / |
| **Responsible entity:** | Ministry of Finance- Budgets and Funds Department |
| **Risk:** | * Insufficient human capacity to carry out the activity. |

# Priority 2: Strengthened Public Investment Management

***Objective***

Increased efficiency in the provision of public infrastructure assets and strengthened Public Investment Management framework.

The objective of increasing efficiency in the provision of public infrastructure assets by strengthening the public investment management framework will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Efficient coordination and development of public investment management processes** |
| Activity 1: | Strengthen the supporting legal framework for PIM |
| Activity 2: | Strengthen the institutional capacity of the MoF in the PIM system |
| **Measure 2:** | **Established single pipeline of appraised capital public investment projects** |
| Activity 1: | Develop general public investment project appraisal methodology |
| Activity 2: | Establish standard criteria for project selection/prioritization |
| Activity 3: | Provide training to MoF professionals on project appraisal and review of preinvestment studies |
| Activity 4: | Provide training to budget users/SoEs/LSGUs professionals on project formulation, appraisal and selection |
| **Measure 3:** | **Efficient and effective monitoring of capital investments** |
| Activity 1: | Introduce procedures for risk-based centralized monitoring |
| Activity 2: | Introduce a formal requirement for ex-post review of completed projects |
| Activity 3: | Develop a short-term IT solution for PIM |

***Outcome***

Efficient and effective planning, selection and implementation of major public investment projects.

***Outcome indicator***

PEFA score for indicator PI - 11. Public Investment Management (dimensions 11.1. Economic analysis of investment projects, 11.2. Investment project selection, 11.3. Investment project costing, 11.4. Investment project monitoring).

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| PEFA Score D+  C  D  C  C | PEFA Score: >C  >C  >C  >C  >C |

**Measure 1: Efficient coordination and development of public investment management processes**

***Measure objective***

Established structured and comprehensive approach to decision making for public investment projects

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **PEFA:** | PI -11/ Dimension 11.2:  There are three important shortcomings of the planning system for the purpose of this dimension. First, many priorities in the Government 4-year Working Program were not subjected to technical analysis to promote efficiency and productivity. Second, since the Government 4-year Working Program is not detailed at the project level, there is substantial room for interpretation when selecting projects on the basis of the Working Program. Third, the General Secretariat does not assess the technical qualities, feasibility, and costing of a proposed project as part of its review. |
|  | PI -11/ Dimension 11.3:  In North Macedonia, the budget shows the capital cost of a project, broken down by each year covered by the medium-term, along with a remainder if the project is implemented over more than three years. It is generally understood that construction costs are included in capital costs, but there is ambiguity on other related costs.  For externally funded projects, costing methods are established by the funding entity; for domestically funded projects, costing methods are established by each BU independently.  Recurrent costs associated with major projects are sometimes identified in project documents but not in the budget.  Since capital costs of a major project are included in each year of the medium-term budget, but recurrent costs of the project are not included in budget documents, the score for this dimension is C. |
| **PIMA:** | Fragmentation affects all stages of the PIM cycle. At the planning stage, strategic planning does not clearly identify public investment priorities at a consolidated national level and does not provide a solid base for the budget process. A multiplicity of documents (e.g., sectoral strategies, government work plan) point to infrastructure development needs in key economic and social sectors with varying levels of detail and time horizons. Yet, there is no consolidated national investment strategy or plan, including costing of major infrastructure projects, regardless of levels of government or financing sources. There is currently no department, unit or team in North Macedonia responsible for coordinating or managing and fostering development of PIM processes.  At the MoF the roles and responsibilities regarding public investment do not cover all required functions for efficient capital investment management. |

***Context / Background***

Based on recommendations provided in the PIMA Report (2020), the Government adopted the Action Plan on implementing the recommendations under the Public Investment Management Assessment (PIM Action Plan), to overcome the weaknesses detected and to improve the efficiency of allocation of public resources for infrastructure projects and the management of their implementation. PIM Action Plan envisages measures for strengthening the public investment management framework, by integrating public investment management processes so that infrastructure projects are selected on the basis of their own merit as projects, rather than by the way they are procured or financed.

In order to implement the PIM Action Plan, the MoF established a working group for implementation of the PIM Action Plan, with representatives of various institutions (ministries, Public Enterprises, JSC, regulatory bodies, etc.), coordinated by the Ministry of Finance.

Efforts to improve PIM are integrated with the new Organic Budget Law and the PPP legal and regulatory framework, which support the role of MoF as gatekeeper of public finances throughout the public investment cycle. The new OBL adopted in September 2022, by the Parliament, provides better support to PIM by including specific articles on strategic planning (Article 13), fiscal strategy with a horizon of 5 years (Articles 17 and 18), medium-term priorities and procedure for selection of new projects (Article 20) and project and multiyear part of the Budget (Article 25), among others. Similarly, the development of the new Integrated Financial Management System (IFMIS) considers PIM information requirements.

In order to perform the functions related to the management of public investments, the Ministry of Finance has established a new Public Investments Management (PIM) Department with the new acts for the organization and systematization of jobs adopted at the end of December 2022.

The role of the PIM Department in the Ministry of Finance is to perform duties pertaining to public infrastructure project appraisal, primarily from the point of view of the fiscal impact, the risks and sustainability, giving opinions and recommendations on the projects, preparing summary list of proposed and appraised new public infrastructure projects, consolidating the list of prioritised public infrastructure projects, monitoring of projects, as well as developing and updating methodologies for project appraisal and review of preinvestment studies.

The staffing process in the PIM sector started at the beginning of 2023. The total number of employees in the PIM sector is 14, and at the moment the PIM sector consists of 6(six) employees.

The PIM Department shall prepare new PIM Decree on managing public investment projects, as a by- law stemming from the new OBL (article 20), in order to establish a structured and comprehensive approach to decision making for the proposed public investment projects.

The Decree will be applicable to all budget users, municipalities and other public entities (public enterprises, trade companies owned by the Government).

**Activity 1: Strengthen the supporting legal framework for PIM**

|  |
| --- |
| The PIM Department (PIMD) of the MoF shall prepare a new PIM decree that shall regulate the manner of defining, preparing reviewing, evaluating, prioritizing and selecting new public investment projects, monitoring and reporting on the implementation and ex-post review of public investment projects as well as the roles and responsibilities of the entities involved in each of the stages of the PIM process. |
| The decree shall be adopted by the Government. Also, the MoF will prepare a manual for PIM processes to serve as a guiding and explanatory material for project proposers and decision makers. |
| The PIM Department (PIMD) of the MoF shall prepare a new PIM decree that shall regulate the manner of defining, preparing reviewing, evaluating, prioritizing and selecting new public investment projects, monitoring and reporting on the implementation and ex-post review of public investment projects as well as the roles and responsibilities of the entities involved in each of the stages of the PIM process. |
| The decree shall be adopted by the Government. Also, the MoF will prepare a manual for PIM processes to serve as a guiding and explanatory material for project proposers and decision makers.  **Activity 2: Strengthen the institutional capacity of the MoF in the PIM system**  The MoF needs to continue the process of staffing and capacity development of the newly established PIM Department to ensure its gatekeeping role for the capital budgeting of public investment projects. |

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Decree on managing public investment projects * Manual for PIM processes * Adequate staffing of the PIMD of the MoF * Capacity development of the PIMD staff |
| **Cost implications:** | EUR 400,000 |
| **Responsible entity:** | MoF – PIM Department, BUs/SoEs/LSGUs |
| **Risk:** | * Lack of political will to support reforms, insufficient staff and lack of capacities, poor coordination between institutions. |

**Measure 2: Established single pipeline of appraised capital public investment projects**

***Measure objective***

Capital spending is allocated to the most productive sectors and projects by a comprehensive, unified, and medium-term perspective to capital budgeting, as well as objective criteria and competitive procedures for selecting particular investment projects.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| PEFA: | PI -11/ Dimension 11.2:  There are no published standard criteria for project selection. For externally funded projects, selection criteria are established by the external funding entity. That said, the Single Project Pipeline (SPP), coordinated by the Secretariat for European Affairs and covering all externally funded projects, uses selection criteria published under the “Support to Western Balkans Infrastructure Investment Projects in the period 2014-2020” project. For domestically funded projects, selection criteria are established by each BU independently, some of whom follow the SPP selection criteria.  Prioritization of projects for inclusion in the budget is determined most directly by the General Secretariat of the Government. The focus of the prioritization is compliance with the Government 4-year Working Program, and is communicated through the 3-year strategic plan prepared by each BU in parallel with the budget (see PI-16.3 for a more detailed explanation of the planning system).  **Since major projects are prioritized by a central entity but not on the basis of measurable criteria for selection that are rigorous and focus on economic efficiency and productivity, the score for this dimension is D.** |
|  | PI -11/ Dimension 11.3:  In North Macedonia, the budget shows the capital cost of a project, broken down by each year covered by the medium-term, along with a remainder if the project is implemented over more than three years. It is generally understood that construction costs are included in capital costs, but there is ambiguity on other related costs.  For externally funded projects, costing methods are established by the funding entity; for domestically funded projects, costing methods are established by each BU independently.  Recurrent costs associated with major projects are sometimes identified in project documents but not in the budget.  **Since capital costs of a major project are included in each year of the medium-term budget, but recurrent costs of the project are not included in budget documents, the score for this dimension is C.** |
| PIMA: | Fragmentation affects all stages of the PIM cycle. At the allocation stage, there is no single pipeline of appraised capital projects ready to be prioritized and to compete on a level playing field for budgetary resources. Multiple project pipelines coexist depending on sources of financing and economic sectors. Project selection and prioritization is not done using standard and comparable methodologies across sectors, and there is no standard methodology for determining maintenance needs.  Staff capacity in budget users regarding financial and economic project appraisal is insufficient for effective preparation, appraisal and selection of capital investment projects. |

***Context / Background***

New Organic Budget Law (adopted by the Parliament) stipulates that a methodology for defining, preparing, reviewing, appraising and prioritizing new infrastructure projects should be adopted by the Government (Article 20), specifying that the budget users, as part of the budget preparation process, have to submit pre-feasibility or feasibility study to MoF supporting all new major investment proposals, as well as that MoF will prepare an opinion to the Government (cross-sectoral working group/committee) on the basis of the results from the studies, prior to considering a certain project for financing from the Budget or any other source.

There is a need for a capacity building for strengthening staff skills, mainly in MoF on project appraisal and on review of preinvestment studies, but also in budget users/SoEs/LSGUson project formulation and appraisal to increase their ability as counterpart of pre-investment studies done by consultants and first reviewers of studies. In accordance with international good practices, strengthening capacity will require a continuous training program due to the high turnover rate that is common in the public sector.

The OBL (Article 20 - Medium-Term Priorities and Procedure for Selection of New Initiatives - Projects and Activities) stipulates that the new evaluated public investment projects should be further considered and prioritized by the National Investment Committee (NIC) or Municipal Council committee and finally decided by the Government and/or a Municipal Council respectively. By determining priority and selection, a systematic ranking and selection of projects that have successfully passed the appraisal and independent review stages is carried out. The selection and prioritisation of these projects shall be done based on predefined criteria and the projects for which budget funds are allocated shall be selected and further implemented, ensuring optimal allocation of the available funding. Thus, a single pipeline of evaluated and accepted capital public investment projects shall be created, and administered by the MoF.

**Activity 1: Develop general public investment project appraisal methodology**

The MoF will prepare a general appraisal methodology for public investment projects for all projects regardless of sources of funding, based on best international practices. The methodology shall be adopted by the Government and applied by all public entities.

**Activity 2: Establish standard criteria for project selection/prioritization**

The MoF shall propose criteria for prioritization of the public investment projects which include profitability (cost effectiveness), social and environmental impact and strategic importance of the projects, to be adopted by the Government and will apply to all sectors. These criteria will be used for creation of a single pipeline of appraised capital projects, covering all sectors and all funding sources.

**Activity 3: Provide training to MoF professionals on project appraisal and review of preinvestment studies**

Capacity development for strengthening PIM Department staff skills on project appraisal and review of preinvestment studies so that it can perform its function related to the independent review of public investment projects.

**Activity 4: Provide training to budget users/SoEs/LSGUs professionals on project formulation, appraisal and selection**

Training of budget users/SoEs/LSGUs on project formulation and appraisal of pre-investment studies shall be carried out to increase their capacity to review pre-investment studies done by consultants.

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***Implementation***

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| **Completed in year:** | 2027 |
| **Deliverables:** | * General public investment project appraisal methodology; * Standard criteria for project selection; * Training of staff; * Single project pipeline of appraised projects. |
| **Cost implications:** | EUR 140,000 |
| **Responsible entity:** | MoF – PIM Department, budget users/SoEs/LSGUs, Government Cabinet, Municipal Council |
| **Risk:** | * Insufficient staff, lack of capacities, lack of coordination between institutions and lack of data. |

**Measure 3: Efficient and effective monitoring of capital investments**

***Measure objective***

Improved project monitoring and reporting arrangements for major public investment projects thus ensuring value for money.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **PEFA:** | Dimension 11.4:  Standards or rules governing project monitoring and reporting vary based on funding source. There is no legal framework for monitoring project implementation. For externally funded projects, there is a high level of compliance with the funding entity’s standards and procedures. For domestically funded projects, there are no standards, and there is no central oversight entity.  **Since the total cost and physical progress of major investment projects are monitored by the implementing government unit, but there are no standard procedures for project implementation and published annual reports address financial implementation status only, the score for this dimension is C.** |
| **PIMA:** | At the implementation stage, there is no central oversight over the entire public investment portfolio. Infrastructure projects are managed individually, but neither a sectoral nor a national oversight function is performed within the public sector preventing the Ministry of Finance, or the government, to clearly identify costs overruns and projects delays, to take corrective actions on a timely manner, and to learn from implementation experience. |

***Context / Background***

Effective project management is of paramount importance to ensure the successful delivery of public investment projects, which are then subject to ex-post review. The results of ex-post reviews provide invaluable insights that are useful for further planning of future projects and decision-making, and also contribute to their continuous improvement.

The diligent monitoring and periodic reporting requirements ensure that the government and funding body remains informed about the progress of funded projects, promoting transparency, accountability, and timely interventions, if necessary, to ensure successful project implementation.

The Government should introduce risk-based centralized monitoring, involving high-level monitoring by MoF for most projects and closer scrutiny of projects with higher delivery risk. Upon securing financing for a project, the responsibility for its implementation falls on the project implementers. These entities are not only accountable for executing the project, but also for closely monitoring both its financial and physical progress throughout the implementation phase. This dual oversight ensures that the project stays on track and adheres to budgetary and timeline expectations. In addition to continuous monitoring, it should be a mandatory requirement for these entities to compile and submit progress reports to the MoF. These reports serve as crucial documentation of the project's development and are instrumental in maintaining transparency and accountability.

Furthermore, the MoF needs to create a database for public investment projects to manage public investment project data from inception to monitoring (including impacts related to climate change on infrastructure).

**Activity 1: Introduce procedures for risk-based centralized monitoring**

Specific procedures for monitoring of implementation of public investment projects shall be set by the Government with the new PIM decree and PIM process manual.

After starting the public investment project, the project implementor shall monitor the physical and financial implementation and shall submit progress reports about the project to the Ministry of Finance. They are expected to cover a comprehensive overview of the project's status, detailing the milestones achieved, financial expenditures, any deviations from the original plan, and an assessment of any challenges encountered.

The Ministry of Finance shall prepare progress reports for the public investment projects’ portfolio based on the data provided by project implementers and inform the Government. Also, the Ministry of Finance shall set rules for fundamental review of problem projects which experience deviation from the initial project implementation plan.

**Activity 2: Introduce a formal requirement for ex-post review of completed projects**

Following completion of all works associated with the project e.g. after project becomes operational, the project implementer shall submit to the MoF a final report, summarizing the entire project's implementation. This report will serve as the concluding chapter of the project's documentation, offering insights into the project's achievements, lessons learned, and a comprehensive overview of the final outcomes.

**Activity 3: Develop a short-term IT solution for PIM**

The PIM module to be developed under the IFMIS is expected to support the PIM functions related to monitoring. In order to bridge the period until the new IFMIS PIM module becomes operational, the MoF shall develop a short - term IT solution for public investment management (PIMIS) to collect and store basic information on public investment projects. It will support the creation of a database to manage project data from inception to monitoring (including impacts related to climate change on infrastructure).

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Procedure for monitoring and ex-post review of projects; * Monitoring reports on the national investment portfolio; * Short-term IT solution for PIM (PIMIS). |
| **Cost implications:** | EUR 135,000 |
| **Responsible entity:** | MoF – PIM Department, budget users/SoEs/LSGUs |
| **Risk:** | * Insufficient staff, lack of capacities, lack of data, lack of coordination between institutions. |

# Priority 3: Strengthen the accounting of budgets and budget users

***Objective***

Improving the budget institutions’ financial reporting and realistic presentation of assumed and outstanding liabilities of budget institutions.

The objective of this priority will be achieved through the following measures and activities:

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| --- | --- |
| **Measure 1:** | **Strengthening the accounting system by applying new accounting practices and capacity building of public sector accountants** |
| Activity 1: | Adoption a Strategy for Improvement of the Budget Institutions’s Accounting with a gap analysis, setting priorities and goals and action plan; |
| Activity 2: | Adopting a new regulatory framework on accounting of budgets and budget users and bylaws; |
| Activity 3:  Activity 4: | Harmonizing budget information systems and budget users with the new accounting requirements;  Training an examination for accountants in the public sector |

***Outcome***

Improved financial reporting by establishing new accounting practices.

***Outcome indicator***

1. Percentage of budget users applying new accounting practices.

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| / | 100% of budget users apply new accounting practices |

**Measure 1: Strengthening the accounting system by applying new accounting practices and capacity building of public sector accountants**

***Measure objective***

Determining the strategic direction for the development of new accounting practices.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **PEFA 2021:** | No strategic direction for development of accrual accounting.  National legal framework for accounting and financial reporting has remained stable over time which has ensured consistency and comparability of reported information. At the same time, this stability has precluded improvements to financial disclosures.  There is no consolidated information on assets and liabilities for the central government, although the information is available from the Central Registry.  (PI-12).  The accounting standards used are not disclosed in the financial statements.No (voluntary) notes on accounting policies used. (PI-29). |

***Context/Background***

In order to strengthen the budget institution’s accounting, its necessary to adopt Strategy for Improvement of Budget Institutions’ Accounting which will give strategic guidelines for improving the budget institutions’s accounting. Under the Strategy, gap analysis should be conducted to identify the non-compliance of public sector accounting with the international practice, followed by determining the priorities and the objectives for introduction of the new accounting practices, and preparing an action plan.

New regulatory framework on accounting of budgets and budget users and bylaws are envisaged to be adopted after adoption of the Strategy, where specific deadlines have been determined. Such legislative changes will provide for implementing reforms in the field of budget accounting in order to adoption of new accounting standards for financial reporting in the public sector.

Budget institutions’ information systems are set in accordance with the existing manner of keeping the accounting by the budget institutions, so it will be necessary to harmonize the budget institutions’ information systems with the new accounting requirements.

The Financial System Department, which is responsible only for the legal framework in this area, will prepare amendments of the Law of Accounting of Budgets and Budget Users, providing mandatory certification for accountants in the public sector. After the adoption of the amendments to the Law, the Financial System Department in cooperation with the Public Finance Academy it will start organize an exam for the certification of accountants in the public sector.

This measure will be implemented through the following activities:

**Activity 1: Adoption a Strategy for Improvement of Budget Institutions’ Accounting with a gap analysis, setting priorities and goals and action plan;**

The purpose of this activity is to adopt a Strategy with an Action Plan in which priorities, goals and clear guidelines will be given for the need to adopt new accounting practices and standards for financial reporting in the state sector.

**Activity 2: Adopting a new regulatory framework on accounting of budgets and budget users and bylaws;**

The purpose of this activity is the preparation and adoption the regulatory framework of this area and the activity will begin after the adoption of the Strategy

**Activity 3: Harmonizing budget information systems and budget users with the new accounting requirements.**

This Activity will follow after the adoption of the new regulatory framework with which budget users will have obligation to adjust their budget information systems with the new practices and standards.

**Activity 4: Training and examination for accountants in the public sector**

This Activity will follow after the adoption of the Amendments of the Law of accounting of budgets and budget users. Financial System Department in cooperation with Public Finance Academy will provide training and exam for certification of accountants in the the public sector.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Adopted Strategy for Improvement of Budget Institutions’ Accounting; * Adopted new regulatory framework on accounting of budgets and budget users and bylaws arising from the respective law; * Harmonized budget institutions’ information systems with the new accounting requirements. |
| **Cost implications:** | EUR 10,000 |
| **Responsible entity:** | Ministry of Finance -, Treasury Department, Budget Department, Financial System Department |
| **Risk:** | * Insufficient human capacities for realization of this activity. |

# PILLAR IV - Public procurement

**Intruduction**

Public procurement has the key role in enabling economic and societal growth and delivering quality public services to the citizens. Public procurement system has to secure that the public funds are spent in efficient, transparent, reasonable and fair manner.

In 2022, the public procurement market in Republic of North Macedonia amounted to 8.6% of the country’s GDP. It represented 25% of the state budget. The proportion of the overall value of public procurement awarded to SMEs is 57%.

It remains crucial requirement for the country to further improve the functioning of the public procurement system aiming to secure duly implementation of the Law for public procurement (LPP) and legal consistency for all parties in the system, leading to better public finance management.

Priorities within this pillar are covering the main fields of public procurement, enabling developing and monitoring of specific target measures. There are the following two priorities:

* **Priority 1: Public procurement policy**
* **Priority 2: Public private partnership and Concessions on goods of general interest**

**Priority 1: Public procurement policy**

This priority is under the competence of Public procurement bureau and State appeals commission. It is focused on developing measures for better implementation of the LPP, improved procurement process and inducing competition as well as making quality and sound decisions in accordance with EU public procurement law and practices.

**Priority 2: Public private partnership and Concessions on goods of general interest**

This priority is under the competence of Ministry of economy and it is focused on increasing transparency and unified approach of all public partners in the implementation of public-private partnership projects, as well as improved quality and success in the implementation of public-private partnership projects**.**

# Priority 1: Public Procurement Policy

***Objective***

The objective of the priority is strengthening the capacity of the overall public procurement system with the purpose of securing effective public procurement and aligning with the EU legislation in practice.

The objective of this priority will be achieved through the following measure and activities:

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| --- | --- | --- |
| **Measure 1:** | **Improving the cooperation among the key institutions in the public procurement system** | |
| Activity 1: | Regular communication and coordination of Advisory group of the key institutions in the procurement system; | |
| **Measure 2:** | **Combating corruption in public procurement** | |
| Activity 1: | Introducing documents for strengthening the integrity of the procurement process; | |
| **Measure 3**:  Activity 1: | **Introducing new system for education within PPB**  Revision of the education programme; |
| **Measure 4**: | **Increasing the administrative capacities of the SAC** |
| Activity 1: | Increasing the number of employees in SAC; |

***Outcome***

Improved public procurement process.

***Outcome indicators***

1. Percentage of one bid tenders;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 29,70% | ≤ 26 % |

1. Percentage of cancelled procedures.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 21,16% | ≤ 18,5 % |

3) Number of appeals

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Total number of received complaints before the SAC - 837 | Reduction by 2% of appeals |

4) Number of appeals before both, the Administrative Court and the Higher Administrative Court

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Lawsuits filed before the Administrative Court -10,58% Judgments of the Administrative Court - 54 Appeals before the High Administrative Court - 58 | Reduction by 5% of the annulled Decisions of SAC |

**Measure 1: Improving the cooperation among the key institutions in the public procurement system**

***Measure objective***

Timely identification of gaps and weaknesses in the implementation of PPL, aiming to prevent irregularities and support duly and uniform implementation of the law.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **SCREENING REPORT,**  **Cluster 1 Fundamentals– Public procurement**  **2023** | Coordination between government stakeholders needs to be strengthened further to improve compliance with and uniform application of the law.  The internal control systems within contracting authorities need to be strengthened as the first line of defence in terms of control procedures (see measures under Chapter 32), allowing the PPB to focus on its core tasks of policy guidance, support and monitoring of the functioning of the full PP system. |
| **EC REPORT NORTH MACEDONIA 2023** | Improve coordination among key stakeholders and strengthen their capacity to implement the principles of transparency, free competition, equal treatment and non-discrimination; |
| **SIGMA 2021:** | Public procurement operations comply with the basic principles of equal treatment, non-discrimination, proportionality and transparency. However, the introduction of the new PPL in 2019 which is substantially compliant with the 2014 EU Directives and introduces flexibilities, has had minimal practical impact. Old habits have not changed and the levels of competition have not shown marked improvement. The continued extremely high number of awards based on the lowest price using e-auctions, and the limited use of centralised procurement means that the most efficient use of public funds is unlikely. Contract management remains a significant area for improvement.  There has been a decline in active co-operation among institutions to co-ordinate the interpretation of procurement legislation, contributing to uncertainty as to the application of the legal framework in practice. |
| **PEFA 2021:** | Ensure continuous capacity building in public procurement through design and implementation of training plans, twinning arrangements and other capacity building programs. |
| **EU:** | Improve the co-ordination among key players in public procurement and strengthen their capacities and independence to implement the principles of transparency, free competition, equal treatment and non-discrimination;  The quality of tender documentation remains a challenge for smaller contracting authorities. |

***Context / Background***

Cooperation among the key institutions in the public procurement system is regulated with the Advisory group.

The Advisory group is already established and functional. It is composed by representatives of PPB, SAC, SAO, SCPC, CPC and ME.

The intention is coordination and cooperation among the key institutions in the public procuremenet system on regular basis, which will enable timely identification of gaps and irregular implementation of LPP as well as preventing bad practices, and support for duly and uniform implementation of the law.

**Activity 1: Regular communication and coordination of Advisory group of the key institutions in the procurement system**

Maintaining regular and quality cooperation and coordination for identification of gaps and irregular implementation of LPP and support for duly and uniform implementation of the law.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2024 |
| **Deliverables:** | Working meetings at regular basis. |
| **Cost implications:** | / |
| **Responsible entity:** | SAC, SAO, CPC, SCPC, ME |
| **Risk:** | Inappropriate detecting of the weaknesses in the system and the issues for improvement. |

**Measure 2: Combating corruption in public procurement**

***Measure objective***

Introducing anti-corruption practices in public procurement cycle.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **SCREENING REPORT,**  **Cluster 1 Fundamentals– Public procurement**  **2023** | North Macedonia needs to increase efforts to prevent corruption, by improving the functioning of the overall system to increase competition, compliance and professionalisation. It should focus on increasing staffing and training at the PPB, the SAC and the contracting authorities and on strengthening the institutional set-up for overseeing concessions and PPPs.  The internal control systems within contracting authorities need to be strengthened as the first line of defence in terms of control procedures (see measures under Chapter 32), allowing the PPB to focus on its core tasks of policy guidance, support and monitoring of the functioning of the full PP system. |
| **EC REPORT NORTH MACEDONIA 2023** | Improve coordination among key stakeholders and strengthen their capacity to implement the principles of transparency, free competition, equal treatment and non-discrimination; |
| **SIGMA 2021:** | Public procurement operations comply with the basic principles of equal treatment, non-discrimination, proportionality and transparency. However, the introduction of the new PPL in 2019 which is substantially compliant with the 2014 EU Directives and introduces flexibilities, has had minimal practical impact. Old habits have not changed and the levels of competition have not shown marked improvement. The continued extremely high number of awards based on the lowest price using e-auctions, and the limited use of centralised procurement means that the most efficient use of public funds is unlikely. Contract management remains a significant area for improvement.  Practical guidelines, tools and training, have not been fully updated or aligned with the new PPL. |
| **EU:** | Improve the co-ordination among key players in public procurement and strengthen their capacities and independence to implement the principles of transparency, free competition, equal treatment and non-discrimination; |

***Context / Background***

Public procurement area is particularly vulnerable to corruption and other illegal practices. PPB is continuously undertaking steps for improving the knowledge and skills of procurement practitioners for preventing corruption in public procurement cycle. In this area, PPB also has close cooperation with SCPC.

**Activity 1: Introducing documents for strengthening the integrity of the procurement process**

In 2024 additional mechanisam for preventing corruption will be introduced. In this direction, PPB will prepare and publish a template of Statement for impartiality and confidentiality, aimed to secure the integrity of the procurement procedure.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2024 |
| **Deliverables:** | Template of Statement for impartiality and confidentiality |
| **Cost implications:** | / |
| **Responsible entity:** | PPB, SCPC |
| **Risk:** | / |

**Measure 3: Introducing new system for education within PPB**

***Measure objective***

Improve the knowledge and skills of public procurement officers.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **SCREENING REPORT,**  **Cluster 1 Fundamentals– Public procurement**  **2023** | Support to contracting authorities on implementing the PPL, in particular on the use of the MEAT criterion, and training for contracting authorities and entities needs to be improved and expanded under a reviewed certification programme  Continuous training of staff at the contracting authorities and entities and economic operators must be ensured. The training curriculum should also address practical aspects of the application of the Law.  North Macedonia needs to increase efforts to prevent corruption, by improving the functioning of the overall system to increase competition, compliance and professionalisation. It should focus on increasing staffing and training at the PPB, the SAC and the contracting authorities and on strengthening the institutional set-up for overseeing concessions and PPPs. |
| **EC REPORT NORTH MACEDONIA 2023** | The capacity of both central and local contracting authorities needs to be strengthened.  Use of 'most economically advantageous tender' (MEAT) is still limited. There is a need for organisation of continuous training of contracting authorities on how to apply this criterion. |
| **SIGMA 2021:** | Public procurement operations comply with the basic principles of equal treatment, non-discrimination, proportionality and transparency. However, the introduction of the new PPL in 2019 which is substantially compliant with the 2014 EU Directives and introduces flexibilities, has had minimal practical impact. Old habits have not changed and the levels of competition have not shown marked improvement. The continued extremely high number of awards based on the lowest price using e-auctions, and the limited use of centralised procurement means that the most efficient use of public funds is unlikely. Contract management remains a significant area for improvement.  The PPB has continued to deliver certification training and publish guidance, despite challenges presented by the pandemic, but the focus in training is on legal compliance. Practical guidelines, tools and training, have not been fully updated or aligned with the new PPL. |
| **PEFA 2021:** | Ensure continuous capacity building in public procurement through design and implementation of training plans, twinning arrangements and other capacity building programs. |
| **EU:** | Ensure the efficient implementation of the public procurement legal framework, including the development and adoption of the Law on Public-Private Partnerships, the Law on Concessions and the bylaw on low-value e-marketplace;  The quality of tender documentation remains a challenge for smaller contracting authorities. |

***Context / Background***

It is a general impression that the main weakness and challenge in public procurement is the lack of the capacity for implementation of LPP and good practices. In relation to the abovementioned, it is accepted the need for revising the concept for education of the public procurement officials through rationalisation of the training programme and creating improved, extended and more flexible programme which will contribute to strengthening the administrative capacity for duly implementation of the legal framework.

It is expected that it will contribute to developing better skills and knowledge for implementation of the legal framework, in all phases of the process, especially planning, market analysis/preliminary market consultations, preparation of tender documentation, evaluation as well as contract management.

**Activity 3: Revision of the education programme**

PPB, with support of Twinning project experts, will analyze and review the Programme for education of public procurement officers, based on ProcurCompEU guidance and a draft – proposal of integrating of applicable ProcurCompEU aspects in the reviewed programme for education will be developed.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Revision of the Programme for education with recommendations; * Rulebook for education; * Tariff Book of the fee for delivering education; |
| **Cost implications:** | / |
| **Responsible entity:** | PPB, MF |
| **Risk:** | * Adoption of Law Amending the Law on Public Procurement; * Shortage of qualified trainers’ * Low attendance to training activities; * Leaving of competent PPB employees; |

**Measure 4: Increasing the administrative capacities of the SAC**

***Measure objective***

Ensure sufficient capacity of SAC for timely processing of appeals.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **SCREENING REPORT,**  **Cluster 1 Fundamentals– Public procurement**  **2023** | The State Appeals Commission is an independent review institution, however, it needs additional qualified staff toensure timely processing of the growing number of appeals. |
| **SIGMA 2021:** | There has been a decline in active co-operation among institutions to co-ordinate the interpretation of procurement legislation, contributing to uncertainty as to the application of the legal framework in practice. |
| **EU:** | Improve the co-ordination among key players in public procurement and strengthen their capacities and independence to implement the principles of transparency, free competition, equal treatment and non-discrimination; |

***Context / Background***

The volume of work of SAC related to its core competence (decision-making on appeals) is constantly increasing in recent years, while the administrative capacity is not increasing accordingly. There is a great need to strengthen the capacity by employing professional staff with relevant experience in public procurement procedures.

**Activity 4: Increasing the number of employees in SAC**

Strengthening the administrative capacity of SAC by employing sufficient number of qualified experts to work on the tasks falling within the core competence of SAC is considered as one of the preconditions not only for achieving the required level of efficiency of SAC, but also for proper functioning of the public procurement system in general.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2025 |
| **Deliverables:** | New employees in SAC. |
| **Cost implications:** | 84.000 EUR |
| **Responsible entity:** | SAC, MF |
| **Risk:** | * Possible outflow of SAC qualified employees and cause of difficulties in the functioning of SAC; * SAC system failure. |

# Priority 2: Public Private Partnerships (PPPs) and Concession on goods of general interest

***Objective***

The goal is through new policies in the field of public-private partnership in the Republic of North Macedonia to provide all the prerequisites in the development of an effective public-private partnership system that will enable activation of hitherto inactive funds for construction of large buildings and facilities of public interest, while stimulating competition and achieving the most value for money.

In the Republic of North Macedonia, the granting of concessions of goods of general interest and the agreements for establishment of public-private partnership, legal protection in the procedure, as well as other issues related to the concessions of goods of general interest and the agreements for establishment of public-private partnership are regulated by Law on Concessions and Public Private Partnership ("Official Gazette of the Republic of Macedonia" No. 6/12, 144/14, 33/15, 104/15, 215/15 and "Official Gazette of the Republic of North Macedonia" No. 153/19, 261 / 19, 89/2022 65/2023, 89/2022 and 65/2023). This law is based on the principles of transparency, non-discrimination, proportionality, efficiency, equal treatment and mutual recognition. With the adoption of Directive 2014/23 / EU on the award of concession contracts, which change the EU procurement rules, the need to transpose it into domestic law was imposed, ie the need to establish clear rules for the award of contracts for establishment of a public-private partnership, which leads to greater legal certainty and free provision of services.

In order to transpose the directive and establish an efficient public-private partnership system, in cooperation with and with the technical assistance of World Bank experts, a preliminary analysis of the situation in the field of public-private partnership and concessions was prepared, identifying certain weaknesses in the law, and the need to act through new policies in the field of public-private partnership in the Republic of North Macedonia. To this can be added the status of a partially updated register of contracts for establishing a public-private partnership (which is kept in paper form and in an excel spreadsheet), due to which it does not have complete data on all concluded contracts, because not all public partners act in accordance with the obligation to submit data for a concluded contract for establishing a public-private partnership to the Ministry of Economy. In the process of implementation of the law, certain weaknesses have been recorded in terms of regulating the matter relating to the planning, prioritization and selection, preparation and approval of public-private partnership projects, as well as in terms of monitoring and overseeing the implementation of the procedures for awarding the contracts for establishing a public-private partnership and in relation to the very realization of the concluded contracts, due to which there is no complete insight into the continuity and full transparency in the process of awarding and implementing the contracts for establishing a public-private partnership.

In direction for providing compliance with EU legislation, ie transposition of Directive 2014/23 / EU on the award of concession agreements, as well as the creation of policies in the field of concessions and public-private partnership for preparation and implementation of quality and successful public projects, the Draft Law on Public Private Partnership was harmonised with the recommendations from the European Commission and is now in the stage of sending the request for opinion from relevant institutions after which it will be send into Government procedure.

In the course of the application of the existing legislation in this area, it has been established that among the involved entities there is a mix of the perception of concessions as public private partnership and concessions of goods of general interest, which is reflected in the appropriate application of the rules and procedure for awarding concessions according to the type. The priority is to prescribe clear rules for the awarding and realization of concessions of goods of general interest, that is, unifying and sublimating the entire process of their awarding, to ensure traceability both in the process of preparation and in the process of managing the concessions of goods of general interest for their successful realization, to ensure greater transparency in the process of awarding and implementing concessions of goods of general interest by introducing a Register of concessions of goods of general interest, as a unique database for this type of concessions, to ensure consistent implementation of the law by introducing misdemeanor provisions for grantors in cases where they will not act in accordance with their obligations and powers established by the law.

Concessions of goods of general interest that do not fall within the scope of the directive, as a special type of concession by which public entities make public wealth available to private parties for a long period of time, with no real cooperation between the parties. Because of all this reason was prepared new Draft Law of concession on goods of general interest.

The Draft Law of concession on goods of general interest is also in stage of sending requests for opinion from the relevant institutions after which it will be delivered into Government procedure in parallel with the Law on Public Private partnership.

In order to implement Measure 1 establishment of the Unique Electronic System for Public Private Partnership, it is necessary to provide financial resources in the amount up to 1.000.000 eur (according to the information in the technical specification for the preparation and development of the software provided by experts from the World Bank. We point out that securing of the necessary financial resources is a serious problem despite several attempts to provide them from the Budget of Republic of North Macedonia, so we need help to provide these funds from donors.

The Law on PPP is closely related and dependent of the implementation of the UESPPP, so without the appropriate software, the law itself will remain inapplicable, which will affect the deadline for starting its application, which means that until the UESPPP is established, the law will have delayed application.

The goal of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Establishment of the Unified Electronic Public Private Partnership System (UESPPP)** |
| Activity 1: | Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership; |
| Activity 2: | Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contractsthe establishment of public-private partnership**.** |
| **Measure 2:** | **Completing the legal and regulatory framework in the field of public-private partnership** |
| Activity 1: | Preparation and adoption of 13 bylaws that will arise from the Law on Public Private Partnership and preparation of the Guideline with examples of PPP projects |
| Activity 2: | Preparation and adoption of the bylaws that will arise from the f the Law on Concession on goods of general interest |
| **Measure 3:** | **Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership** |
| Activity 1: | Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership. |

***Outcome***

Unification and digitalization of the process of awarding contracts for establishing public-private partnership, increased transparency and efficiency in the implementation of the Law on Public-Private Partnership and strengthening and developing the capacities of the Ministry of Economy for consistent realization of competencies according to law.

In order to realize and implement the activities, responsibilities and obligations of the Ministry of Economy established in the PPP law, employment in the PPP Department and concession was planned for two new employees in 2023 and one in 2024, we emphasize that the planed ones have not been realized. This is because the competent Ministry that gives approval of the Budget for employment is Ministry of Finance that did not approve two employments for 2023.Because of this obstacle the new employment of civil servants will be postponed for 2024-2025.

***Outcome indicators***

1. Number of concluded agreements for establishing a public-private partnership;

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Five (5) concluded public-private partnership agreements registered in the Register of awarded public-private partnership agreements | Potential increase in the number of concluded public-private partnership agreements by 5% compared to the previous year |

1. Effective and consistent implementation of the obligations of the contracting parties in accordance with the agreements for establishment of public-private partnership.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 30% of the concluded agreements for establishing a public-private partnership in which certain legal obstacles in the realization occurred | Potential reduction by 10% of concluded public-private partnership agreements in which certain legal obstacles in the realization occurred, compared to the previous year |

**Measure 1: Establishment of the Unified Electronic Public Private Partnership System (UESPPP)**

***Measure objective***

Ensuring greater transparency in the awarding and implementation of public-private partnership agreements, ie unifying and sublimating the entire process for their awarding through the establishment of a Unified Electronic Public-Private Partnership system as the only digital database of public-private partnership agreements will generate the Register of awarded contracts for establishing a public-private partnership.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **WB:** | - Strengthening the regulatory framework and policies for public-private partnership |
| **ЕU:** | - To ensure effective implementation of the legal framework in the field of public-private partnership and concessions; |

***Context / Background***

After the prepared Analysis of the situation in the field of public-private partnership and concessions in cooperation and with the technical assistance of the World Bank experts within the project "Strengthening the regulatory framework and policy for public-private partnership", certain weaknesses in this area and the need were identified for acting through new policies in the field of public-private partnership in the Republic of North Macedonia. In that direction is the need to transpose Directive 2014/23 / EU on the award of concession agreements, in order to create legislation for awarding contracts for the establishment of public-private partnership that will provide efficient, balanced and non-discriminatory market access for all economic operators, especially small and medium enterprises (SMEs) and real market opening and fair balance in the application of the rules for awarding contracts for establishing a public-private partnership, more precisely, a legal framework that will enable the development of models for public-private partnership (concession / public procurement ) and activation of hitherto inactive assets or construction of large facilities and facilities of public interest, while stimulating competition and achieving the most favorable value for money.

**Activity 1: Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership**

The activity implies implementation of the procedural activities for selection of an IT company that will prepare the software solution of the UESSPPP Pand the Register of awarded contracts for establishing a public-private partnership.

**Activity 2: Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts** the establishment of public-private partnership

The activity means preparation of the software solution of the ECHR and the Register of awarded contracts for establishment of public-private partnership and start with its implementation.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2025 |
| **Deliverables:** | * Established UEPPPS as a single digital database for public-private partnership. |
| **Costs implications:** | EUR 1,000,000 |
| **Responsible entity:** | Ministry of Economy |
| **Risk:** | * Inability to provide financial and technical assistance, breach of deadlines for implementation. |

**Measure 2: Completing the legal and regulatory framework in the field of public-private partnership and the legal and regulatory framework in the field of concession on goods of general interest**

The purpose of the measure is to adopt the bylaws that will arise from the Law on Public Private Partnership in order to complete the process of normative regulation in the field of public private partnership.

*Reference to findings from external assessments:*

|  |  |
| --- | --- |
| **WB:** | Strengthening the regulatory framework and policies for public-private partnership. |
| **ЕU:** | To ensure full compliance with EU legislation in the field of public-private partnerships and concessions. Adoption of the public-private partnership law and the law on concessions, to further align the legal framework in these areas with the EU acquis; |

***Context / Background***

The transposing of the Directive 2014/23 / EU on the award of concessions and full implementation of the Law on Public Private Partnership will be achieved through the adoption of bylaws that will prescribe in more detail certain provisions of it. After the adoption of the Draft Law on Public Private Partnership,, which is in the phase of sending the requests for opinion from the relevan institutions before its submission to the government procedure, after which will follow preparation and adoption of bylaws arising from it, a complete normative regulation of the area of ​​public private partnership will be performed.

**Activity 1: Preparation and adoption of 13 bylaws that will arise from the Law on Public Private Partnership and preparation of the Guideline with examples of PPP projects**

The activity means preparation and adoption of the bylaws that will arise from the Law on Public Private Partnership which will regulate in more detail certain issues in the law.

**Activity 2: Preparation and adoption of the bylaws that will arise from the f the Law on Concession on goods of general interest**

The activity implies implementation of a procedure for preparation and adoption of bylaws that will arise from the Law on the concession on goods of general interest.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2025 |
| **Deliverables:** | * By-laws will be prepared and adopted within six months after the adoption of the Law on Public Private Partnership. * By-laws will be prepared and adopted within three months after the adoption of the Law on Concession on goods of general interest. |
| **Costs implications:** | EUR 22,000 |
| **Responsible entity:** | Ministry of Economy/Ministry of finance. |
| **Risk:** | * Extension of deadlines for adoption of bylaws. |

**Measure 3: Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership**

***Objective measure***

The purpose of the measure is to strengthen the administrative capacity of the Ministry of Economy, ie to increase the number of civil servants who will work on this issue and their training for effective and consistent execution of competencies in accordance with law.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **WB:** | Strengthening the regulatory framework and policies for public-private partnership. |
| **ЕU:** | To ensure effective implementation of the legal framework in the field of public-private partnership and concessions. |

***Context / Background***

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.

**Activity 1: Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership**

The activity implies new employments in the Department for Public Private Partnership and their professional training in this field.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2025 |
| **Deliverables:** | * Strengthened staff capacity of the Ministry of Economy in the field of public-private partnership; * Conducted trainings for the employees of the Ministry of Economy in the field of public-private partnership. |
| **Costs implications:** | EUR 96,000 |
| **Responsible entity:** | Ministry of Economy |
| **Risk:** | * Difficult functioning and execution of the determined competencies in accordance with the law, because of lack of stаff capacity. |

# Pillar V: Public finance digitalisation and continuоus learning

**Introduction**

Robust public finances are crucial for maintaining fiscal discipline, ensuring the allocation of public resources aligns with the government strategic priorities, optimizing operational efficiency, as well as promoting accountability and transparency. The integration of Public Financial Management (PFM) operations by leveraging the latest digital advancements, and the capacity building of public administration employees play key roles in enhancing and advancing the public finances in the Republic of North Macedonia.

The main objective of IFMIS development is to improve the efficiency and transparency of PFM operations by transitioning from existing fragmented and disconnected systems to a centralized web-based shared platform benefiting from the latest digital technologies to support the PFM reforms and the implementation of the Organic Budget law (OBL).

More precisely, the IFMIS is expected to play a crucial role in amending the legal and institutional budget framework and addressing existing challenges in PFM systems. It aims to broaden the scope of budget execution monitoring and fiscal reporting, covering all stages of the expenditure cycle, from procurement to payment, and ensuring a consolidated overview of public spending on time. Among its functionalities, IFMIS will enable the establishment of a multi-year budgetary framework, introduce a public investment management function, and implement an automated system for supervising commitments, including multi-year commitments. The system will centralize data on commitments incurred, as well as asset and debt management. Integration of IFMIS is expected to provide comprehensive and timely access to public finance data, contributing to improved efficiency in liquidity forecasting and the management of financial flows within the budget.

The Public Finance Academy will contribute to the development of qualified professionals in public finance, which will lead to more efficient and effective management of public funds. Training programs will emphasize the importance of fiscal responsibility, leading to better budgeting, reduced deficits and overall financial stability. Furthermore, education about transparency and accountability can lead to more open and accountable governance, reducing corruption and promoting trust in public institutions. Enhanced financial skills can help policy makers make the right decisions about resource allocation, ensuring that funds are targeted to priority areas with the greatest impact on citizens and businesses. The Academy's focus is on building fiscal policies that will contribute to establishing long-term economic stability and sustainable development.

Providing continuous education to the public administration in the field of public financial management is especially important for both the overall process of public financial management and the creating of a modern and competent administration to provide quality and prompt services to citizens and businesses.

This pillar is covering the following priorities:

* **Priority 1: Implementation of an Integrated Financial Management Information System (IFMIS)**
* **Priority 2: Public Finance Academy (learning organization)**

**Priority 1: Implementation of an Integrated Financial Management Information System (IFMIS)**

The development of IFMIS aims to enhance the efficiency and transparency of PFM operations, playing a crucial role in amending the legal and institutional budget framework, addressing existing challenges, and providing a centralized web-based platform with advanced functionalities to support comprehensive budget execution monitoring and fiscal reporting

**Priority 2. Public Finance Academy (learning organization)**

This priority is to provide continuous education of the public administration in the field of public financial management and to create a modern and competent administration for rendering quality and fast services to citizens and businesses.

# Priority 1: Implementation of an Integrated Financial Management Information System (IFMIS)

***Objective***

Implementation of a contemporary Integrated Financial Management Information System (IFMIS) is an important part of the Public Financial Management (PFM) reforms initiated by the Ministry of Finance (MoF). The main objective of IFMIS development is to improve the efficiency and transparency of PFM operations by transitioning from existing fragmented and disconnected systems to a centralized web-based shared platform benefiting from the latest digital technologies to support the PFM reforms and the implementation of the new Organic Budget law (OBL) adopted in September 2022, and scheduled for enactment on January 1, 2025.

The IFMIS is expected to support the amendment of the legal and institutional organic budget framework and address existing challenges in PFM systems by broadening the scope of budget execution monitoring and fiscal reporting, covering all stages of the expenditure cycle (from procurement to payment), and obtaining a consolidated picture of the public spending on a timely basis. The IFMIS will allow, among other things, the establishment of a multi-year budgetary framework, introduction of public investment management function linked with the future public-private investment system, an automated system of supervision over commitments, including multi-year commitments and centralized data on the commitments incurred, fixed asset management, and debt management. Furthermore, its integration will enable comprehensive and timely availability of public finance data which will contribute to increased efficiency in liquidity forecasting and management of financial flows of the budget.

The IFMIS implementation is funded by a 20 million euros World Bank loan and a 5 million euros European Commission grant. A portion of the World Bank loan has been used to established a Project Unit aimed to oversee the implementation as part of the "Building Effective, Transparent, and Accountable Public Financial Management Institutions Project."

Additionally, the Minister of Finance has established a Working Body with a five-year mandate to be responsible for implementation, upgrading, optimization, execution, regulation, maintenance, control, staff education, and analysis of all system processes and functionalities. The upcoming establishment of expert commissions and working groups will play a key role in advancing the development and implementation of individual IFMIS modules.

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Development of IFMIS as an integrated centralized web-based system** |
| Activity 1**:** | Selection of IFMIS Solution Provider; |
| Activity 2**:** | Development of IFMIS modules and interfaces; |
| Activity 3**:**  **Measure 2:**  Activity 1:  Activity 2:  **Measure 3:**  Activity 1:  Activity 2:  Activity 3: | IFMIS pilot implementation and operational acceptance.  **Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS**  Enhancement of the existing data centers and network connectivity  Establishment of the secure backup network connections  **Capacity strengthening training and change management to support OBL reforms and IFMIS operations**  Transition from existing MoF Systems to IFMIS  Training of IFMIS users from central and local budget entities  Development of a business continuity plan and disaster recovery skills |

***Outcome***

Improved operational efficiency and transparency through IFMIS in line with the new OBL.

***Outcome indicators***

1. The required time for the processing of payments through IFMIS and Treasury Single Account interface was reduced (efficiency);

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| No IFMIS; 30 days for entities to submit the invoice to the Treasury +1 for payment processing | 5 days for entities to submit invoices to Treasury +1 day for payment processing by Treasury |

1. Comprehensiveness of publicly published general government reporting (transparency);

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Annual Budget preparation and budget execution reports do not cover all relevant institutions in accordance with international standards (ESA 2010 and GFS) | Regulatory agencies and PEs are included as part of the budget preparation and execution reports through the new IFMIS, in line with new PE Registry. |

1. Open Budget Index Score (transparency) increased.

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| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Open Budget Index Score (transparency) increased | 61 out of 100 (2025) |

***Reference to the external assessment findings:***

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| --- | --- |
| **WB:** | World Bank, *Technical Assistance on Organic Budget Law (P168027), Functional and Technical Requirements*  The main objective of IFMIS development is to improve the efficiency of PFM operations by transitioning from existing fragmented and disconnected systems to a centralized web-based shared platform benefiting from the latest digital technologies |

***Context / Background***

In the domain of Public Financial Management (PFM) reforms, progress since 2018 has been notable. However, a significant challenge arises from the absence of an integrated financial management information system (IFMIS), particularly in the context of implementing the new Organic Budget Law (OBL). The OBL's execution necessitates comprehensive adjustments to the entire PFM framework, spanning institutional structures, secondary regulations, processes, and systems. Its impact extends across the public sector, influencing management and staff practices. The successful implementation of OBL relies heavily on the establishment of IFMIS, crucial for enhancing the Ministry of Finance's performance in core PFM functions like budget planning and execution, public debt and asset management, monitoring public investments, data analytics, and business intelligence. This phase also presents an opportunity to integrate climate change and gender considerations into the budget process and associated systems.

The government, with support from the World Bank, has been actively evaluating PFM processes and systems since 2019 under the Organic Budget Law Technical Assistance ASA (P168027). The focus has been on comparing IFMIS implementation options and aligning detailed requirements with reform priorities. With this foundation, the government is now prepared to advance to the implementation stage.

In selecting the IFMIS development model, the Ministry of Finance opted for a custom software solution after careful consideration of global practices. The chosen approach provides flexibility for country-specific customization, integrates 15 modules supporting various PFM functions, ensures ownership of the source code for future maintenance, aligns with reform timelines, and promises lower development and maintenance costs.

The IFMIS will be a centralized web-based platform supporting decentralized operations for approximately 1,400 central and local budget entities. These include state budget users, municipality entities, and public enterprises, totaling around 6,000 users. The system aims to optimize PFM functions, offering reliable access through a web portal while allowing certain functions to be decentralized but connected to the shared platform.

Recognizing the cross-cutting implications of change management, successful implementation of OBL and IFMIS requires strengthening the Ministry of Finance's capacity for inter-institutional coordination, addressing resistance to procedural changes, and providing middle management with better control over the pace and scope of reforms.

**Measure 1: Development of IFMIS as an integrated centralized web-based system**

***Measure objective***

This measure will focus on the development of new integrated software solution(IFMIS) and relevant GovTech solutions to operationalize the OBL, as well as to enhanced PFM processes.

**Activity 1: Selection of IFMIS Solution Provider**

This activity implies the selection of an economic operator for the development and design of IFMIS, which involves the evaluation of potential bidders in a competitive procedure, and the selection of a bidder whose qualifications and offer (in terms of price and quality) follow the IFMIS functional and technical requirements.

**Activity 2: Development of IFMIS modules and installation of hardware system and interfaces**

This activity involves the development of IFMIS based on a web-based custom software including capabilities for climate and gender tagging of expenditures, a data warehouse, and interfaces with other government systems to improve budget planning, transparency, and accountability

**Activity 3: IFMIS pilot implementation and operational acceptance**

In this phase, a pilot implementation of the IFMIS is carried out to test its functionality and performance in a real-world environment. This activity includes feedback from the IFMIS pilot users aimed to identify and address any issues that may arise and need to be adjusted, before the full IFMIS rollout.

Operational acceptance ensures the system meets the functional and technical requirements and is ready for full-scale implementation.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2026 |
| **Deliverables:** | * New IFMIS is fully developed and deployed and connected with other government systems. |
| **Cost implications:** | The ongoing IFMIS procurement process follows established procedures, making it impractical to provide an exact cost implication at this stage. |
| **Responsible entity:** | MoF – IFMIS WG |
| **Risk:** | * Insufficient staffing and insufficient training of human resource; * Employee turnover involved in the implementation and use of IFMIS; * Insufficient commitment of senior management. |

**Measure 2: Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS**

***Measure objective:***

New IFMIS will be a centralized web-based shared platform to support decentralized operations (online/offline) countrywide. This measure involves the expansion of the Ministry of Finance's (MoF) Information and Communication Technology (ICT) infrastructure, aligning with a comprehensive government-wide strategy, with primary objective to accommodate the implementation of the new IFMIS.

**Activity 1: Enhancement of the existing data centers and network connectivity**

This activity focuses on improving the capacities of the current data centers operated by the Ministry of Finance andincludes upgrades and optimizations to the physical and virtual infrastructure, as well as enhancements to network connectivity. The goal is to ensure a robust and reliable foundation for hosting the new IFMIS.

**Activity 2: Establishment of secure backup network connections**

This activity aims to support the Ministry of Finance's ICT infrastructure by enhancing the existing data centers and network connectivity following the expected increase in the workload and operational needs, as well as the creation of a resilient and secure backup network. The emphasis is on establishing reliable connections to ensure continuity in the event of failures or other network disruptions.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * The existing MoF ICT Infrastructure and network connectivity are enhanced to support IFMIS operations |
| **Cost implications:** | The ongoing IFMIS procurement process follows established procedures, making it impractical to provide an exact cost implication at this stage. |
| **Responsible entity:** | MoF – IFMIS WG |
| **Risk:** | * Insufficient staffing and insufficient training of human resource; * Employee turnover involved in the implementation and use of IFMIS; * Insufficient commitment of senior management. |

**Measure 3: Capacity strengthening training and change management to support OBL reforms and IFMIS operations**

***Measure objective:***

This measure will support to establishment of new institutional structures needed for the implementation of the IFMIS and create a supportive enabling environment to ensure the success of the new model.

**Activity 1: Transition from existing MoF Systems to IFMIS**

This activity aims to ensure a stable transition and integration of the PFM functionalities into IFMIS, through the systematic migration of data, processes, and functionalities from the current MoF systems to the IFMIS.

**Activity 2: Training of IFMIS users from central and local budget entities**

This activity focuses on providing comprehensive training to IFMIS users from both central and local budget entities conducted by the Public Finance Academy. The aim of the training is for IFMIS users to acquire the necessary skills and knowledge for effective and efficient operation with IFMIS.

**Activity 3: Development of a business continuity plan and disaster recovery skills**

This activity implies establishing a comprehensive business continuity plan for the MoF MDC, including the development of strategies and procedures to ensure continuous operations in case of unforeseen events. Additionally, the activity involves equipping staff with the skills and resources needed to execute effective disaster recovery measures and safeguard critical financial data and operations.

***Implementation***

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| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Change management program developed and training of IFMIS users completed. |
| **Cost implications:** | The ongoing IFMIS procurement process follows established procedures, making it impractical to provide an exact cost implication at this stage. |
| **Responsible entity:** | MoF – IFMIS WG |
| **Risk:** | * Insufficient staffing and insufficient training of human resource; * Employee turnover involved in the implementation and use of IFMIS; * Insufficient commitment of senior management. |

# Priority 2: Public Finance Academy (Learning organisation)

***Objective***

Providing continuous education of the public administration in the field of public financial management and creating a modern and competent administration for rendering quality and fast services to citizens and businesses

Objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Developing and implementing a curriculum** |
| Activity 1: | Developing methodology for preparing annual training programme and curriculum |
| Activity 2: | Developing evaluation form for participants |
| **Measure 2:** | **Developing of e-learning platform** |
| Activity 1: | Developing of the e – learning platform |
| Activity 2:  Activity 3: | Developing video tutorial and guidelines  Organizing online trainings |
| **Measure 3:** | **Developing leadership program** |
| Activity 1:  Activity 2: | Developing methodology for preparing annual training programme and curriculum  Organizing trainings |

***Outcome***

Provided continuous education in the field of public financial management.

***Outcome Indicator***

1. Management's perception of whether the Academy adds value to their employees (low, medium or high level of value added perception).

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| / | High |

**Measure 1: Developing and implementing a curriculum**

***Measure Objective***

Supporting the operations of the Academy by preparing appropriate methodological tools and a comprehensive Training Program.

***Context/Background***

Within the Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions", the preparation of methodological tools and guidelines on the operations of the Academy, has commenced. In addition, under the same project, analyses for the training needs in different areas as regards public financial management have been prepared, which should be used as input in the preparation of the Annual Training Program and the curricula of the Academy.

**Activity 1: Developing methodology for preparing annual training programme and curriculum**

Within this activity, the Public Finance Academy will develope methodology for preparing annual training programme and curriculum which will lead for preparing training needs assessment, the Annual Training Program and curriculum.

**Activity 2: Developing evaluation form for participants**

This activity will involve crafting a concise document to gather feedback from the participants. Using a mix of rating scales and open-ended questions, the form provides valuable insights for organizers and facilitators to assess the success of the event and identify areas for improvement in future programs.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2024 |
| **Deliverables:** | * Methodology for preparing annual training programme and curriculum; * Satisfaction of the participants with the carried out trainings (low, medium or high level of satisfaction); |
| **Cost implications:** | EUR 5.000 |
| **Responsible entity:** | MoF – PF Academy |
| **Risk:** | * Insufficient training as a result of financial resources. |

**Measure 2: Developing of** **e-learning platform**

***Measure Objective***

Establishment of e-learning platform in order to make the trainings organized by the academy, easily accessible for all participants.

***Context/Background***

This initiative aims to modernize and diversify the educational approach to better suit the needs of learners in the field of public finance. The e-learning platform will be designed with features that cater to diverse learning needs. E-learning allows for flexible, self-paced learning experiences that can reach a wider audience. For this purpose, Public Finance Academy took the initiative in order to acquire donor assistance.

**Activity 1: Developing of the e – learning platform**

This activity aims to create a dynamic e-learning platform that offers a diverse range of high quality educational resources (E-library). This e-platform will ensure compatibility across devices (smart devices).

**Activity 2: Developing video tutorial and guidelines**

In relation to this activity, Public Finance Academy will provide tutorial video and guidelines that will be a guide to the process of online trainings and for adequate use of the online platform. With this opportunity, the academy will ensure that access to the online platform is provided in a clear way that is understandable to all participants.

**Activity 3: Organizing online trainings**

The purpose of this activity is for the Public Finance Academy to organize online trainings and in this way to present the easier way of learning, as well as to confirm the success of the learning platform, facilitating the learning process.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Organized and implemented online trainings, Providing learning materials. |
| **Cost implications:** | EUR 50.000 (donators) |
| **Responsible entity:** | MoF – PF Academy |
| **Risk:** | * Deficiency of technical support and maintenance, low responsiveness and acceptance by the stakeholders |

**Measure 3: Developing lеаdership program**

***Measure Objective***

Developing a program for leaders where specialized trainings will be established to develop leadership competencies in order to train future officials with crucial knowledge in the field of public finance management.

***Context/Background***

This initiative strategically focuses on creating a specialized training program for future officials. Aligned with organizational objectives, the program aims to cultivate a cadre of leaders equipped with the essential skills for effective decision-making and strategic planning in the dynamic field of public finance.

**Activity 1: Developing methodology for preparing annual training programme and curriculum**

Within this activity, the Public Finance Academy will develop methodology for preparing annual training programme and curriculum for leadership which will lead for preparing training needs assessment, the Annual Training Programme and curriculum consisting of specific trainings for leaders in the field of public finance management.

**Activity 2: Organizing trainings**

The purpose of this activity is for the Public Finance Academy to organize trainings for building human capacity to enhance the skills and quality for new generation of leaders.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | - Methodology for preparing annual training programme and curriculum  - Organized and implemented leadership trainings |
| **Cost implications:** | EUR 30.000 (donators) |
| **Responsible entity:** | MoF – PF Academy |
| **Risk:** | * Low responsiveness of the stakeholders, resistance from the new approach of leadership learning styles. |

**PILLAR VI - Public Internal Financial Control**

Public internal financial control as a whole is an integral element of national public financial management. It is a comprehensive concept that applies to the entire public sector, especially central government revenues and expenditures, including foreign funds.

Public internal financial control covers financial management and control, internal audit and

their harmonization, in our country it is established in accordance with the international standards for internal control and internal audit.

The Minister of Finance is responsible for coordinating the development, the establishment, implementation and maintenance of the system of public internal financial control, and on its behalf the Central Harmonization Unit in the Ministry of Finance.

Coordination is done through:

- harmonization and supervision of financial management and control,

- harmonization and supervision of the internal audit and

- preparation and adoption of by-laws, manuals and guidelines.

Under this Program document, effectiveness of the public internal financial control system will be strengthened by implementing measures and activities under the following three priorities:

* **Priority 1: Financial management and control**
* **Priority 2: Internal audit**

**Priority 1: Financial management and control**

The goal is to increase the effectiveness of internal controls in financial management, thus ensuring implementation of the key financial processes in accordance with internal acts based on risk management.

**Priority 2: Internal audit**

The goal is to strengthen the effectiveness of internal audit in the public sector, so that the internal audit units, through their assurance and consulting engagements, will contribute to achieving the goals of public sector institutions.

# Priority 1: Financial Management and Control

***Objective***

Increased effectiveness of internal controls in public sector financial management

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Creating the conditions for improvement of a system of financial management based on risk management** |
| Activity 1: | Strengthen the capacity of the CHU to monitor and report on the functioning of the overall internal control system; |
| Activity 2: | Preparation of the methodology for specific Financial Management and Control issues; |
| Activity 3: | Establishment of a network of institutions’ financial affairs units in coordination with the CHU, for exchange of experiences, best practices and raising awareness at public sector entities about responsibilities for the quality of financial management and control. |

***Outcome***

Prepared procedures for key financial management elements

***Outcome indicators***

1. Percentage of institutions that have applied the guidelines for risk management in their operations

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 50 | 70 |

1. Percentage of institutions that have delegated authorities and responsibilities for financial management and control

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 40 | 80 |

1. Percentage of implemented recommendations given during quality checks.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 0 | 80 |

**Measure 1: Creating the conditions for improvement of a system of financial management based on risk management**

***Measure objective***

Establishment of a comprehensive system of controls based on risk management, which guarantees the reasonable use of public funds by applying the principle of managerial accountability.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **PEFA**  **2021:** | Continuous efforts are made to promote sound financial management and control through internal rules and procedures, with a view to strengthen decentralized management and control in spending units. (PI-25).  Operationalization of the managerial accountability concept through delegation of *budgets for programs under their purview will require* stronger independent assurance on adequacy and effectiveness of the prescribed controls.  The initiative is complementary to internal and external audit work on strengthening internal controls and could compensate for some of coverage gaps in those functions due to resource constraints. Links with the ongoing initiatives to strengthen integrity and quality management in public institutions can be better leveraged.  **Proposed Action**  Enhance the capacity of MoF CHU to carry out quality reviews of risk management and internal control effectiveness. Guidelines envisaged under the new PIFC Law should allow the MoF to assess effectiveness of internal control procedures in spending units. |
| **SIGMA**  **2021:** | Although the operational framework of internal control is generally in place, the implementation of good practices for IC and managerial accountability suffers from the scattered accountability structure in the overall organization of the public administration.  Not all budget organisations follow the legal obligations for putting in place internal procedures for the delegation of tasks, risk management and the definition and monitoring of performance indicators.  PIFC-related manuals do not appear to be consistently applied by budget organisations, and the IC requirements are perceived as an administrative burden rather than as useful management tools.  The new PIFC Law introducing the concept of parent budget users can potentially streamline accountability, monitoring and reporting lines. |
| **EU:** | North Macedonia needs to adopt and implement the new Law on Public Internal Financial Control (PIFC) and approve all the bylaws, manuals and operational instructions accompanying the implementation of the Law. The existing legal framework on internal control is broadly harmonised with international standards. The draft of the new PIFC Law contains improvements for the internal control system. It has been in parliamentary procedure for two years and the calendar for its adoption is not clear. This draft Law defines managerial accountability as the manager’s obligation for the achievement of results in a legal, ethical and regular manner, in line with the principles of economy, efficiency and effectiveness. It foresees that budget users will be accountable to parent budget users and public companies will be accountable to the managerial board and should also report to the parent budget users about its goals in the strategic plan.  North Macedonia needs to increase the capacity of the Central Harmonization Unit (CHU). The capacities of CHU to monitor and report on the functioning of the overall internal control system remain to be strengthened. The operational framework of PIFC is established and strategic objectives of the country to improve the overall internal control system are incorporated as Pillar VI of the 2022- 2025 Public Financial Management Reform Programme, including future plans to strengthen the quality control function of the CHU and to increase the capacity of the Internal Audit and Inspection. North Macedonia needs to strengthen managerial accountability and to foster delegation of decision-making authority. This includes addressing the fragmentation of public sector structures by reducing the number of primary budget users and establish systems to reinforce managerial accountability and delegation of tasks in all budget organizations. |

***Context/Background***

The country is **moderately prepared** in the area of financial control. The legal framework for internal control is broadly harmonised with international standards. Its implementation needs to be further strengthened. In the coming period, it is necessary to adopt and effectively implement the Law on Public Internal Financial Control System and their methodological tools on order to ensure their efficient implementation in coordination with reforms of the new Organic Budget Law. The draft Law on Public Internal Financial Control System defines the new model of managerial accountability according to which the head of the parent budget user is accountable for the development of an efficient and effective system for financial management and control of the body having appointed the respective head, the head of the budget user is accountable to the head of the parent budget user, and the head of the publicly owned enterprise is accountable to the supervisory board. Thereby, the head of the budget user and the head of the publicly owned enterprise adhere to the procedures and guidelines given by the parent budget user.

The Law also defines the manner of delegating powers and responsibilities in the implementation of the key processes for financial management and control, whereby the delegation of powers and responsibilities does not exclude the accountability of the head of the public sector entity. When delegating powers and responsibilities, the head of the entity is obliged to apply the principle of segregation of duties in a manner that will not allow for one official to be responsible for approval of financial obligations, approval of payment and accounting at the same time.

Despite ongoing work to provide further guidance, the efficient implementation of managerial accountability remains a challenge for budget users at central and local levels. Coherent and consistent application of the manual on managerial accountability is yet to be ensured.

**Activity 1: Strengthen the capacity of the CHU to monitor and report on the functioning of the overall internal control system**

Capacity of CHU to check the quality of financial management and control will be strengthened by adequate staffing and training.

Public Internal Financial Control, is a separate module in IFMIS, this will provide comprehensiveness and accuracy in the reporting by the parent budget users, budget users and publicly owned enterprises will be ensured. This activity will be in generally contribute to raising awareness and strengthening managerial accountability.

**Activity 2: Preparation of the methodology for specific Financial Management and Control issues**

Central Harmonization Unit, on based on previously prepared outputs for risk management in the frame of the Twining project will prepare new more practical and simplified guideline for risk management process which besides other, will cover the topic for corruption risks.

After finalization of this guideline, Central Harmonization Unit will promote this document and support the institutions in the its implementation. Also,Central Harmonization Unit, on based on previously prepared outputs for managerial accountability in the frame of the twinning project will prepare practical guideline for managerial accountability. After finalization of this guideline, Central Harmonization Unit will promote this document to high level management and support the institutions in the its implementation. Also, will be educated employees in the Financial affairs units and other relevant organizational units.

**Activity 3: Establishment of a network of institutions’ financial affairs units in coordination with the CHU, for exchange of experiences, best practices and raising awareness at public sector entities about responsibilities for the quality of financial management and control**

Under this activity, financial affairs units will be provided access to the newly established web platform “Network of Institutions’ Financial Affairs Units” in coordination with the CHU in order to ensure cooperation and exchange of experiences and raising awareness at public sector entities about responsibilities for the quality of financial management and control.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | * 2027 |
| **Deliverables:** | * Simplified guideline for risk management process * Guideline for managerial accountability * Strengthened the CHU capacities |
| **Cost implications:** | * 86,000 EUR |
| **Responsible entity:** | * Ministry of Finance - PIFC |
| **Risk:** | * Insufficient staffing and insufficient training of human resources(in the CHU and Financial Affairs Units= |

# Priority 2: Internal Audit

***Objective***

Increased effectiveness of public sector internal audit.

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Strengthening the quality of work of the internal audit units at the Ministries** |
| Activity 1: | Improving of Human Resources capacities of Internal Audit Units in the Ministries through adequate staffing and Continuous Professional Development at the internal auditors; |
| Activity 2: | Strengthen the capacity of the CHU to monitor and report on the quality of operations of the internal audit units; |
| Activity 3: | Establishment of a network of institutions’ internal audit units in coordination with the CHU, for exchange of experience and best practices. |
| **Measure 2:** | **Improving the abilities to carry out performance and IT internal audits in the public sector institutions** |
| Activity 1: | Preparation and promotion methodology for specific type of internal audits; |
| Activity 2: | Analysis of the situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance |

***Outcome***

Strengthened internal audit units that operate in line with the standards and contribute to achievement of the goals of the public sector institutions.

***Outcome indicators***

1. Number of internal auditors in Ministries;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 33 | 70 |

1. Percentage of implemented recommendations given during quality checks;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 0 | 80 |

1. Percentage of certificated internal auditors

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 30 | 80 |

1. Percentage of implemented recommendations

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 64 | 80 |

1. Number of performance audits preformed;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 2 | 16 |

1. Number of IT audits performed.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 1 | 11 |

**Measure 1: Strengthening the quality of work of the internal audit units at the Ministries**

***Measure objective***

Strengthening the quality of work of the internal audit units at the Ministries for the purpose of supporting the performance of their new tasks and duties as parent budget users.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **PEFA 2021:** | MoF CHU reported 91 established internal audit units, staffed with over 130 internal auditors as of May 2021, for all public sector institutions at the central government level. Excluding PEs and EBUs from the totals, there are 13 internal audit units (IAU) which are covering 91.75 percent and 91.61 percent of CG revenue and expenditure, respectively, within the assessment scope. Under the Law on PIFC in force at the time of the assessment, internal audit can be established as IAU (at least two internal auditors) and Internal Audit Department (IAD, at least five internal auditors), depending primarily on the average size of the budget in the past three years. Institutions mandated to establish the IA function include all the CG ministries and SSFs. Other institutions are required to establish the function, provided their average budgets in the last three years exceeded the threshold of Denar 50 million. |
| **SIGMA 2021:** | The annual PIFC reports provide comprehensive information on organisational capacity and numbers of reports and recommendations. It does not report on the quality of IA as assessed through quality assurance measures because a formal system for quality assurance is lacking at CHU level. CHU plans to develop an adequate quality assurance methodology and train the staff and afterwards proceed with “pilot” quality assurance measures. The implementation will be challenging if the problems of fragmented organisation and understaffing are not first addressed.  In terms of the operational framework required to implement IA, laws and regulations are consistent with the international standards and specify appropriate operational arrangements. However, the staffing of the IA function does not meet minimum requirements, and basic quality assurance arrangements for IA are not yet in place. The decision to lower legal requirements on the size of IA units may prove to jeopardise the sustainability of IA systems.  The small average size of IA units, combined with understaffing and low qualifications, has an impact on the quality of the audit activities. Although 70% of IA units prepare strategic and annual audit plans based on a risk assessment, these plans generally lack ambition and fail to address high-risk and complex issues. Audit reports, although demonstrating a credible link between evidence and conclusions, are generally focused on compliance issues with a narrow scope. |
| **EU:** | North Macedonia should adopt the new Public Internal Financial Controls (PIFC) Law. The draft Law contains improvements to strengthen the internal audit function and establishes the responsibility for implementing and monitoring the implementation of internal audit recommendations. North Macedonia needs to review the structure of Internal Audit Units (IAUs) in line with the Law to avoid fragmentation and scattered capacity of these units. The fragmentation and the small size of IAUs remain a challenge to carry out efficiently internal audit functions. The country should reduce the number of IAUs and increase their capacity to carry out their mandate, including carrying out performance and IT audits. The quality of work of the IAUs at the Ministries needs to be strengthened for the purpose of supporting the performance of their new tasks and duties as parent budget users. North Macedonia needs to develop a system for certification of Internal Auditors and improve the ability to carry out performance and IT audits. A national certification system for internal auditors is foreseen in the draft PIFC Law (still in parliamentary procedure). It is also recommended to establish a network of institutions’ IAUs in coordination with CHU, to exchange experience and good practices. Under this activity, IAUs should be access to the newly established web platform “Network of Institutions’ Financial Affairs Units” in coordination with CHU. With regard to anti-corruption, PIFC institutions and the SAO should strengthen cooperation with Anti-Corruption/Law enforcement institutions. The system to monitor the number of cases investigated, prosecuted and subject to court resolutions because of cases reported by internal audits units or inspection is only partially effective. Coordination between internal control bodies (Internal Audit and Financial Inspection) and the State Audit Office and anti-corruption bodies is lacking. The mechanism to report suspected cases to the State Commission for Prevention of Corruption or Public Prosecution is not clear. |

***Context/Background***

Out of a total of 16 ministries, IA Units in 2 Ministries are not staffed, IA Units in 7 ministries employee only one person each, and IA Units in 8 ministries have no heads of the respective Units. IA Units are organized as units in 13 ministries. Having in mind that under the new Draft Law on Public Internal Financial Control System, the ministries will be assigned the role of parent budget users which are to conduct internal audit in their administrative bodies, second-line budget users and public enterprises and state-owned joint stock companies falling within their competence, it is necessary to undertake urgent measures for reorganization of IA Units and their staffing.

Lack of continuous professional development of internal auditors in the furthermore will be ensured by the Public Finance Academy.

In order to strengthen IA Units, it is required to conduct more agile quality checks of their work, for the purpose of which the Central Harmonization Unit will prepare adequate methodological tools and establish a web network for institutional cooperation and exchange of experience to be coordinated by CHU.

**Activity 1: Improving of Human Resources capacities of Internal Audit Units in the Ministries through adequate staffing and Continuous Professional Development at the internal auditors**

With this activity, it is necessary to ensure the gradual staffing/re-equipment of the internal audit units in the ministries.

CHU, through the Public Finance Academy, will provide training for internal auditors, and after the adoption of the draft Law on PIFC, it will start organizing an exam for the certification of internal auditors.

**Activity 2: Strengthen the capacity of the CHU to monitor and report on the quality of operations of the internal audit units**

Capacity of CHU to check the quality of operations of the internal audit units will be strengthened by adequate staffing and training.

Public Internal Financial Control, is a separate module in IFMIS, this will provide comprehensiveness and accuracy in the reporting by the parent budget users, budget users and publicly owned enterprises will be ensured. This activity will be in generally contribute to raising awareness for internal audit and strengthening managerial accountability.

**Activity 3: Establishment of a network of institutions internal audit units in coordination with the CHU, for exchange of experience and best practices**

Under this activity, IA units will be provided access to the newly established web platform “Network of Institutions’ Financial Affairs Units” in coordination with the CHU in order to ensure cooperation and exchange of experience.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Organized trainings for internal auditors * Organized certification of internal auditors. * Strengthen CHU capacities; |
| **Cost implications:** | * EUR 136,000 |
| **Responsible entity:** | * Ministry of Finance - Central Harmonization Unit |
| **Risk:** | * Lack of internal auditors on the labor market; * Insufficient IT technical support for web platform. |

**Measure 2: Improving the abilities to carry out performance and IT internal audits in the public sector institutions**

***Measure objective***

Increasing the number of conducted performance audits and IT audits which will contribute to improving the work of central-level institutions.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **PEFA**  **2021** | While greater focus is to be expected on value for money in service delivery and digitization of services, there are low numbers of IT and performance audits carried out by internal auditors. Skills needed for these audits may not be available to the extent to meet the demand. This is to be exacerbated with the expected further decrease in the number of internal auditors in the public sector.  Note that the compliance considerations (including irregularity management and funds recovery) should be increasingly tackled by the MoF FID (see above). PEFA Report  Proposed Action (PEFA)  Consolidate (centralize) the mandate and the capacity for advanced types of audits (performance audit and IT internal audits) at the MoF. If legislating this arrangement is not an option as the new PIFC Law is in legislative procedure, consider addressing this through updates of the Internal Audit Charters of the MoF and BCG entities. |
| **EU:** | North Macedonia needs to develop a system for certification of Internal Auditors and improve the ability to carry out performance and IT audits. |

***Context/Background***

Number of processes that are partially or completely digitalized is continuously increasing in the institutions’ opertaions. In addition, number of implemented projects and programs is constantly growing, however, determining the performance of their implementation is lacking actually. On the other hand, number of conducted performance audits and IT audits is continuously low. Main reasons for the low number of conducted performance audits and IT audits is the insufficient training of internal auditors to conduct this type of audits, such as the low level of staffing of internal audit units.

In order to increase the number of conducted performance audits and IT audits, it is necessary to Improving the abilities to carry out performance and IT internal audits in the public sector institutions

**Activity 1: Preparation and promotion methodology for specific type of internal audits**

Central Harmonization Unit, on based on previously prepared outputs for performance internal audits in the frame of the twinning project will prepare practical guideline for performance internal audits in the public sector institutions.

Also, Central Harmonization Unit, on based on previously prepared outputs for performance IT internal audits in the frame of the twinning project will prepare practical guideline for performance internal audits in the public sector institutions.

After finalization of this guideline, Central Harmonization Unit will promote this document and support the institutions in the its implementation

**Activity 2: Analysis of the situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance**

In 2026, the MoF Central Harmonization Unit will make an analysis of the situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | * 2027 |
| **Deliverables:** | * Guideline for performance internal audits; * Guideline for IT internal audits * Report on analysis ‘The situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance’ |
| **Cost implications:** | * EUR 25,000 |
| **Responsible entity:** | * Ministry of Finance Central Harmonization Unit |
| **Risk:** | * Insufficient number of adequately trained internal auditors |

# PILLAR VII - External Audit and Parliamentary Oversight

**Introduction**

SAO is the supreme audit institution of the Republic of North Macedonia with a mandate to perform state audit. SAO performs audit of financial statements, compliance audit and performance audits in accordance with the requirements of INTOSAI standards (ISSAIs). SAO's task is to examine/investigate, evaluate, and issue an opinion for the performed audit that will add value to the entire community. The results of SAO work and mandate aim to fulfill the needs and expectations of SAO users for promoting and ensuring accountability, objectivity, and transparency in support of the country, as well as for wise and honest public funds management.

In striving to fulfill SAO mission, SAO must be independent ensure it’s professionalism, ethics and integrity, carry out SAO tasks in accordance with the law and mandate, ensure continuous promotion of objectivity and transparency, be inspiring and innovative and lead by example for protecting the public interest and achieving high level of public trust. To achieve these values, SAO employees work devotedly as highly skilled professionals, protecting and respecting the interests of the audit profession.

The State Audit Office aims to help the Government and the Assembly to improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and foster the efficient and effective receipt and use of public resources for the value and benefits of their citizens. The effectiveness of the external audit and parliamentary oversight system will be strengthened by implementing measures and activities under the following two priorities:

**Priority 1: External Audit**

Strengthening public finance management and ensuring transparency and accountability of the use of public funds through will be achieved by strengthening external audit legal framework and institutional capacity. of the human resources of the SAO, including audits of local self-government and public enterprises at the local and central level and JSCin state ownership.

The priorities will contribute to improving public finance management and providing transparency and accountability in the use of public funds by strengthening external audit legal framework through achieving SAO constitutional independence, strengthening SAO financial and operational independence in line with INTOSAI principles, standards and guidelines and strengthening SAO institutional and human resource capacities.

By increasing SAO visibility and improving communication processes with stakeholders via electronic tools and media, the effects of performed audits and added value of SAO operation will also increase.

The efficiency of state audit will be improved through modernization of audit processes and use of modern equipment and working conditions, as well as modern audit tools, methodologies and techniques.

**Priority 2: Parliamentary oversight**

Setting up effective mechanism for reviewing audit reports by the Assembly as well as for taking measures upon audit recommendations, and strengthening institutional capacities for reviewing audit reports in the Assembly, will strengthen the effects of audit, and the accountability and transparency in the use of public funds.

# Priority 1: External Audit

***Objective***

Strengthening public finance management and ensuring transparency and accountability of the use of public funds by strengthening external audit legal framework, institutional capacity and human resources of the SAO for audits, including the audits of local self-government and public enterprises at the local and central level and JSC in state ownership.

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Strengthen legislative framework for external audit** |
| Activity 1 | Approval of constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI; |
| Activity 2: | Approval of external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines. |
| **Measure 2:** | **Strengthen the institutional capacity and human resource capacities of the SAO** |
| Activity 1: | Implementation of adopted strategic, planning and methodological acts and adoption of new methodological acts of the SAO; |
| Activity 2: | Strengthen the capacity to conduct audits; |
| Activity 3: | Increasing the visibility of the SAO and communication with the stakeholders. |

***Outcome***

1. Reduced tax evasion and increased fiscal discipline / increased revenues in the Budget of RNM and increased revenues in the budgets of the municipalities;
2. Adhered principles in awarding public procurement contracts.

***Outcome indicators***

1. Established amount of funds with audits that have not been paid into the RNM Budget;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| ≥ 17,000 euros | ≥ 7000 Eur |

1. Established amount of funds with audits that have not been paid into the Budget of the municipalities and the city of Skopje;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| ≥ 12,000 euros | ≥ 2,000 euros |

1. Established amount of funds during the awarding of contracts for public procurement where irregularities were found with the audits.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| ≥ 10,900 euros | ≥7.000 euros |

1. Scope of audits of LSGs and the City of Skopje, Public Enterprises (PE) at the central and local level and Joint Stock Companies (JSC) in state ownership.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| ≥ 12 | ≥ 17 |

**Measure 1: Approval legislative framework for external audit**

***Measure Objective***

Strengthening constitutional, financial and operational independence of the State Audit Office by amending the Constitution of RNM and enacting new State Audit Law and bylaws, in accordance with the principles, standards and guidelines of INTOSAI.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **EU:** | The State Audit Office Law (SAO) is largely aligned with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). However, further harmonization of the legal framework is currently underway in order to ensure an improved function of the external audit in the public sector, as well as increased financial and operational independence of the SAO. The constitutional amendments providing for the independence of the SAO have not yet been introduced. |

***Context/Background***

North Macedonia Report 2023 of the European Commission regarding External Audit Area indicate the following aspects for improvement:

* independence of the State Audit Office to be guaranteed by the Constitution of RNM;
* legal framework is largely in line with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). However, further alignment of the legal framework is currently under way to ensure improved external audit function in the public sector, as well as to increase SAO financial and operational independence;
* in the upcoming period SAO will continue to strive for effective completion of the procedure for regulating constitutionality of the State Audit Office and adoption of new State Audit Law to strengthen SAO financial and operational independence in line with INTOSAI principles, standards and guidelines.

**Activity 1: Approval of constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI;**

Proposals of draft amendments to the Constitution of the RNM are prepared by the SAO and submitted to the Ministry of Justice as a competent ministry, to the Parliament and the Government. The competent ministry, in coordination with all stakeholders in the process, is expected to submit an approved constitution amendments and initiate procedure for adoption to the Assembly of the RNM for the regulating State Audit Office in the Constitution of the Republic of North Macedonia in order to assure SAO independence.

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

**Activity 2: Approval external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines**

Draft State Audit Law is prepared in the framework of a twinning project. This new draft law envisages strengthening financial and operational independence of the State Audit Office and acting upon audit recommendations by the audited entities, and creates opportunities for review of final audit reports by the Assembly of RNM. These are significant improvements to the state audit legislation in line with EU requirements and the International Standards of Supreme Audit Institutions (ISSAIs). Initiating procedure for adoption of the new State Audit Law for strengthening SAO financial and operational independence and presenting the new Draft State Audit Law to the Assembly of the Republic of North Macedonia for adoption is expected in the upcoming period.

Preparing proposals for bylaws based on the improved legal framework.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Approved draft amendment to the Constitution of the RNM for SAO regulation as a constitutional category to be submitted by the authorized proposer of the constitutional amendment tothe Assembly of the RNM for adoption; * A new draft StateAuditLAW aims to strengthen the financial and operational independence of the SAO prepared within the framework of a Twinning project to be submitted to the RNM Assembly for adoption; * Proposals for by-laws based on the improved legal framework. |
| **Costsi mplications:** | * EUR 21,000 |
| **Responsible entity:** | * The Ministry of Finance, the RNM Government and the RNM Assembly * SAO, aftertheadoptionoftheLawonStateAudit, fortheadoptionofby-laws |
| **Risk:** | * The proposal for amending the Constitution of RNM for regulating the SAO as a constitutional category was not submitted by the authorized proposer of the constitutional amendment and was not adopted by the Assembly * New draft State Audit Law for strengthening SAO financial and operational independence not submitted and not adopted by the Assembly |

**Measure 2: Strengthening the institutional capacity and human resource capacities of the SAO**

***Measure Objective***

Strengthening the institutional and human resources capacities of the SAO in order to increase the effects of the performed audits (full audit coverage of LSG and the City of Skopje, Public Entreprisesat the central and local level and JSCstate owned) and the added value of SAO work.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **EU: 2023** | SAO capacity needs to be further strengthen.  The quality of SAO work is considered sufficient. The quality of audit reports is recognized by local and international stakeholders, but SAO work needs to be peer reviewed, in order to assess compliance with the International Standards of Supreme Audit Institutions, and peer review report should be publicly available.  Progress has been made in raising public awareness of the activities of the SAO, increasing the interest of the media as well as other stakeholders, but it is necessary to strengthen transparency and accountability over the management of public funds, as well as to strengthen the human and financial capacities of the State audit office (SAO).  SAO should strengthen cooperation with anti-corruption institutions.  To ensure a timely audit of the financial statements of the PE and submission of audit reports within six months from the end of the year, as well as conducting an audit of the LGU on an annual base in odert to improve the regularity of the LGU's spending for the purposes of the process of monitoring fiscal risks. |

***Context/Background***

North Macedonia Report for 2023 of the European Commission regarding External audit areadindicates the following aspects for improvement:

* SAO recommendations to be effectively implemented by the audited entities;
* SAO makes significant efforts to improve its external communication.

The State Audit Office will continue to strengthen its institutional capacities by strengthening the resources for conducting audits, through the implementation of new and improved strategic, planning and methodological acts, as well as the adoption of new and methodological acts, increasing the number of performance audits , as well as increasing the scope of audited expenditures. SAO will continue modernizing audit processes by using advanced equipment and working conditions, modern audit tools, methodologies, techniques and innovative presentation of audit results to the public, and by strengthening cooperation with stakeholders, with the aim of increasing the degree of implementation of audit recommendations and the effects and added value of SAO work.

**Activity 1: Implementation of adopted strategic, planning and methodological acts and adoption of new methodological acts of the SAO;**

Implementation of SAO new and improved strategic, planning and methodological acts and adoption of new methodological act in accordance with INTOSAI principles, standards and guidelines, best practices as well as implementation of EU requirments for audit on LSG, audit of public enterprises, audit of state owned enterprises and new audit requirments from the new Organic Budget Law (audit of the financial statements of the Core Budget), int.

**Activity 2: Strengthen the capacity to conduct audits**

The institutional and human resource capacities of the SAO will be strengthened in order to increase the number of performance audits, increase the audit scope of public expenditure and ensure continuous quality of operation, high integrity of employees and fulfillment of the appropriate conditions for the audit work.

The modernization of the audit processes will continue with the use of advanced equipment and working conditions, modern audit tools, methodologies and techniques for improving the efficiency of the state audit.

Education of new employees for real-time audits, Sustainable Development Goals, Value for money, Forensic audits, LGU audit, public enterprises, commercial companies at the central and local level, review of the State budget.

**Activity 3: Increasing the visibility of the SAO and communication with the stakeholders**

The institutional and human resource capacities of the SAO will be strengthened in order to increase the effects of the SAO activities, increase SAO visibility and improve the communication processes with stakeholders via electronic tools and media.

The modernization of the work processes will continue with the use of advanced equipment and modern forms for innovative presentation of the audit results to the public and strengthening cooperation with stakeholders (Assembly, Government, Ministry of Finance, Public Prosecutor's Office, Ministry of Interior, State Commission for Prevention of Corruption, audited entities, the public).

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Analysis with recommendations for improving the audit process on the Annual Account of the Budget of the Republic of North Macedonia; * New or improved methodological acts and tools on topics relevant to the responsible management and use of public funds (audits of sustainable development goals, audits of financial statements prepared on an accrual basis, audits of value for money (Value for Money), audits of LSGUs, audit of public enterprises and state owned companies, audit of financial statements of the Core budget etc.). * Conducted performance audits in relevant areas of government policy and topics of importance for the responsible management and use of public funds (audit of EU funds, audits of sustainable development goals, audit of financial statements prepared on an accrual basis, audit of values ​​for money, audits of LGUs, gender equality audit, audits in the areas determined in the National Development Strategy of the Republic of North Macedonia, etc.); * Conducted trainings (study visits, conferences, seminars, workshops) on topics of importance for responsible management and use of public funds in line with SAO strategic documents: audit of EU funds, prevention and detection of corruption, audits of sustainable development goals, audits of financial statements prepared on an accrual basis, value for money audits, LGU audits, gender equality audits, Certified Fraud Examiner; Certified corruption risk management, IT, data science, graphic design, Python, project management, full stack and front end programming, UIX design, etc. * Trainings to strengthen cooperation with stakeholders; * Using modern auditing tools, methodologies and techniques and development of software tools for reclassification of financial statements / software tools for auditing financial statements prepared on an accrual basis; * Use of modern equipment and improved working conditions. * Using visualization (infographics, video presentations, flyers) to present the results of the audit to the public; * New channels for communication with stakeholders (the Assembly, the Government, the Ministry of Finance, the Public Prosecutor's Office, the Ministry of Internal Affairs, the State Commission for the Prevention of Corruption, the entities subject to audit, the public); * Using digital tools to achieve efficient cooperation and communication with parliamentary bodies to support the work of the RNM Assembly; * Conducting peer review according to the International standards of INTOSAI; * New forms for monitoring and presenting the implementation of audit recommendations. |
| **Costs implications:** | * EUR 10,336,000 |
| **Responsible entity:** | The State Audit Office in cooperation with the stakeholders |
| **Risk:** | * Limited opportunities for modernization of audit processes and presentation of audit results; * Insufficient interest of stakeholders for cooperation with SAO; * Lack of funds for financing activities for the period 2023 - 2027; * Lack of support from relevant experts for the development of new or improved methodological acts and auditing tools; * Institutional and SAO capacities are not strengthened to a satisfactory level; * Limited opportunities for modernization of audit processes, obtaining modern equipment and improved working conditions. |

# Priority 2: Parliamentary oversight

***Objective***

Strengthening the management of public finances and ensuring transparency and accountability for the use of public funds through:

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Establishing a mechanism for reviewing the audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly** |
| Activity 1: | Implementation of concluded Memorandum of cooperation between the Assembly and the SAO; |
| Activity 2: | Preparation of final/proposal procedures in the SAO and the Assembly for submission and review of audit reports and other documents; |
| Activity 3: | Reviewing of summary reports from final audit reports from certain areas by the Assembly. |
| **Measure 2:** | **Strengthening the institutional capacities for reviewing audit reports in the Assembly of RNM.** |
| Activity 1: | Preparation of a Training Plan for MPs and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports; |
| Activity 2: | Conducting trainings in accordance with the Training Plan for the Members of Parliament and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports. |
| Activity 3: | Implementation of activities for strengthening cooperation with Committee on Financing and Budget, Parliamentary Institute and the Parliamentary budget office of the RNM Assembly. |

***Outcome***

Enhanced effects of audit.

***Outcome indicator***

1. Percentage of external audit recommendations for which corrective measures have been taken.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 84% | ≥78% |

**Measure 1: Establishing a mechanism for reviewing the audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly**

***Measure Objective***

Strengthening institutional mechanism for reviewing audit reports by the Assembly of RNM.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| EU: 2023 | The impact of the state audit work needs to be strengthened by ensuring parliamentary oversight of individual audit reports and cooperation with anti-corruption and law enforcement institutions. Although the cooperation between the SAO and Parliament continued to improve, including with the signing of a Memorandum of Understanding, parliamentary oversight of individual audit reports needs to be strengthened.  Audit reports are not used by the Parliament and there is no formal mechanism for dealing with SAO reports in the Parliament. Only the annual report of the SAO is subject to consideration by the Parliamentary Committee on Financing and Budget, which will be followed by a discussion at the plenary session of the Parliament. No independent decisions are made (except for SAO recommendations).  The implementation of audit recommendations should be promoted by active use of audit reports by the Assembly. In addition, parliamentary control over the preparation and implementation of the budget should be further strengthened.  The cooperation between the SAO and the Parliament has improved, however, parliamentary control over the preparation and implementation of the budget needs to be further strengthened. The transparency and accountability of the management of public funds should be ensured on the basis of efficient monitoring mechanisms by both the executive power and the Parliament, including through the monitoring of audit recommendations made by the SAO. |

***Context/Background***

The report on North Macedonia for the year 2023 of the European Commission in relation to the area of ​​external audit recommends increasing the supervision and monitoring by the Assembly of RNM through reviewing the reports of the SAO in order to improve the degree of implemented recommendations.

Recommendations for increased supervision and monitoring by the RNM Assembly through a parliamentary debate on audit reports are implemented as a regular activity aimed at achieving:

1. Improved legal and methodological framework of the SAO and the Assembly for the presentation and consideration of audit reports by the Assembly in accordance with the recommendations of the European Commission's report for 2023;
2. Improved cooperation between the Assembly and the State Audit Office for reviewing audit reports; and
3. Strengthened capacities of the Assembly for consideration of audit reports in accordance with the new legal and methodological framework.

In the coming period, the SAO will continue the effective cooperation with the RNM Assembly by establishing a regular mechanism for the consideration of the audit reports by the Assembly in order to increase the degree of implementation of the audit recommendations.

**Activity 1: Implementation of concluded Memorandum of cooperation between the Assembly and the SAO.**

During the year 2022, a Memorandum of Cooperation was concluded between the SAO and the Parliament, the implementation of which should ensure the review of key audit reports, i.e. certain summary audit reports.

**Activity 2: Preparation of final/proposal procedures in the SAO and the Assembly for submission and review of audit reports and other documents.**

With the Twinning project, draft procedures were prepared for the preparation, submission and consideration of audit reports and other documents to the RNM Assembly, as well as for their consideration by the RNM Assembly, which remain to be defined as final after the adoption of the new Law on State audit.

**Activity 3: Reviewing of summary reports from final audit reports from certain areas by the Assembly.**

There is an established practice of preparing summary reports from final audit reports for certain areas that are submitted to the Assembly and should be subject to consideration/reviewing.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Final procedures of the SAO for preparing and submitting audit reports and other documents to the RNM Assembly; * Proposal - procedures for manner of reviewing audit reports (from receipt of audit reports and other documents to adoption conclusions and monitoring implementation of audit recommendations) in the RNM Assembly; * Summary reports from the final audit reports for certain areas submitted to the RNM Assembly; * Education on the enacted acts. |
| **Costs implications:** | * EUR 146,000 |
| **Responsible entity:** | * The State Audit Office in cooperation with the RNM Assembly |
| **Risk:** | * Uncreated conditions of implementing the Memorandum of cooperation between the Assembly and the SAO; * Uncreated conditions to prepare and adopt final/proposal procedures of the Assembly for the mechanism for reviewing audit reports; * Uncreated conditions for reviewing of summary reports from the final audit reports from certain areas by the Assembly. |

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

***Measure Objective***

Strengthened institutional capacities for reviewing the audit reports in the Assembly of RNM.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **EU:** | The impact of the state audit work needs to be strengthened by ensuring parliamentary oversight of individual audit reports and cooperation with anti-corruption and law enforcement institutions. Although the cooperation between the SAO and Parliament continued to improve, including with the signing of a Memorandum of Understanding, parliamentary oversight of individual audit reports needs to be strengthened.  Audit reports are not used by the Parliament and there is no formal mechanism for dealing with SAO reports in the Parliament. Only the annual report of the SAO is subject to consideration by the Parliamentary Committee on Financing and Budget, which will be followed by a discussion at the plenary session of the Parliament. No independent decisions are made (except for SAO recommendations).  The implementation of audit recommendations should be promoted by active use of audit reports by the Assembly. In addition, parliamentary control over the preparation and implementation of the budget should be further strengthened.  The cooperation between the SAO and the Parliament has improved, however, parliamentary control over the preparation and implementation of the budget needs to be further strengthened. The transparency and accountability of the management of public funds should be ensured on the basis of efficient monitoring mechanisms by both the executive power and the Parliament, including through the monitoring of audit recommendations made by the SAO. |

***Context/Background***

The report on North Macedonia for the year 2023 of the European Commission in relation to the area of ​​external audit recommends an increase in supervision and monitoring by the Assembly of the RNM through consideration of the reports of the SAO in order to improve the financial management and control and the way of using the funds of taxpayers, to ensure economy, efficiency and effectiveness of the use of funds and to increase the degree of implemented recommendations.

The recommendations for increased supervision and monitoring by the RNM Assembly through a parliamentary debate on audit reports should be implemented as a continuous activity, and are intended to achieve:

1. Improved legal and methodological framework of the SAO and the Assembly for the presentation and consideration of audit reports by the Assembly in accordance with the recommendations of the report from the European Commission;
2. Improved cooperation between the Assembly and the State Audit Office for reviewing audit reports and
3. Strengthened capacities of the Assembly for consideration of audit reports in accordance with the new legal and methodological framework.

In the coming period, the SAO will continue the effective cooperation with the RNM Assembly by establishing a regular mechanism for the consideration of the audit reports by the Assembly in order to increase the degree of implementation of the audit recommendations.

**Activity 1. Preparation of a Training Plan for MPs and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports**

A Training Plan for MPs and the parliamentary administration will be prepared, aimed at understanding audit reports and preparing for a debate on audit reports.

**Activity 2. Conducting trainings in accordance with the Training Plan for the Members of Parliament and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports**

The trainings will be conducted in accordance with the Plan for the training of MPs and employees in the Service of the Parliament in order to understand the audit reports and to prepare for the debate on the audit reports (through workshops, case studies, debate simulations).

**Activity 3. Implementation of activities for strengthening cooperation with Committee on Financing and Budget, Parliamentary Institute and the Parliamentary budget office of the RNM Assembly**

Activities will be carried out to strengthen the cooperation with the Committee on Financing and Budget, the Parliamentary Institute and the Parliamentary Budget Office of the Assembly of the RNM.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * A training plan for MPs in the Committee on Financing and Budget and other MPs who participate in the committees and employees of the RNM Assembly Service to facilitate the understanding of audit reports and preparation for discussion on audit reports; * Conducting trainings in accordance with the Training Plan for MPs and employees of the RNM Assembly Service in order to understand the audit reports and to prepare for the debate on the audit reports (through study visits, workshops, case studies, debate simulations); * Activities to strengthen cooperation with the Committee on Financing and Budget, the Parliamentary Institute and the Parliamentary Budget Office of the Assembly of the RNM. |
| **Costs implications:** | * EUR 271,000 |
| **Responsible entity:** | * The State Audit Office in cooperation with the RNM Assembly |
| **Risk:** | * Inability to provide sufficient funds for education; * Insufficient interest in conducting trainings; * Lack of funds for conducting trainings. |

# PILLAR VIII - PFM at Local Level

**Introduction**

Decentralization of competencies to local authorities and strengthening their capacity is one of the priorities arising from the Accession Partnership of the Republic of North Macedonia with the EU and the Framework Agreement.

Competencies taken over by the municipalities in several areas have increased both the administrative and the fiscal capacity, as well as strengthened the capacities for managing larger volume of financial resources. Successful administration and collection of own revenues has provided for continuation of the process of increased own revenues of the municipalities and strengthened capacity for fund management, carrying out the transferred competencies and the management of funds and other resources necessary therefore. Successful implementation of fiscal decentralization, coupled with fully established legal and institutional framework for local self-government, provides for advanced, accountable and functional local self-government units and a level of local democracy that brings citizens closer to local self-government institutions.

Continuing and improving the process of fiscal decentralization, with the ultimate goal of providing better services to citizens, requires greater financial discipline of municipalities, greater transparency and accountability of how municipalities spend public funds.

Increasing the financial discipline of municipalities, arrears repayment and cost-effective operations can be achieved through projecting municipal revenues and expenditures in a realistic manner, rationalizing the operations and reducing unnecessary expenditures, regular servicing of arrears, strengthened financial discipline, procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the public enterprises.

Enhanced government oversight can be ensured through the oversign carried out by the Financial Inspection in terms of compliance with the provisions of the Law on Reporting and Recording Liabilities, the Law on Financing Local Self-Government Units and the Law on Financial Discipline, while transparency of the municipalities can be increased by announcing financial statements in a transparent and understandable manner

Under this Program document are defined the following priorities:

**Priority 1: Fiscal decentralisation**

**Priority 2: Financial discipline, transparency and accountability on local level**

**Priority 1: Fiscal decentralisation**

The goal is improving fiscal capacity and increasing municipal revenues due to strengthened, stable and responsible financial operations of the municipalities.

**Priority 2: Financial discipline, transparency and accountability on local level**

The main goal is to strengthened financial discipline, greater transparency and accountability of local government.

# Priority 1: Fiscal decentralisation

***Objective***

Strengthened, stable and responsible financial operations of the municipalities.

The objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Improving fiscal capacity and increasing municipal revenues** |
| Activity 1: | Addoption of a new Law on Financing Local Government Units; |
| Activity 2: | Preparation of by-laws of the new Law on financing of local self-government units |
| Activity 3: | Improving the legal regulation for local revenues |
| Activity 4: | Revision of the criteria for allocation of block and earmarked grants and determination of criteria for allocation of capital grants. |
| **Measure 2:** | **Regional and local development** |
| Activity 1: | Establishment of the Agency for Regional and Local Development and achieving balanced regional development. |
| Activity 2: | Determination of municipal development index |

***Outcome***

Improved fiscal capacity and increased municipal revenues.

***Outcome indicators***

1. Percentage of increase in municipal revenues compared to 2022;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 40.338 million denars | 30% |

1. Ratio of local revenues as % of GDP

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 5.1% of local revenues as percentage of GDP | 7% |

1. Ratio of local revenues as percentage of total public revenues

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 16.6% of local revenues as percentage of total public revenues | 20% |

**Measure 1: Improving fiscal capacity and increasing municipal revenues**

***Measure objective***

The Ministry of Finance in 2022 was actively working on reforming fiscal decentralization, which offers a serious systemic solution for stable finances of municipalities that will be responsible municipalities and delivering quality and efficient services to citizens. Reform consists of three pillars: increasing the fiscal capacity of municipalities and increasing municipal revenues, increasing the financial discipline of municipalities, reducing debt and housekeeping and increased transparency and accountability.

During 2023 and in the medium term, and in order to promote fiscal decentralization, more activities and measures are envisaged to improve fiscal capacity and increase municipal revenues, increase fiscal discipline and increase transparency and accountability in their work.

In August 2022, the Parliament of the Republic of Northern Macedonia adopted amendments to the Law on Financing the Units of Local Self -Government. The amendments to the law are aimed at providing additional democratization of society, more efficient and more economical security and delivery of services, but also strong local development.

The Law on Amending the Law on Financing the Units of Local Self -Government has made changes to improve fiscal capacity and increase municipal revenue, by gradually increasing the rate of tax revenue.

Personal income revenue gradually increases from 3% to 6% by 2024, so from the day of the law entry by the end of 2022 municipalities are transferred to 4% of collected personal income revenue . The rate of 2023 will be 5%, while in 2024 municipalities will receive 6% of the personal income tax collected income. According to the latest amendments to the Law, municipalities will receive over 70% additional revenue from realized personal income revenue in 2021 and about 100% additional revenue in 2024.

Value added tax revenues will be provided in the amount of 6% of the value added tax achieved in the previous fiscal year starting in 2024. They will be distributed in three parts: basic part - 4.5% of the value added tax earned in the previous fiscal year, performance part - 0.75% of the value added tax achieved in the previous fiscal year and part for in general - 0.75% of the value added tax collected in the previous fiscal year. The increase was managed so that in 2022, the rate was 5% and in 2023 5.5%. During 2022, municipalities were distributed 5% of the value added tax, allocated in three parts: basic part - 4.5%, performance part - 0.25% and part for in general - 0.25 %. The performance section rewards municipalities that have better realization of their own income compared to their own revenue and higher collection of their own income in the current year compared to the average of its own revenues in the previous three years. The equalization section is intended to overcome the differences in accordance with the fiscal capacity of the municipalities due to the limited capacity of resources, ie municipalities that have lower income from personal income per capita receive additional funds. In 2023 municipalities will be provided with funds of 5.5% of the value added tax collected in the previous fiscal year, distributed in three parts: basic part - 4.5%, performance section - 0, 5% and part for in general - 0.5%.

Activities will be also undertaken towards increased municipal own revenues by improving the efficiency of the administration, as well as finding new local revenues according to the EU best practices

In the next period, in cooperation with the competent ministries that finance the transferred competencies in the field of education, child care, culture, elderly homes and firefighting, the existing methodologies for earmarked and block grants will be revised. Efforts will be made to introduce criteria that would determine, in a realistic way the necessary amount of funds that would cover all costs for the transferred competencies, as well as improve the quality of services.

Determining the criteria for distribution of capital grants from the Central Budget, which will distribute the funds by municipalities in a transparent manner.

***Reference to findings from external assessments:***

|  |  |
| --- | --- |
| **SIGMA** | **Recommendations for North Macedonia** include increasing revenues from property tax by reforming the tax itself and through improvement of tax collection, increasing the role of local governments in personal income tax, assigning other supplementary fees and taxes to local governments, which would bring relatively small yields on a scale of the whole country, but might be important for some individual municipalities. |

***Context/Background***

Some of the municipalities face issue related to the lack of financial resources to perform their competencies, while they mostly rely on transfers from the central government. This situation in the municipalities leads to insufficient and uneven regional development, inefficient provision and delivery of services to citizens and insufficient democratization of society as a whole. At the same time, due to the insufficient staff capacity in some of the municipalities, there is a low level of collection of own revenues.

**Activity 1: Addoption of a new Law on Financing Local Government Units**

Law on Financing Local Government Units regulates the financial operations of municipalities, i.e. it includes: sources of financing, determination and collection of revenues, procedure and conditions related to borrowing, budget process - budget planning and execution, annual account of the municipal budget, accounting, control and auditing, actions in case of financial instability, implementation of fiscal decentralization and supervision.

Taking into account that the new Budget Law was adopted in 2022, with most of the provisions coming into force from 2025, there is a need to harmonize the Law on financing of local self-government units with the provisions of the new Organic Budget Law. Therefore, there is a need for:

* Identifying the provisions of the Law on Financing Local Government Units, which should be harmonized with the provisions in the draft Organic Budget Law;
* Consultations with the municipalities, the Association of Local Government Units, ministries, experts and the broader public about the amendments that would be proposed;
* Preparation of a new law and submission to the assembly for adoption

**Activity 2: Preparation of by-laws of the new Law on financing of local self-government units**

After the adoption of the new law on financing the local self-government units, the by-laws necessary for the implementation of the law will be prepared

**Activity 3: Improving the legal regulation for local revenues**

According to the Law on Financing Local Government Units, main sources of financing of the municipalities are municipal own sources of revenues, and transfers from the Central budget.

Based on the carried out analysis and research on the municipal collected revenues, the participation of the own revenues in the total revenues of the municipalities is rather small. It is still considered that the municipalities do not sufficiently ustilize the opportunities provided by law, thereby not reaching the maximum potential as regards their revenue collection. Own revenues participate with around 20% of the total revenues being collected at local level. In order to ensure a higher realization of municipal own revenues, certain changes in the legal acts regulating the municipal revenues are to be considered..

This activity includes:

* Revision of the existing Law on Property Taxes, especially as regards the ​​tax exemptions and the possibility for increasing the tax base, as well as the different alternatives for reassessment of the property value for tax purposes;
* Revision of the exiting Law of communal fees with an aim to align the subject of taxation to new market trends and best available practices;

- Analysis of other laws, regulating the own revenues of the municipalities and proposals for improving the legislation.

**Activity 4: Revision of the criteria for distribution of block and earmarked grants and determination of criteria for distribution of capital grants**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Grants from the Budget of the Republic of North Macedonia, as well as the budgets of the Funds provide additional revenues in the municipal budget for financing its competencies determined by law. Under the Budget of the Republic of North Macedonia, the following is distributed: block grants for the transferred competencies in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grant for firefighting, as well as capital grants from the Central Budget.  Competent Ministries and Funds develop a methodology for determining the criteria for distribution of the block grants, which is based on a formula using appropriate indicators of the needs for each program. Government of the Republic of North Macedonia adopts a Decree on the Methodology for Determining the Criteria for Distribution of Block Grants upon proposal by the competent ministry upon prior consent by the Ministry of Finance and the Committee for Monitoring the Development of the Municipal Financing System. In the past period, certain difficulties have been identified with respect to certain transferred competencies, especially insufficient amount of funds from block grants that would cover all operating costs. For the purpose of more equal distribution of grants by municipalities, it is necessary to make a comprehensive analysis of the criteria and to determine a new model of distribution of funds as per the needs, which will offer higher quality services.  Through the competent ministries and other state institutions, funds are distributed to the municipalities in the form of capital grants for the implementation of capital infrastructure projects in the municipalities. Distribution is carried out in accordance with the Program, which upon proposal by the competent ministry, is adopted thus, there are generally no criteria for the distribution of capital grants that would be previously adopted by the Government. This imposes the need to establish criteria for the distribution of capital grants by municipalities. Therefore, there is a need for:   * Analyzing the existing criteria for block and earmarked grants in cooperation with the competent ministries; * Analysis of capital grants to LGUs that are transferred by the competent ministries and institutions to the municipalities; * Redefining existing Decrees for block and earmarked grants; * Preparation and adoption of Decrees by the competent ministries for distribution of capital grants.   ***Implementation***   |  |  | | --- | --- | | **Completed in year:** | 2027 | | **Deliverables:** | * New Law on Financing Local Government Units; * By-laws of new Law on Financing Local Government Units: * Revised Decrees on Block and Earmarked Grants; * Decree on Distribution of Capital Grants; * Revised law on property taxes * Revised law on utility fees | | **Costs:** | EUR 60,000 | | **Responsible entity:** | Budget and Funds Department; Tax and Customs Policy Department | | **Risk:** | * Insufficient human capacity to implement the planned activities * Delay in the adoption of laws and by-laws * Political risks - untimely constitution of the Government and the Assembly of the RNM * Departure or reduced interest among donors to support activities. | |
| **Measure 2: Regional and local development** |

***Measure objective***

The activities for the establishment of an Agency for Regional and Local Development, which would have broader competences than those of the Bureau for Regional Development, are underway, especially in terms of providing additional financial resources for financing capital investments. The work is coordinated by the Ministry of Local Self-Government, and the established working group in which representatives from the Ministry of Justice, the Ministry of Local Self-Government, the Ministry of Finance, the Cabinet of the Vice Prime Minister for Economic Affairs, the Ministry of Political System and Relations with Communities, the Ministry of Information Society participate and administration, the Bureau for balanced regional development and the association of local self-government units of the Republic of North Macedonia is considering the legal possibilities for the transformation of the Bureau for Regional Development into an Agency.

In the coming period, the Ministry of Local Self-Government will undertake the necessary activities for the establishment of the Agency and the start of work. The effort is through this agency and easier access to financial resources was provided to the municipalities in order to realize Investment Projects.

Established Municipal Development Index (MDI) which will offer valuable insights into the overall development of municipalities by providing a comprehensive assessment of key indicators, promoting sustainable and inclusive municipal development.

***Context/Background***

Municipalities receive a large portion of the funds intended for local and regional development from the State Budget through the Line Ministries, receive donations from various sources, resources from IPA Funds and credit lines for financing infrastructure projects. Therefore, the municipalities do not always have insight into the possibilities for financing capital infrastructure projects, and at the same time, due to the limited staff capacities, they are not able to provide financial resources for realization of capital investments in the municipality. By establishing this Agency, the funds that would be provided from different sources, and are intended for regional and local development, would be distributed in line with the established criteria, as well as in accordance with the needs of the municipalities and the region.

**Activity 1: Establishment of the Agency for Regional and Local Development and achieving balanced regional development**

By establishing the Agency for Regional and Local Development, which would have broader competencies than the previous ones of the Bureau for Regional Development, the municipalities will be given the opportunity to provide additional funding from various sources for financing capital investments, which will improve the local and the regional development. The work of the Agency will be coordinated by the Ministry of Local Government, and the legal solutions for its establishment would result from a working group that would include representatives of Ministry of Justice, Ministry of Local Government, Ministry of Finance, Bureau for Balanced Regional Development and Association of t Local Government Units/ZELS/ of the Republic of North Macedonia.

The establishment of the Agency for Regional and Local Development requires:

* Determining the competencies of the Agency;
* Preparation of legal and operational solutions for the establishment of an Agency, which as a result of further decentralization of the government, will aim to provide additional funds for financing capital investments that will directly contribute to accelerated local and regional growth and development of the country, better-quality services to the population and better quality of life in all local areas. This activity will be realized with the USAID technical assistance;
* Beginning to function of the Agency for Regional and Local Development.

**Activity 2: Determination of municipal development index**

Due to have an overview of the development of the municipalities., there need to be established a municipal development index. The index will have main 11 pillars with 44 indicators for measuring development, which will be used on further planning of delivering funds from the central budget due to those index which has information about the development for every single municipality.

The Municipal Development Index (MDI) offers valuable insights into the overall development of municipalities by providing a comprehensive assessment of key indicators, promoting sustainable and inclusive municipal development.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Established Agency for Regional and Local Development * Established municipal development index |
| **Costs implications:** | EUR 100,000 |
| **Responsible entity:** | Ministry of Local Government, ZELS, State statistic office, MF, etc |
| **Risk:** | * Insufficient interest of the top management, * Political risks - untimely constitution of the Government and the Assembly of the RNM * Insufficient human capacity to implement the planned activities |

# Priority 2: Financial discipline, transparency and accountability on local level

***Objective***

Strengthened financial discipline, greater transparency and accountability of local government.

Objective of this priority will be achieved through the following measures and activities:

|  |  |
| --- | --- |
| **Measure 1:** | **Increasing the financial discipline** |
| Activity 1: | Trainings for strengthening the capacities of the employees in the municipalities for realistic planning of the revenues and expenses of the municipalities; | |
| Activity 2: | Strengthening the capacity of employees in the budget department of the local self-government unit; | |
| Activity 3: | Decreasing current expenses and increasing capital expenses in the structure of total expenses by establishing performance indicators; | |
| Activity 4: | New Law on unpaid obligations of the municipalities | |
| **Measure 2:** | **Increasing the transparency and accountability throughout the operations of the municipalities** | |
| Activity 1: | Increasing the oversight of municipalities for the purposeful spending of earmarked, block and capital grants by the competent ministries and institutions; | |
| Activity 2: | Monitoring the transparency of the municipalities in order to timely inform the general public; | |
| Activity 3: | Improving the transparency of the Ministry of Finance for the financial operations of the municipality; | |
| Activity 4: | Participation of citizens in policy decision making and monitoring results. | |

***Outcome***

1) Increased financial discipline;

2) Increased transparency and accountability of municipalities.

***Outcome indicators***

1. Percentage of reduction of the amount of due unpaid liabilities in the current year compared to 2022;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| Denar 3,698 million | 40% |

1. Reduction of the number of municipalities with blocked account in the current year compared to 2022;

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 13 municipalities (average of the number of municipalities with blocked accounts by months, in 2022) | 5 |

1. Percentage of municipalities out of the total number of municipalities (81) that have published financial documents (annual, semi-annual and quarterly reports) on their websites.

|  |  |
| --- | --- |
| ***Baseline 2022*** | ***Target 2027*** |
| 75% | 90% |

**Measure 1: Increasing the financial discipline**

***Measure objective***

Realistic planning of revenues and expenditures of municipalities, rationalization of operations and reduction of unnecessary expenditures, regular servicing of liabilities, greater financial discipline, procedures for declaring financial instability, issuance of financing instruments to overcome the financial instability of municipalities and analysis of existing liabilities of municipalities and public enterprises.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **WB:** | **WORLD BANK - Republic of North Macedonia Overview of Public Finance - Sowing the seeds of a sustainable future - March 2019**  **Chapter 3: Fiscal Decentralization and Service Delivery**  Although North Macedonia has made progress in many aspects of intergovernmental finance, its 81 local self governments still have difficulties providing adequate and efficient coverage of social services. Municipalities are responsible for many public services, including primary education, but their spending as a share of GDP accounts for modest 5% thereof. Practice of delegated functions influenced incentives for LGUs to spend their own resources on services; Ambiguous spending tasks have undermined the accountability, and since there is still no effective methodology for calculating spending needs, certain communities do not receive sufficient services. Municipal revenues are insufficient, whereby LGUs fail to fully utilize the small autonomy of the revenues at their disposal. Lack of revenue autonomy leads to vertical imbalance and dependence on transfers, thus reducing the efficiency of spending and accountability of municipal authorities. Differences in the quality of basic services are still present. While VAT transfers provide certain degree of equalization between municipalities, their role may increase. However, current inequalities cannot be resolved by transfers and increased revenue autonomy alone. Balanced actions are needed in several dimensions, such as capacity building of LGUs for absorption and use of funds, as well as cooperation for virtual consolidation of municipalities. |

***Context/Background***

The Ministry of Finance states that the unrealistic planning of the budgets of the local self-government units, that is, the over-optimistic planning of the revenues, is one of the reasons why the local self-government units created outstanding obligations in previous years. With the latest changes in the Law on financing the local self-government units, the revenues of the municipalities in the basic budget will be able to be planned with an increase of 10% of the average of the realized revenues of the last three years. In the event that the municipality, as of the third quarter, realizes 75% of the planned own revenues in the basic budget, it will be able to further increase the revenues by another 20%. This rule will be applied from 2025, and in 2023 revenues are planned to increase by 20% and an additional 10% after the third quarter, and in 2024 it will be 15% and an additional 15% after the third quarter.

**Activity 1: Trainings for strengthening the capacities of the employees in the municipalities for realistic planning of the revenues and expenses of the municipalities**

Bearing in mind that in the coming period, the implementation of the new law on budgets and the adoption of a new law on the financing of local self-government units will begin, it is necessary to strengthen the capacities of municipal employees through training on legal amendments and the preparation of municipal and municipal budgets, budgets of budget users, medium-term budget planning and identifying performance indicators.in order to strengthen the capacities of the employees in the Department for budgets of the local self-government units, procedures for the operation of the department will be developed.

**Activity 2: Strengthening the capacity of employees in the budget department of the local self-government unit**

In order to strengthen the capacities of the employees in the local self-government units, it is planned to conduct trainings through the Public Finance Academy, related to the implementation of the new Law on Budgets and the new Law on Financing of Local Self-Government Units. Through the trainings, better planning of income and expenses will be ensured, correct distribution of the municipality's expenses according to programs and subprograms, and at the same time, through the real planning of the budget of the municipalities, a higher realization of income and expenses will be ensured.

**Activity 3: Decreasing current expenses and increasing capital expenses in the structure of total expenses by establishing performance indicators**

In order to rationalize operations and reduce unnecessary expenditures, the Government of the Republic of North Macedonia adopted Fiscal Sustainability and Economic Growth Support Plan, which proposes measures and activities for fiscal consolidation and reduction of non-productive expenditures.

In order to ensure the real distribution of expenses in the budgets of the municipalities, it is planned to establish indicators through which the planning and realization of the expenses will be monitored. At the same time, measures and activities will be undertaken with the aim of a more equitable distribution of expenditures according to program items and budgets through the establishment of standards and compliance with legal regulations when planning budgets.

The fiscal consolidation of the expenditure side in the Municipal Budget would be achieved mainly through the policy of reducing current expenditures and increasing capital expenditures.

**Activity 4: New Law on unpaid obligations of the municipalities**

In order to overcome the bad financial situation, the high amount of arrears, the blocking of the municipality's account, the adoption of a new Law on the management of unpaid obligations of the municipalities is planned.

The law regulates the indicators of financial stability, the indicators of the risk of financial instability, the procedure for overcoming the risk of financial instability, the plan for overcoming the risk of financial instability, the instruments for overcoming financial instability, the competences of the municipalities and the Ministry of Finance in overcoming the risks of financial instability and overcoming financial instability, as well as sanctions for non-compliance with the law.

Therefore, there is a need to:

- Consultations with municipalities, the Community of local self-government units, ministries, experts and the general public about the new law;

- Preparation of the bill and submission to the assembly for adoption

- Preparation of by-laws arising from the Law

-Strengthening the capacities of the competent Departments in the Ministry of Finance, by increasing the number of employees and additional trainings for monitoring the municipal obligations;

- Preparation of internal procedures for coordination between the departments for budget, public debt, treasury, collection of receivables, financial inspection, as regards the procedure for declaring financial instability, i.e. determining the competence of each department.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Number of trained employees in the LGU * Number of additional employments in the Unit for LGU Budgets * Percentage of realized revenues in relation to the planned ones during the current year * Percentage of share of capital expenditures in relation to the total expenditures in the current year * New Law on unpaid obligations of the municipalities * By-laws of a New Law on unpaid obligations of the municipalities * Internal procedures for declaring financial instability |
| **Cost implications:** | EUR 117.800 |
| **Responsible entity:** | Budget and Funds Department, Treasury Department, Public Debt Management Department |
| **Risk:** | - Insufficient human capacity to implement the planned activities  - Delay in the adoption of laws and by-laws  - Political risks - untimely constitution of the Government and the Assembly of the RNM  - Departure or reduced interest among donors to support activities |

**Measure 2: Increasing the transparency and accountability throughout the operations of the municipalities**

***Measure objective***

Increased control by the state, in particular by the Department for Public Sector Financial Inspection in terms of compliance with the provisions of the Law on Reporting and Recording of Liabilities, the Law on Financial Discipline and the Law on Financing Local Government Units, increasing the transparency of municipalities by publishing financial statements in a transparent and understandable manner, as well as greater accountability for the use of budget funds.

***Reference to the external assessments findings:***

|  |  |
| --- | --- |
| **WB** | Finally, municipal debt remains to be a concern, not because of excessive borrowing - in fact, borrowing is limited - but rather due to the lack of discipline regarding the unpaid liabilities, some of which have been transferred since the start of decentralization. |

***Context/Background***

In order to increase transparency and accountability, i.e. promote fiscal decentralization, measures will be adopted to increase transparency among municipalities through the publication of financial reports in a transparent and comprehensible manner, and activities will be undertaken for greater responsibility for use. of budget funds.

In some of the laws, there are provisions which oblige the municipalities to publish their financial reports in a transparent manner on the websites of the municipalities or in some other way. In the past period, some of the municipalities, despite the legal obligations, do not regularly publish data on the financial operations, which makes it impossible for the general public to get to know the operation of the municipality.

**Activity 1. Increasing the oversight of municipalities for the purposeful spending of earmarked, block and capital grants by the competent ministries and institutions**

From the existing basis of the previous analysis in the area of ​​transparency and accountability in the financial operations of the municipalities, there arose a need to strengthen the oversight of spending the funds transferred by the Budget of RNM as earmarked, block and capital grants to the municipalities. The oversight needs to be carried out by the ministries and institutions that finance the transferred competences, as well as for the financing of capital projects in the municipalities. All ministries from which grants are transferred to the municipalities will be requested to report whether they have carried out a control on the purposeful spending of the same.

**Activity 2: Monitoring the transparency of the municipalities in order to timely inform the general public**

Increased transparency in the operation of municipalities is one of the prerequisites for ensuring the legal, purposeful and expedient use of public funds to achieve the goals for growth and development of municipalities, as well as efficient provision of services for citizens and improvement of quality. of life in the respective municipalities.

The increase in transparency during the operations of the municipalities primarily refers to strengthening the fiscal responsibility of the municipalities, timely involvement of the general public in the creation of municipal policies and informing about the work done. The implementation of this activity includes:

- determination of financial data that the municipality is obliged to publish on its website

- determination of the number of financial data that are published on the websites of the municipalities, timely and regular publication of the data,

- taking measures and activities in order to increase the transparency of the municipalities

**Activity 3: Increasing the transparency of the Ministry of Finance for the financial operations of the municipalities**

Ministry of Finance, under its competencies, will publish financial data and reports related to the financial operations of the municipalities. Thus, the aim will be to get a clear picture of public spending of municipalities.

This activity includes:

* Publishing monthly and periodic reports on the execution of the municipal budget on the website of the municipality;
* Publication of the Annual Report and the Annual Municipal Budget Report on the website of the municipality;
* Publication of data on revenues and expenditures of municipalities on a quarterly basis;
* Publication of data on due and unpaid liabilities from the Electronic System for Reporting and Recording Liabilities of the municipalities;
* Publication of financial statements for the operations of the municipalities;
* Publication of financial indicators of the municipalities on the websites of the Ministry of Finance and the municipalities with UNDP support.
* Financial indicators
* Other financial data

**Activity 4: Participation of citizens in policy decision making and monitoring results**

The activity includes participations of the citizens in decision making, from budget process, citizens forums, prioritization of projects, etc. Before adoption of the cities budgets the citizens will have the possibility to take part on forums and participation before decision making. The voting thrue forums will prioritize the projects and then they will be part of the budgets. Monitoring the participations with published projects that were voted from the participations, and feedback of realization of them at the end of the year. The monitoring can be due questionnaire or web publishing.

***Implementation***

|  |  |
| --- | --- |
| **Completed in year:** | 2027 |
| **Deliverables:** | * Report for the purposeful spending of grants from municipalities * Financial indicators; * Data on revenues and expenditures of municipalities; * Report on Municipal Arrears; * Report on blocked municipalities * Report on municipalities with financial instability and plan for overcoming * Citizen participation in decision making, budget process, citizens forum, citizens council, etc. |
| **Costs implications:** | / |
| **Responsible entity:** | Budget and Funds Department, Municipalities, all ministries who transfer funds from the Budget from RNM |
| **Risk:** | * Insufficient human capacity to implement the planned activities; |

# Chapter III: Roles and Responsibilities for Implementing, Monitoring and Reporting

The PFM Reform Programme will be implemented through annual action plans adopted by the Government.

The responsibility for coordinating the implementation of and reporting about the reform lies with the Ministry of Finance through the PFM Sector Working Group, while the Programme oversight is performed by the PFM Council.

PFM Reform Programme and PFM strategies involve the entire government sector, including line ministries, public enterprises and local governments.

PFM management and coordination framework for the period 2024-2027 comprises the following bodies, established under the PFM Reform Programme 2018-2021:

* PFM Council;
* PFM Sector Working Group;
* Priority Coordinators;
* Coordination Unit within the Ministry of Finance;

**PFM Council**

The Government established the Public Financial Management Council on 17thJunе 2022 (“Official Gazette of Republic of North Macedonia”, no. 139/2022), 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 2022-2025.

PFM Council comprises the following members:

* Minister of Finance - Chairman
* Deputy Prime Minister for European Affairs
* Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments
* Minister of Economy
* Minister of Information Society and Administration
* Customs Administration Director
* Public Revenue Office Director
* Public Procurement Bureau Director
* President of the State Appeals Commission
* Auditor General

PFM Council oversees the Programme implementation, undertakes the necessary activities while fulfilling the reform goals under the Programme, jointly deliberates on the critical points or bottlenecks in further implementation of the Programme, proposes and undertakes corrective actions to resolve the identified problems, holds high-level policy dialogue with the donors and other stakeholders on the implementation, financing and scope of the PFM reform. It approves the annual action plans and reports on monitoring the Programme implementation, which are submitted for adoption to the Government of North Macedonia.

Tasks and obligations, as well as PFM Council composition, will be additionally determined under new decision on establishment of PFM Council under PFM Reform Programme 2024-2027.

**PFM Sector Working Group**

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, donor community).The Working Group was initially established under a Decision adopted by the Minister of Finance on 10th June 2015, and it has been modified and amended several time since, with the recent amendment made on 3thJuly 2023.New decision of appointment of WG members and observers will be adopted in line with the new structure of the PFM Reform Programme 2024-2027.

Minister of Finance, or in his absence, Deputy Chairman appointed by him, chairs the PFM Sector Working Group.

Following institutions participate in the operations of the PFM SWG: Ministry of Finance, Customs Administration, Public revenue Office, Public Procurement Bureau, Ministry of Economy, State Audit Office, , Secretariat for European Affairs, Ministry of Information Society and Administration, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments, representatives of the development partners and civil society organisations in the field of PFM.

Under the Decision, Priority Coordinators are appointed for the priorities within the Programme Pillars, assigning them tasks and duties related to the monitoring and reporting system.

PFM SWG will continue its operations in order to ensure support in the implementation of PFM Reform Programme 2024-2027.

The Working Group is the main coordination body at technical level to debate on the national PFM reform documents, as well as inter-sector and sector strategies and development programmes (planning documents) related to PFM reforms. It is an inter-institutional coordination forum with a mandate to implement expert-level tasks related to formulation, monitoring and evaluation of PFM reform policies, including those relevant for the EU integration.

PFM SWG tasks and obligations are regulated in more details with a decision on its establishment.

It prepares annual action plans on Programme implementation, coordinates and monitors the implementation of activities within each priority and prepares reports on progress monitoring.

PFM SWG will convene a plenary session at least twice a year to monitor the reform progress and, if necessary, any other stakeholders may be invited to participate in its work.

For each pillar of the Programme risks that the measures, defined for each priority, will not lead to achieving the objectives and expected deliverables are presented in the Implementation table. The responsible entities (in this case, the priority coordinators) are responsible for taking mitigating measures and to report on the results of these mitigating measures and on still existing risks in the annual monitoring report.

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

At policy level, the meetings are held in a form of high-level PFM policy dialogues with all relevant stakeholders (civil society, academia, EC and other donors, IFI’s and other international partners active in the sector).

At technical level, SWG meetings are held with its members, discussing concrete PFM issues, including IPA programming and implementation.

**Priority Coordinator**

On the basis of nominations submitted by the relevant institutions, Minister of Finance appoints Priority Coordinator for each priority within the respective Pillar. Priority Coordinator coordinates and monitors the implementation of the activities within each priority measure, monitors the fulfilment of the priority indicators and reports on the progress achieved. He/she prepares reports on the implementation of the reforms under each priority and proposes annual action plans on Programme implementation.

**Coordination Unit within the Ministry of Finance**

Coordination Unit within the Ministry of Finance acts as a technical secretariat to support the functioning of the PFM Working Group and the PFM Council. In general, its tasks comprise preparation of the meetings of both the PFM Council and the PFM Working Group at policy level and at technical level, as well as preparation of compiled reports on the progress in the implementation of the reforms under each priority and compiled annual action plans, based on the input provided by the Priority Coordinators.

**Reporting process for implementation of the PFM Reform Programme 2024 - 2027**

**Government of North Macedonia**

*Adopts the Report.*

**PFM Council**

*Proposes amendments as needed and endorses the Report*

**PFM Sector Working Group**

*Reviews/gives opinion and recommendationson the Report.*

**Ministry of Finance- Coordination Unit**

*coordinates the preparation process and prepares consolidated Report.*

**Priority Coordinator**

*monitors the implementation of the annual action plan and prepares report on specific priority.*

Program implementation will be monitored by means of semi-annual and annual reports. By way of exception, the reporting period may be longer than 6 months. Upon prior approval by the PFM Council, the Government considers the reports and adopts respective conclusions with assignments for the institutions in charge. Adopted reports are published on the Ministry of Finance website.

**Mid-term review**

The PFM Reform Programme 204-2027 will be subject to a medium- term review of objectives and indicators, planned to be carried out at the end - 2025, with possibility to extend the Programme for 2 additional years, by 2029.

The medium-term review of the PFM Reform Programme will be focused on following aspects:  Implementation of the Programme and the Action Plans (effectiveness); Adaptation of interventions in order to achieve desired results and objectives (relevance); Adaptation and efficiency of PFM managerial structure (efficiency).

**Link with the Public Administration Reform Strategy**

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]](#footnote-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 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.

**PFM Donor Coordination**

PFM donor coordination is carried out at two levels:

1. Policy level - PFM Council and PFM policy dialogue.One of the main tasks of the PFM Council is to facilitate the policy dialogue with relevant institutions and donors.Members of the PFM Council participate in the PFM policy dialogues with all relevant stakeholders.
2. Technical level - PFM Sector Working GroupPFM Sector Working Group is the main interinstitutional coordination body at technical level to debate on the national PFM reform documents, as well as inter-sector and sector strategies and development programmes (planning documents) related to PFM reforms, including those of importance for the EU integration, all to the end of providing a sustainable and long-term planning of national priorities and financial support from the donors.

Also, separate donor coordination meetings at operational level are organised with regard to the implementation of specific PFM sub-areas measures

**Public Consultation with External Partners**

Process of public consultations for the preparation and implementation of the PFM reform program 2024-2027 will be carried out within the activities of the PFM SWG upon prior publication of the draft documents on MoF website.

Preparation and implementation of the new PFM Reform Programme 2024-2027 is based on a sectoral dialogue with all stakeholders - external partners, introduced with the previous PFM Reform Programme.The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public finance management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Important input and dialogue orientation is received from the external technical reviews, such as IMF Article IV consultations, Public Finance Review and other relevant reviews of the World Bank, SIGMA monitoring reports, PEFA assessments, EU Annual Reports, other assessment missions for specific PFM sub-sectors.Key findings from the latest assessments of different international institutions for various PFM area are presented in each measure of the respective priority in Chapter II.

Public Financial Management Report Programme 2024-2027 was published on the Ministry of Finance website on March 4, 2024, in Macedonian and English. Public consultation was held in a form of policy dialogue on March 21, 2024, with all stakeholders taking part (donor community, civil society organisations, IFIs, local authorities and other stakeholders), in order to actively contribute to the process of determining and implementing the reform priorities.

# Chapter IV: Financing of the PFM Reform Programme

The PFM Reform Programme will be funded through two main sources: state Budget and donors’ funds.

Each priority and measure has developed its estimated costs analysis for the activities. Costs calculation is based on a general assumption that only additional costs will be estimated, in order to ensure full and successful implementation of the planned activities, as well as to present the sources of funds for the additional costs in order to determine the financing gap. Activities carried out with the existing human resources, i.e. activities for which no additional costs for new employment are envisaged should not be estimated, such as for instance administrative tasks - preparation of draft laws and bylaws (unless need for external expert assistance arises).

Thereby, basic categorisation of the estimated additional costs has been made in order to ensure better overall estimates on the type of needed resources.

Government of the Republic of North Macedonia will strive for securing funds from external sources/donors for closing the determined financing gap, committing to ensure funds from the state Budget for the activities for which such funds will not be provided, all in line with the planned dynamics for implementation of the activities.

The Table below summarises the known estimated costs for the Programme at the time of its preparation. Given that the Programme is mainly financed from the state Budget, current costs implications are directly taken into account during the planning process and will be reflected in the annual budgets.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | **Costing of the PFMPR**  **2024-2027** | **Source of funding 2024-2027** | | |
| **PFMPR 2024-2027** | |
| **budget item** | | **Domestic Financing** | **External Financing** | **Financing gap** |
| **I. Pillar - Economic Analysis,Macroeconomic and Fiscal Framework** | | **1,474,000** | **404,000** | **1,070,000** | **0** |
| **Priority 1.** | **Revenue forecasting and reporting** | **330,000** | **0** | **330,000** | **0** |
| **Measure 1.** | **Improving tax and customs reporting in accordance with the EU best practices** | 165,000 | 0 | 165,000 | 0 |
| **Measure 2.** | **Enhancing tax and customs modelling capacity** | 165,000 | 0 | 165,000 | 0 |
| **Priority 2.** | **Economic analysis and Macroeconomic forecasting** | **1,020,000** | **280,000** | **740,000** | **0** |
| **Measure 1** | **Capacity building for economic analysis** | 210,000 | 0 | 210,000 | 0 |
| **Measure 2** | **Developing new macroeconomic models** | 210,000 | 0 | 210,000 | 0 |
| **Measure 3** | **Fiscal risks** | 300,000 | 0 | 300,000 | 0 |
| **Measure 4** | **Fiscal Council Development** | 300,000 | 280,000 | 20,000 | 0 |
| **Priority 3.** | **Strengthening Debt management** | **124,000** | **124,000** | **0** | **0** |
| **Measure 1** | **Reducing of operational risks at public debt management** | 124,000 | 124,000 | 0 | 0 |
| **Measure 2** | **Increasing public debt transparency** | 0 | 0 | 0 | 0 |
| **Measure 3** | **Introducing new debt instruments** | 0 | 0 | 0 | 0 |
| **II.Pillar-Revenie mobilization** | | **30,607,000** | **13,357,000** | **8,250,000** | **9,000,000** |
| **Priority 1.** | **Tax and customs policy** | **250,000** | **0** | **250,000** | **0** |
| **Measure 1.** | **Improved revenue legislation framework, harmonized with the EU acquis and best practices** | **250,000** | **0** | **250,000** | **0** |
| **Priority 2.** | **Tax administration** | **13,357,000** | **13,357,000** | **0** | **0** |
| **Measure 1.** | **Strengthen administrative capacity for better revenue collection and tax compliance** | 212,000 | 212,000 | 0 | 0 |
| **Measure 2.** | **Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)** | 13,145,000 | 13,145,000 | 0 | 0 |
| **Priority 3.** | **Customs** | **17,000,000** | **0** | **8,000,000** | **9,000,000** |
| **Measure 1.** | **Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime** | 2,000,000 | 0 | 2,000,000 | 0 |
| **Measure 2.** | **Modernization of customs services and their digitalization** | 15,000,000 | 0 | 6,000,000 | 9,000,000 |
| **Measure 3.** | **Adequate monitoring of excise good sand collection of excise duties** | 0 | 0 | 0 | 0 |
| **III.Pillar-Planning and budgeting** | | **2,677,000** | **380,000** | **2,297,000** | **0** |
| **Priority 1.** | **Budget planning** | **1,992,000** | **0** | **1,992,000** | **0** |
| **Measure 1.** | **Improving medium-term planning** | 0 | 0 | 0 | 0 |
| **Measure 2.** | **Improving sectoral approach of budget planning and development by implementation of bylaws** | 1,826,000 | 0 | 1,826,000 | 0 |
| **Measure 3.** | **Introducing performance based budget (value for money)** | 166,000 | 0 | 166,000 | 0 |
| **Measure 4.** | **Spending review** | 0 | 0 | 0 | 0 |
| **Priority 2.** | **Strengthened public investment management** | **675,000** | **380,000** | **295,000** | **0** |
| **Measure 1.** | **Efficient coordination and development of public investment management processes** | 400,000 | 350,000 | 50,000 | 0 |
| **Measure 2.** | **Established single pipeline of appraised capital public investment projects** | 140,000 | 30,000 | 110,000 | 0 |
| **Measure 3.** | **Efficient and effective monitoring of capital investments** | 135,000 | 0 | 135,000 | 0 |
| **Priority 3.** | **Strengthen the accounting of budgets and budget users** | **10,000** | **0** | **10,000** | **0** |
| **Measure 1.** | **Strengthening the accounting system by applying new accounting practices** | 10,000 | 0 | 10,000 | 0 |
| **IV.Pillar-Public Procurement** | | **1,202,000** | **84,000** | **0** | **1,118,000** |
| **Priority 1.** | **PUBLIC PROCUREMENT POLICY** | **84,000** | **84,000** | **0** | **0** |
| **Measure 1.** | **Improving the cooperation among the key institutions in the public procurement system** | 0 | 0 | 0 | 0 |
| **Measure 2.** | **Combating corruption in public procurement** | **0** | **0** | **0** | **0** |
| **Measure 3.** | **Introducing new system for education within PPB** | **0** | **0** | **0** | **0** |
| **Measure 4.** | **Increasing the administrative capacities of the SAC** | 84,000 | 84,000 | 0 | 0 |
| **Priority 2.** | **Public private partnership (PPP)** | **1,118,000** | **0** | **0** | **1,118,000** |
| **Measure 1.** | **Establishment of the Unique Electronic Public Private Partnership System (UEPPP)** | 1,000,000 | 0 | 0 | 1,000,000 |
| **Measure 2.** | **Completion of the legal and regulatory framework in the field of public-private partnership** | 22,000 | 0 | 0 | 22,000 |
| **Measure 3.** | **Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership** | 96,000 | 0 | 0 | 96,000 |
| **V. Pillar – Public finance digitalisation and continuоus learning** | | **85,000** | **0** | **85,000** | **0** |
| **Priority 1.** | **Implementation of an Integrated Financial Management Information System (IFMIS)** | **0** | **0** | **0** | **0** |
| **Measure 1** | **Development of IFMIS as an integrated centralized web-based system** | 0 | 0 | 0 | 0 |
| **Measure 2** | **Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS** | 0 | 0 | 0 | 0 |
| **Measure 3** | **Capacity strengthening training and change management to support OBL reforms and IFMIS operations** | 0 | 0 | 0 | 0 |
| **Priority 2.** | **Public finance academy** | **85,000** | **0** | **85,000** | **0** |
| **Measure 1.** | **Developing and implementing a curriculum** | 5,000 | 0 | 5,000 | 0 |
| **Measure 2.** | **Developing of e-learning platform** | 50,000 | 0 | 50,000 | 0 |
| **Measure 3.** | **Developing leadership program** | 30,000 | 0 | 30,000 | 0 |
| **VI.Pillar- Public Internal Financial Control** | | **247,000** | **207,000** | **40,000** | **0** |
| **Priority 1.** | **Financial management and control** | **86,000** | **86,000** | **0** | **0** |
| **Measure 1.** | **Creating the conditions for improvement of a system of financial management based on risk management** | 86,000 | 86,000 | 0 | 0 |
| **Priority 2.** | **Internal audit** | **161,000** | **121,000** | **40,000** | **0** |
| **Measure 1.** | **Strengthening the quality of work of the internal audit units in the ministries** | 136,000 | 116,000 | 20,000 | 0 |
| **Measure 2.** | **Improving the abilities to carry out performance and IT internal audits in the public sector institutions** | 25,000 | 5,000 | 20,000 | 0 |
| **VII.Pillar - External audit and parliamentary oversight** | | **10,774,000** | **0** | **5,470,000** | **5,304,000** |
| **Priority 1.** | **External audit** | **10,357,000** | **0** | **5,053,000** | **5,304,000** |
| **Measure 1.** | **Approval legislative framework for external audit** | 21,000 | 0 | 21,000 | 0 |
| **Measure 2.** | **Strengthening the institutional capacity and human resource capacities of the SAO** | 10,336,000 | 0 | 5,032,000 | 5,304,000 |
| **Priority 2.** | **Parliamentary Oversight** | **417,000** | **0** | **417,000** | **0** |
| **Measure 1.** | **Establishing a mechanism for reviewing the audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly** | 146,000 | 0 | 146,000 | 0 |
| **Measure 2.** | **Strengthening the institutional capacities for reviewing audit reports in the Assembly of RNM.** | 271,000 | 0 | 271,000 | 0 |
| **VIII.Pillar- PFM at Local Level** | | **277,800** | **87,800** | **190,000** | **0** |
| **Priority 1.** | **Fiscal decentralization** | **160,000** | **0** | **160,000** | **0** |
| **Measure 1.** | **Improving fiscal capacity and increasing municipal revenues** | 60,000 | 0 | 60,000 | 0 |
| **Measure 2.** | **Regional and local development** | 100,000 | 0 | 100,000 | 0 |
| **Priority 2.** | **Financial discipline, transparency and accountability at local level** | **117,800** | **87,800** | **30,000** | **0** |
| **Measure 1.** | **Increasing the financial discipline** | 117,800 | 87,800 | 30,000 | 0 |
| **Measure 2.** | **Increasing the transparency and accountability throughout the operations of the municipalities** | 0 | 0 | 0 | 0 |
|  | | | | | |
| **TOTAL:** | | 47,343,800 | 14,519,800 | 17,402,000 | 15,422,000 |

# AnnexI – Time Frame of Implementation of the PFM Reform Programme

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PFMPR 2024-2027** | | | | | | | | | **2024** | | | | | | | | | | **2025** | | | | | | | | | | | | **2026** | | | | | | | | | | | | **2027** | | | | | | | | | | |
|  | |  | |  | |  |  | | **I** | | **II** | | **III** | | | **IV** | | | **I** | | **II** | | | **III** | | | **IV** | | | **I** | | | | **II** | | | **III** | | **IV** | | | **I** | | | | **II** | | **III** | | | **IV** | | |
| **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** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  | |  | | Activity 1. | Establish an effective and efficient tax data sharing mechanism | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|
|  | |  | |  | | Activity 2. | Preparing tax expenditure report and other reports in line with EU best practices | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Enhancing tax and customs modelling capacity** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Implementation of developed tax models and further training of staff | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Extending the tax models with new modules and installation of Power BI tool | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2. Economic analysis and macroeconomic forecasting** | | | | | | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Capacity building for economic analysis** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Increasing the scope of economic analyses | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Economic policy impact assessment | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Developing new macroeconomic models** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Developing macroeconomic forecasting tools | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | |  | **Fiscal risks** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Establishing institutional framework for fiscal analyses at MoF | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparing consolidated Fiscal Risk Chapter in the Fiscal Strategy | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 4.** | |  | **Fiscal Council Development** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Putting in place an effective data sharing arrangement | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Building administrative capacity | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 3.** | | | | | **Strengthening Debt management** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Reducing operational risks at public debt management** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Introducing e-banking with NBRNM for external debt repayment | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Strengthening public debt management capacities | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Reconciling the debt stock with the creditors | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Increasing public debt transparency** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Incorporating debt data in the Budget document | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Publishing Annual Borrowing Plan | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | Improving Debt Reporting | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | |  | **Introduction new debt instruments** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Issuing of Development bond for citizens | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Issuing of Green bonds on domestic market | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar II - Revenue Mobilisation** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Tax and customs policy** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Improved revenue legislation framework, harmonized with the EU acquis and best practices** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Gap analysis of the national tax and customs legislation (laws and by-laws) compared to the EU legislation and best practices | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted in line with the EU legislation and best practices | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | |  | **Tax administration** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Strengthen administrative capacity for better revenue collection and tax compliance** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | More effective and efficient management of overdue tax debt | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Improving the Compliance risk management | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Completion of the remaining modules of the Integrated Tax Information System | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Ensuring IS security (Information System) and smooth functioning of the integrated tax information system | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 3.** | | | |  | **Customs** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Modernization of customs services and their digitalization** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** |  | | **Adequate monitoring of excise good sand collection of excise duties** |  |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | | |  | | |  | |
|  | |  | |  | Activity 1 | | Establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system |  |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | | |  | | |  | |
|  | |  | |  | |  |  | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar III - Planning and Budget** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Budget Planning** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Improving medium-term planning** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Medium-Term Fiscal Strategy based on a sectoral approach | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Determination of medium term expednitures celiings | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Strengthening medium-term planning at public enterprises and companies at central level | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | | | **Improving sectoral approach of budget planning and development and implementation of bylaws** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Preparing and implementing OBL bylaws | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparing and implementing several types of classifications - administrative/organizational, economic, program, functional classifications, as well as classification of sources of financing | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Strengthening of capacities, training of employees of the MoF and budget beneficiaries | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | | | **Introducing performance based budget (value for money)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Developing multi-year indicators for measuring the success in the implementation of budget policies | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparing procedures for monitoring the impact of sectoral policies on performance indicators | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 4.** | | | **Spending review** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Build capacity at the MoF and line ministries for conducting Spending Reviews on a regular base | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Prepare and adopt metodology with defining criteria and procedures for conducting Spending review | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Spending review as a basis for appropriate budgeting for the next mid-term period | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | | | **Strengthened public investment management** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Efficient cordination and development of public investment management processes** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Strengthen the supporting legal framework for PIM | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Strengthen the institutional capacity of the MoF in the PIM system | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | | | **Established single pipeline of appraised capital public investment projects** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Develop general public investment project appraisal methodology | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Establish standard criteria for project selection/prioritization | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Provide training to MoF professionals on project appraisal and review of preinvestment studies | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | Provide training to budget users/SoEs/LSGUs professionals on project formulation appraisal and selection | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | | | **Efficient and effective monitoring of capital investments** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Introduce procedures for risk-based centralized monitoring | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Introduce a formal requirement for ex-post review of completed projects | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Develop a short-term IT solution for PIM | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 3.** | | | | | **Strengthen the accounting of budgets and budget users** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Strengthening the accounting system by applying of new accounting practices** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Adoption a Strategy for Improvement of the Budget Institutions’s Accounting with a gap analysis, setting priorities and goals and action plan | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Adopting a new regulatory framework on accounting of budgets and budget users and bylaws | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Harmonizing budget information systems and budget users with the new accounting requirements | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | Training and examination for accountants in the public sector | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar IV - Public Procurement** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Public procurement policy** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Improving the cooperation among the key institutions in the public procurement system** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Improving the coordination among the key institutions in the public procurement system | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | |  | | **Measure 2.** |  | | **Combating corruption in public procurement** |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | |  | Activity 1. | | Introducing documents for strengthening the integrity of the procurement process |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | | **Measure 3.** |  | | **Introducing new system for education within PPB** |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | |  | Activity 1. | | Revision of the education programme |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | | **Measure 4.** |  | | **Increasing the administrative capacities of the SAC** |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | |  | Activity 1. | | Increasing the number of employees in SAC |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | |  | | **Measure 4.** |  | | **Increasing the administrative capacities of the SAC** |  | | |  | |  | | |  | | |  | |  | | |  | | |  | | | |  | | |  | | |  | |  | | | |  | | |  | | |  | | |  |
|  | | **Priority 2.** | | | |  | **Public Private Partnership (PPP and Concession on goods of general interest)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Establishment of the Unique Electronic System Public Private Partnership System (UESPPP)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts the establishment of public-private partnership | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Completion of the legal and regulatory framework in the field of public-private partnership and Concession on goods of general interest** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Preparation and adoption of 13 bylaws that will arise from the Law on Public Private Partnership and preparation of the Guidline with exemples of PPP prjoects | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparation and adoption of the bylaws that will arise from the f the Law on Concession on goods of general interest | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | |  | **Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar V - Public finance digitalisation and continuоus learning** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Implementation of an Integrated Financial Management Information System (IFMIS)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Development of IFMIS as an integrated centralized web-based system** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Selection of IFMIS Solution Provider | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Development of IFMIS modules and interfaces | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | IFMIS pilot implementation and operational acceptance | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | | | **Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Enhancement of the existing data centers and network connectivity | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Establishment of the secure backup network connections | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | | | **Capacity strengthening training and change management to support OBL reforms and IFMIS operations** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Transition from existing MoF Systems to IFMIS | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Training of IFMIS users from central and local budget entities | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Development of a business continuity plan and disaster recovery skills | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | | | **Public Finance Academy(learning organization)** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Developing and implementing a curriculum** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Developing methodology for preparing annual training programme and curriculum | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Developing evaluation form for participants | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Developing of e-learning platform** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Developing of the e – learning platform | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Developing video tutorial and guidelines | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Organizing online trainigs | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 3.** | |  | **Developing leadership program** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Developing methodology for preparing annual training programme and curriculum | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Organizing trainings | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar VI - Public Internal Financial Control** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Financial management and control** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Creating the conditions for improvement of a system of financial management based on risk management** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Strengthen the capacity of the CHU to monitor and report on the functioning of the overall internal control system | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparation of the methodology for specific Financial Management and Control issues; | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Establishment of a network of institutions of financial issues units in coordination with the CHU, for exchange of experiences, best practices and raising awareness among public sector entities about responsibilities for the quality of financial management and control. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | | | **Internal audit** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Strengthening the quality of work of the internal audit units at the Ministries** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Improving of Human Resources capacities of Internal Audit Units in the Ministries through adequate staffing and Continuous Professional Development at the internal auditors; | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Strengthen the capacity of the CHU to monitor and report on the the quality of operations of the internal audit units; | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Establishment of a network of institutions’ internal audit units in coordination with the CHU, for exchange of experience and best practices. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | | | **Improving the abilities to carry out performance and IT internal audits in the public sector institutions** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Preparation and promotion methodology for specific type of internal audits | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Analysis of the situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar VII - External Audit and Parliamentary Oversight** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **External audit** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Approval legislative framework for external audit** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Approval of constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI; | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Approval of external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Strengthen the institutional capacity and human resource capacities of the SAO** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Implementation of adopted strategic, planning and methodological acts and adoption of new methodological acts of the SAO | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Strengthen the capacity for conducting audits | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Increasing the visibility of the SAO and communication with the stakeholders | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | | | **Parliamentary oversight** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | | | **Establishing a mechanism for reviewing the audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Implementation of concluded Memorandum of cooperation between the Assembly and the SAO. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparation of final/proposal procedures in the SAO and the Assembly for submission and review of audit reports and other documents. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Reviewing of summary reports from final audit reports from certain areas by the Assembly. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Strengthening the institutional capacities for reviewing audit reports in the Assembly of RNM.** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Preparation of a Training Plan for MPs and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Conducting trainings in accordance with the Training Plan for the Members of Parliament and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Implementation of activities for strengthening cooperation with Committee on Financing and Budget, Parliamentary Institute and the Parliamentary budget office of the RNM Assembly. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
| **Pillar VIII - PFM at Local Level** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Priority 1.** | | | | | **Fiscal decentralization** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Improving fiscal capacity and increasing municipal revenues** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Addoption of a New Law on Financing Local Government Units | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Preparation of by-laws of the new Law on financing of local self-government units | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Improving the legal regulation for local revenues | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | Revision of the criteria for distribution of block and earmarked grants and determination of criteria for allocation of capital grants. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Regional and local development** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Establishment of the Agency for Regional and Local Development and achieving balanced regional development. | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Determination of municipal development index | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | | **Priority 2.** | | | | | **Financial discipline, transparency and accountability at local level** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 1.** | |  | **Increasing the financial discipline** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Trainings for strengthening the capacities of the employees in the municipalities for realistic planning of the revenues and expenses of the municipalities | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Strengthening the capacity of employees in the Unit of budget of the local self-government unit | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Decreasing current expenses and increasing capital expenses in the structure of total expenses by establishing performance indicators | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | New Law on unpaid obligations of the municipalities | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | | **Measure 2.** | |  | **Increasing the transparency and accountability throughout the operations of the municipalities** | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 1. | Increasing the oversight of municipalities for the purposeful spending of earmarked, block and capital grants by the competent ministries and institutions | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 2. | Monitoring the transparency of the municipalities in order to timely inform the general public | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 3. | Increasing the transparency of the Ministry of Finance for the financial operations of the municipalities | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |
|  | |  | |  | | Activity 4. | Participation of citizens in policy decision making and monitoring results | |  | |  | |  | | |  | | |  | |  | | |  | | |  | | |  | | | |  | | |  | |  | | |  | | | |  | |  | | |  | | |

# AnnexII – Logframe table for the PFM Reform Programme 2024 - 2027

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **LOGICAL FRAMEWORK OF THE PFM REFORM PROGRAMME 2024 - 2027** | | | | | | | | | | | | | | | | | | | | | | | | |
|
| **PILLAR I. Economic Analysis, Macroeconomic and FiscalFramework** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Revenue forecasting and reporting** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| I) The Aggregate revenue deviation and variance in revenue composition between planned and actual figures is reduced, indicating in particular improved forecasting of income and profit tax, VAT and excise and social security contributions | | | | | | Aggregate revenue deviation and variance in revenue composition between planned and actual figures (as used in PEFA PI3) | | | MoF | | | Score B | | Score B | | | Score B | | Score A | | | Score A | | |
| ) Enhanced public awareness of the size and scope of tax expenditures and other tax indicators | | | | | | Tax expenditures reports are prepared and published as part of the Final Account of the State Budget | | | MoF | | | 1 tax expenditure report prepared | | Annual tax expenditure prepared;  Other tax reports prepared (VAT-GAP; C-efficiency;  Tax buoyancy and tax elasticity) | | | Annual Тax expenditures Report prepared and published as part of the Final Account of the State Budget;  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity and C-Efficiency) ;  Realized trainings for preparation of reports on estimated effective marginal tax rates (EMTRs) and effective average tax rates (EATRs);) | | Annual Тax expenditures Report prepared and published as part of the Final Account of the State Budget.  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity, C-Efficiency and Effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) Report).  Realized trainings for preparation of report on Income inequality and Cost-of-collection ratio. | | | Annual Тax expenditures Report prepared and published as part of the Final Account of the State Budget;  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity, Income inequality report, C-Efficiency, Cost-of-collection ratio Report, and Effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) Report) | | |
| iii) Enhaced modeling capabilities of the MoF staff and advanced revenue monitoring and analysis | | | | | | Staff is fully trained for applying the tax models for revenue forecasting, monitoring and analysis of any deviations in tax revenue mobilization and for estimating tax expenditures | | | MoF | | | 6 staff training performed | | 8 staff training performed | | | Regular annual staff training in tax modeling | | Regular annual staff training in tax modeling | | | Regular annual staff training in tax modeling | | |
| **Measure 1. Improving tax and customs reporting in accordance with the EU best practices** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | | | | | Number of data sharing protocols signed and implemented | | | MoF | | | No protocols for tax data sharing in place | | Data sharing protocols signed with the PRO, CA, SSO, MLSP, MOE,, CR | | | Data protocols signed with all other relevant institutions | | Continuous update of signed data sharing protocols | | | Continuous update of signed data sharing protocols | | |
|  | | | | | | Number of published reports per year and realized trainings for preparation of the reports | | | Web page of MoF | | | Draft of Tax Expenditures report prepared with Twinning project “Improving revenue collection and tax and customs policy” | | Annual tax expenditure prepared;  Realized trainings for other tax reports (VAT-GAP; C-efficiency; Tax buoyancy and tax elasticity) | | | Annual tax expenditures report prepared and published as part of the Final Account of the State Budget;  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity and C-Efficiency);  Realized trainings for preparation of report on estimated effective marginal tax rates (EMTRs) and effective average tax rates (EATRs);) | | Annual tax expenditures report prepared and published as part of the Final Account of the State Budget.  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity, C-Efficiency and Effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) Report).  Realized trainings for preparation of report on Income inequality and Cost-of-collection ratio. | | | Annual tax expenditures report prepared and published as part of the Final Account of the State Budget;  Other tax reports prepared (VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity, Income inequality report, C-Efficiency, Cost-of-collection ratio Report, and Effective marginal tax rates (EMTRs) and effective average tax rates (EATRs) Report) | | |
|  | | | | | | **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1 Establish an effective and efficient tax data sharing mechanism | | | Q1 2024 | | | MoF – Public revenues and Tax and Customs Policy Department | | CA,PRO,SSO and others | | | 82,500 | | IMF | | |  | | |
| 2. Preparing tax expenditure report and other reports in line with EU best practices | | | 2023-2025 | | | MoF – Public revenues and Tax and Customs Policy Department | | CA,PRO,SSO and others | | | 82,500 | | IMF and the World Bank | | |  | | |
| **Measure 2. Enhancing tax and customs modelling capacity** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Number of provided tailor-made training of staff | | | Mission Reports | | | Implemented 2 trainings for tax expenditures reporting;  Implemented 2 trainings for tax modeling | | Implemented 1 training in cost-benefit analysis of tax expenditures;  Implemented 6 trainings for tax modeling  Implemented 1 training for Power BI | | | Implemented regular annual staff training in tax modeling | | Implemented regular annual staff training in tax modeling | | | Implemented regular annual staff training in tax modeling | | |
| Number of tax models fully operational; new modules for tax expenditures developed and Power BI tool installed | | | Mission Reports | | | 1 tax model fully implemented, with no extensions with new modules | | 3 tax models fully implemented, with 4 extensions with a module for tax expenditures;  Power BI tool installed. | | | 4 tax models fully implemented, with 4 extensions with a module for tax expenditures;  Power BI tool installed. | | 4 tax models fully implemented, with 4 extensions with a module for tax expenditures;  Power BI tool installed.  Staff is trained in using the models. | | | 4 tax models fully implemented, with 4 extensions with a module for tax expenditures;  Power BI tool installed.  Staff is fully trained in using the models. | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Implementation of developed tax models and further training of staff | | | 2024-2025 | | | MoF – Public revenues and Tax and Customs Policy Department | | PRO and CA | | | 82,500 | | IMF, the World Bank and other partners | | |  | | |
| 2. Extending the tax models with new modules and installation of Power BI tool | | | 2024 | | | MoF – Public revenues and Tax and Customs Policy Department | | PRO and CA | | | 82,500 | | The World Bank | | |  | | |
| **PILLAR I. Economic Analysis, Macroeconomic and FiscalFramework** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Economic analysis and Macroeconomic forecasting** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| 1) Impact assessment of certain economic policies, reforms or measures and carrying out of additional economic analyses. | | | | | | •Deviation between realised and forecasted GDP  •Deviation between actual and budgeted expenditures for specified risk-prone expenditures | | | MoF | | | Analysis of current macroeconomic trends and indicators | | / | | | / | | Increased scope of economic analyses and impact assessments  (from the area of labor market, the informal economy, the assessment of the productivity and the competitiveness of the economy, etc.) | | | / | | |
| 2) Improved quality and coverage of projections for macroeconomic indicators. | | | | | | MoF | | | Nowcasting tool and a structural macroeconomic model PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+ | | / | | | / | | New tools (short term and macrostructural models) for forecasting and analyses to be developed.   PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) > = B | | | Action plan for development of a CGE model completed | | |
| 3) Increased scope of fiscal risk analysis (for all types of fiscal risks determined in line with the good international practices). | | | | | | MoF PEFA | | | Fiscal risks/Sensitive analyses in Fiscal Strategy (2021-2023)PEFA scorePI-10. Fiscal risk reporting C+ | | Fiscal risk working group established  - Institutional responsibilities clarified;  - First enhancements to fiscal risk chapter in Fiscal Strategy | | | - Procedures for Fiscal Risks Statement  - Analysis of fiscal risks from SOEs, PPPs, legal claims | | Updated plan of activities for strengthening capacities for fiscal risks assessment and analyses  PEFA scorePI-10. Fiscal risk reporting > = B | | | / | | |
| 4) Independent, objective and professional opinions on issues related to fiscal policy. | | | | | | EU IMF WB | | | PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+ | | Operational Fiscal Council and established body for professional and administrative-technical support | | | Fiscal Council publishes its independent report on macro-fiscal sustainability | | Independent, objective and professional opinions on issues related to fiscal policy  PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) >= B | | | / | | |
| **Measure 1. Capacity building for economic analyses** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Impact assessment of certain economic policies, reforms or measures and additional economic analyses conducted | | | MoF strategic documents and reports | | | ERP’s sensitivity analysis and alike | | Trainings provided | | | Trainings provided | | New economic analyses and impact assessments conducted | | | / | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Increasing the scope of economic analyses | | | 2024-2026 | | | MoF – Economic Policy and Development Department | | BU/SSO | | | 105.000 | | External EU/WB/SECO | | |  | | |
| 2. Economic policy impact assessment | | | 2024-2026 | | | MoF – Economic Policy and Development Department | | BU/SSO | | | 105.000 | | External EU/WB/SECO | | |  | | |
| **Measure 2. Developing new macroeconomic models** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| New macroeconomic models used during the preparation of the budgetary documents and Economic Reform Programme | | | MoF strategic documents and reports | | | Nowcasting and a structural macroeconomic model | | Trainings provided | | | Trainings provided | | New macroeconomic forecasting tools developed  PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) > = B | | | Plan for developing CGE model | | |
| **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs (in EUR)** | | **Source of financing** | | |  | | |
| 1.Developing macroeconomic forecasting tools | | | 2024-2026 | | | MoF – Economic Policy and Development Department | | SSO | | | 210,000 | | External WB | | |  | | |
| **Measure 3. Fiscal Risks** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Comprehensive reporting (Fiscal Risks Statement) on: liabilities of central and local governments; PPP associated risks; summary of risks identified by the biggest SoEs; comparison of macro-fiscal forecast scenarios | | | MoF IMF PEFA score for indicator PI-10. Fiscal risk reporting | | | C+ | | **/** | | | Trainings provided | | Procedure for preparation of comprehensive Fiscal Risks Statement and Fiscal Risks Chapter as part of the Fiscal Strategy  PEFA Score: >B | | | Plan for further development of fiscal risks assessment and analyses | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Establishing institutional framework for fiscal analyses at MoF | | | 2024-2026 | | | MoF – Economic Policy and Development Department | | BU/SoEs/LSGU | | | 250,000 | | External IMF/EU/SECO | | | / | | |
| 2. Preparing consolidated Fiscal Risk Chapter in the Fiscal Strategy | | | 2024-2025 | | | MoF – Economic Policy and Development Department | | BU/SoEs/LSGU | | | 50,000 | | External IMF/EU/EU/SECO | | |  | | |
| **Measure 4. Fiscal Council Development** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Operational Fiscal Council and a body for professional administrative support | | | / | | |  | | Operational Fiscal Council and Established body for professional and administrative-technical support  Prepared procedural regulations of the Fiscal Council | | | Fiscal Council publishes its independent report on macro-fiscal sustainability | | Independent, objective and professional opinions on issues related to fiscal policy PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) >= B | | | **/** | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Putting in place an effective data sharing arrangement | | | 2024-2025 | | | MoF – Economic Policy and Development Department and Fiscal Council | | Assembly of the Republic of North Macedonia, Fiscal Council (MANU, NBRNM, State Audit Office) | | | 20,000 | | External WB, EU | | |  | | |
| 1. Building administrative capacity | | | 2024-2026 | | | Fiscal Council, | | Ministry of Finance, Assembly of the Republic of North Macedonia, MANU, NBRNM, State Audit Office | | | 280,000 | | National Budget | | |  | | |
|  | | |  | | |
| **PILLAR I. Economic Analysis, Macroeconomic and Fiscal Framework** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 3. Strengthening Debt management** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Strengthened public debt management. | | | | | | Increased grade for the indicator 6.4.1 - Quality of public debt management in SIGMA report. | | | SIGMA report | | | SIGMA grade for quality of public debt management is 3 | | / | | | / | | / | | | Improvement of the indicator in the SIGMA report for risk mitigation in the stock of public debt | | |
| **Measure 1. Reducing operational risks at public debt management** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | Number of external debt orders paid electronically | | |  | | | 70% of external debt orders to be realized electronically | | 80% of external debt orders to be realized electronically | | | 10% of external debt orders to be realized electronically | | / | | | / | | |
|  | | |  | | | Increased number of employees responsible for public debt management | | |  | | | 14permanent employees for public debt management | | 16 employees for public debt management | | | 17 employees for public debt management | | 18 employees for public debt management | | | 19 employees for public debt management | | |
|  | | |  | | | Procedure for Quarterly debt reconciliation with foreign creditors | | |  | | | There is no procedure for Quarterly debt reconciliation with foreign creditors | | Adopted procedure for Quarterly debt reconciliation with foreign creditors | | | / | | Adopted procedure for Quarterly debt reconciliation with foreign creditors | | | / | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Introducing e-banking with NBRNM for external debt repayment | | | 2024-2025 | | | MoF – Public Debt Menagement Department | | NBRNM | | | / | | / | | |  | | |
|  | | |  | | | 2. Strengthening public debt management capacities | | | 2024-2027 | | | MoF – Public Debt Menagement Department | | Agency for administration | | | 124,000 | | National budget | | |  | | |
|  | | |  | | | 3. Reconciling the debt stock with the creditors | | | 2024 | | | MoF – Public Debt Menagement Department | | Multilateral, bilateral and private creditors | | | / | | / | | |  | | |
| **Measure 2. Increasing public debt transparency** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | Calculation of general government debt in accordance with the statistical standard SDDS plus | | | Website of MoF | | | Government debt is displayed according to SDDS standard | | Government debt is displayed according to SDDS plus standard | | | / | | / | | | **/** | | |
|  | | |  | | | Publication of general government debt in accordance with the Maastricht criterion | | | Website of MoF | | | The general government debt it is not harmonized with the Maastricht criterion | | / | | | The general government debt is harmonized with the Maastricht criterion | | / | | | **/** | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria | | | 2024-2025 | | | MoF – Public Debt Menagement Department | | EU, World bank | | | / | | / | | |  | | |
|  | | |  | | | 2. Incorporating debt data in the Budget document | | | 2024-2027 | | | MoF – Public Debt Menagement Department | |  | | | / | | / | | |  | | |
|  | | |  | | | 3. Publishing Annual Borrowing Plan | | | 2026-2027 | | | MoF – Public Debt Menagement Department | | EU, World bank | | | / | | / | | |  | | |
|  | | |  | | | 4. Improving Debt Reporting | | | 2026-2027 | | | MoF – Public Debt Menagement Department | | EU, World bank | | | / | | / | | |  | | |
| **Measure 3. Introduction new debt instruments** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY26** | | |
|  | | |  | | | Diversification of debt instruments | | |  | | | * Structural bond for financing the municipalities is issued * Development Bond for citizens is issued   Green Bond is issued | | Issuances of the Development Bond for citizens and the Green Bond will be defined during the monitoring process | | | Issuances of the Development Bond for citizens and the Green Bond will be defined during the monitoring process monitoring process | | Issuances of the Development Bond for citizens and the Green Bond will be defined during the monitoring process | | | Issuances of the Development Bond for citizens and the Green Bond will be defined during the monitoring process | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Issuing of Development bond for citizens | | | 2024-2027 | | | MoF – Public Debt Menagement Department | | Citizens | | | / | | / | | |  | | |
|  | | |  | | | 2. Issuing of Green bonds on domestic market | | | 2024-2027 | | | MoF – Public Debt Menagement Department | | Development Bank | | | / | | / | | |  | | |
| **PILLAR II: Revenue mobilization** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Tax and customs policy** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Legislation in the area of taxation and customs harmonized with the Union acquis, standards and best practices | | | | | | Progress made toward fulfillment of EU accession criteria (steady progress in related Chapters 16 and 29) | | | EC progress report | | | Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Limited progress | | Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Some progress | | | Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Good progress | | Ch.29: Good level of preparation Very Good progress Ch.16: Good level of preparation Good progress | | | Ch.29: Good level of preparation Very Good progress Ch.16: Good level of preparation Good progress | | |
| **Measure 1. Improved revenue legislation framework, harmonized with the EU acquis and best practices** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Number of legislative acts (regarding Ch.16 And Ch.29) | | | MoF – Public Revenues and Tax and customs policy department | | | Prepared 22 gap analysis, 9 written recommendations and new legal acts and/or amendments to the existing national tax and customs legislation | | Not less than 3 legislative acts | | | Not less than 3 legislative acts | | Not less than 4 legislative acts | | | Not less than 5 legislative acts | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Gap analysis of the national tax and customs legislation (laws and by-laws) compared to the EU legislation and best practices. | | | 2024-2027 | | | MoF – Public revenues and Tax and Customs Policy Department | | CA and PRO | | | EUR 250.000 | | Twinning Light Project Further harmonization of the tax legislation with the EU Acquis | | |  | | |
|  | | | | | | 2. New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted in line with the EU legislation and best practices. | | | 2024-2027 | | | MoF – Public revenues and Tax and Customs Policy Department | | CA and PRO | | | Twinning Light Project Further harmonization of the tax legislation with the EU Acquis | | |  | | |
| **PILLAR II: Revenue mobilization** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Tax Administration** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Improved stability, efficiency and quality of the revenue collection system (IT system) | | | | | | % percentage of digitized tax services | | | PRO | | | 83% | | 90% | | | 92% | | 95% | | | 100% | | |
| More effective and efficient management of the overdue tax debt | | | | | | improved rate of tax payment on time (VAT) | | | PRO | | | Rate on number of timely payments - 60% Rate on amount of timely payments - 70% | | Rate on number of timely payments – 65% Rate on amount of timely payments - 75% | | | Rate on number of timely payments – 70% Rate on amount of timely payments - - 80% | | Rate on number of timely payments – 80% Rate on amount of timely payments - 85% | | | Rate on number of timely payments – 90% Rate on amount of timely payments - - 90% | | |
|
| Improved age structure of the tax debt (VAT) - reduced share of the debt older than 12 months in the total tax debt | | | PRO | | | Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 77% | | Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 70% | | | Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 63% | | Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 56% | | | Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 50% | | |
| fully established systematic process for managing tax compliance risks | | | | | | Increased number of taxpayers who voluntarily comply | | | PRO | | | Percentage of timely submitted tax returns and tax payments | | Percentage of timely submitted returns and taxes payment compared to the previous year | | | Percentage of timely submitted returns and taxes payment compared to the previous year | | Percentage of timely submitted returns and taxes payment compared to the previous year | | | Percentage of timely submitted returns and taxes payment compared to the previous year | | |
| **Measure 1. Strengthen administrative capacity for better revenue collection and tax compliance** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Increasing the amount of the established tax guarantee | | | PRO | | | The amount of established tax guarantee for 2022 is 463,310,827 denars. | | Increase the amount of the established tax guarantee by 10% compared to 2023. | | | Increase the amount of the established tax guarantee by 10% compared to 2024. | | Increase the amount of the established tax guarantee by 5% compared to 2025. | | | Increase the amount of the established tax guarantee by 5% compared to 2026. | | |
| Increasing the collection of tax debt based on an established tax guarantee | | | PRO | | | The amount of debt collected based on the established tax guarantee is 40,077,892 denars | | Increase in the amount of debt collected based on the established tax guarantee by 5% compared to 2023. | | | Increase in the amount of debt collected based on the established tax guarantee by 10% compared to 2024. | | Increase in the amount of debt collected based on the established tax guarantee by 10% compared to 2025. | | | Increase in the amount of debt collected based on the established tax guarantee by 5% compared to 2025. | | |
| Value of collectible core tax arrears in FY end in percent of total core tax revenue collection for FY | | | PRO | | | VAT debt / VAT income ratio 18%% | | VAT debt / VAT income ratio 16% | | | VAT debt / VAT income ratio 14% | | VAT debt / VAT income ratio 12% | | | VAT debt / VAT income ratio 10% | | |
| Improving compliance with the personal services activity through a better ratio Number of performed controls per year / total registered taxpayers | | | PRO | | | Additional tax assessed per audit program increased per 3% compared to the results from the previous year | | Additional tax assessed per audit program increased per 3% compared to the results from the previous year | | | Additional tax assessed per audit program increased per 3% compared to the results from the previous year | | Additional tax assessed per audit program increased per 3% compared to the results from the previous year | | | Additional tax assessed per audit program increased per 3% compared to the results from the previous year | | |
| **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. More effective and efficient management of overdue tax debt | | | 2024-2027 | | | PRO | | / | | | 212,000 | | National budget | | |  | | |
|  | | | | | | 2.Improving theCompliance risk management | | | 2024-2027 | | | PRO | | / | | |  | | |
| **Measure 2. Digital transformation of the PRO with the establishment of an Integrated Tax InformationSystem (ITIS)** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY21** | | **Target FY22** | | | **Target FY23** | | **Target FY24** | | | **Target FY25** | | |
|  | | |  | | | Number of institutions with which the Integrated Tax Information System exchanges information | | | PRO | | | 15 | | 20 | | | 25 | | 28 | | | At least 30 | | |
|  | | |  | | | **Activities.** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1.Completion of the remaining modules of the Integrated Tax Information System | | | 2024-2027 | | | PRO | | / | | | 13,145,000 | | National Budget | | |  | | |
|  | | |  | | | 2.Ensuring IS security (Information System) and smooth functioning of the integrated tax information system | | | 2024-2027 | | | PRO | | / | | |  | | |
| **PILLAR II: Revenue mobilization** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 3. Customs** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance indicator** | | | **Data source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Availability of innovative equipment and training of staff for detection and control for the purpose of: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search; | | | | | | Percentage of physical controls that resulted in the detection of irregularities in relation to the total number of physical controls performed using the new equipment | | | Customs Administration | | | / | | 10% of the total number of performed physical controls using the new equipment // | | | 15% of the total number of performed physical controls using the new equipment // | | 15% of the total number of performed physical controls using the new equipment | | | 15% of the total number of performed physical controls using the new equipment | | |
| Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and staffing with appropriate hardware for those systems. | | | | | | Implemented at least two (2) new IT systems / modules from the EU Multiannual Strategic Plan (MASP) at national level on appropriate hardware (ICS2 and e-commerce) | | | Customs Administration | | | 0 | | / | | | / | | / | | | 2 | | |
| **Measure 1. Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicator** | | | **Data source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Percentage of staff employed in the corresponding units for customs control actively using the new equipment | | | Customs Administration | | | 0 | | 30%/ | | | 70% | | 70% | | | 70% | | |
| Conducted appropriate professional trainings for the employees in the operational services for control and prosecution for fight against illicit trade and crime (number of events) | | | Customs Administration | | | (part of equipment is in the process of procurement)0 | | / additional equipment will be procured | | | 5 | | 5 | | | 7 | | |
| **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade | | | 2024-2027 | | | Customs Administration | | EU - and its institutions, UN, Bilateral Cooperation, relevant domestic institutions | | | 2,000,000 | | (IPA2 and IPA3) | | |  | | |
| **Measure 2. Modernization of customs services and their digitalization** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance indicator** | | | **Data source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | Average yearly technical availability of the new customs IT systems for interconnectivity with the EU systems | | | Customs Administration | | | 95% | | 95% | | | 95% | | 95% | | | 95% | | |
|  | | |  | | | Conducted appropriate professional trainings for the employees of the Customs Administration and the economic operators for implementation of systems (number of events) | | | Customs Administration | | | 10 | | 10 | | | 12 | | 15 | | | 20 | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware. | | | 2024-2027 | | | Customs Administration | | EU | | | 15,000,000  (2 mil. IPA + 4 mil. Government of Korea + 9 mil. Financing GAP/ Growth Plan for Western Balkan | | (IPA 3, t, Government of Korea and Reform and Growth Plan for Western Balkan - financial gap) | | |  | | |
| **Measure 3. Adequate monitoring of excise good sand collection of excise duties** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance indicator** | | | **Data source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | | **Target FY26** | | | **Target FY27** | |
|  | | |  | | | Preparation of a legal framework for implementing the TRACK&TRACE system | | | Customs Administration | | |  | | Signing the necessary Protocols between concerned institutions | | |  | | |  | | | High preparation for implementing the TRACK&TRACE system | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsibleinstitution** | | **Otherpartners** | | | **Costs** | | | **Sourceoffinancing** | | |  | |
|  | | |  | | | 1 Establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system | | | 2024-2027 | | | Customs Administration | | / | | | Funding cannot be planned at the moment | | | / | | |  | |
| **PILLAR III: Planning and budget** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Budget planning** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Predictable and reliable budget allocations for budget organisations considering consolidation in public spending and reducing the budget deficit. | | | | | | Deviation between the original estimates and actual outturns | | | Medium-term fiscal strategy + annual budget | | | (-)4,4 % of GDP | | -3,4% of GDP | | | -3% of GDP | | -3 % of GDP | | | -2,8% of GDP | | |
| **Measure 1. Improving medium-term planning** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Changes in relation to the initial projections /outturn on (Fiscal deficit) | | | Medium-term fiscal strategy | | | 2,5% | | 0.1% | | | 0.1% | | 0.09% | | | 0.09% | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Medium-Term Fiscal Strategy based on a sectoral approach | | | 2024-2027 | | | MoF - Budget and Funds Department | | Budget users | | | / | | / | | |  | | |
|  | | |  | | | 2.Determination of medium term expenditures celiings | | | 2024-2027 | | | MoF - Budget and Funds Department | | Budget users | | | / | | / | | |  | | |
|  | | |  | | | 3. Strengthening medium-term planning at public enterprises and companies at central level | | | 2024-2027 | | | MoF - Budget and Funds Department | | Budget users | | | / | | / | | |  | | |
| **Measure 2. Improving sectoral approach of budget planning and development by implementation of bylaws** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Number of first level of budget users | | | Budget | | | around 100 | | around 100 | | | Around 50 | | less than 50 | | | Less than 50 | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1.Preparing and implementing OBL-bylaws | | | 2024-2027 | | | MoF - Budget and Funds Department | | Budget user | | | 654,000 | | US Treasury | | |  | | |
|  | | |  | | | 2. Preparing and implementing several types of classifications - administrative/organizational, economic, program, functional classifications, as well as classification of sources of financing; | | | 2025-2027 | | | MoF - Budget and Funds Department | | Budget user | | | 382,000 | | US Treasury | | |  | | |
|  | | |  | | | 3. Strengthening of capacities, training of employees and budget beneficiaries | | | 2024-2027 | | | MoF - Budget and Funds Department | |  | | | 790,000 | | US Treasury | | |  | | |
|  | | |  | | |
| **Measure 3. Introducing performance based budget (value for money)** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Share of capital in total expenditures | | | Budget | | | 11.4 % | | 14,8% | | | 15.0% | | 16.1% | | | 16.6% | | |
| **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Developing of multi-year indicators for measuring the success in the implementation of budget policies | | | 2024-2027 | | | MoF - Budget and Funds Department and Gov. | | Budget users/PE/JSC/LSGu | | | 136,000 | | S Treasury, IMF, World Bank | | |  | | |
|  | | |  | | | 2. Preparing procedures for monitoring the impact of sectoral policies on performance indicators | | | 2025-2027 | | | MoF - Budget and Funds Department and Gov. | | Budget users/PE/JSC/LSGu | | | 30,000 | | IMF, World Bank | | |  | | |
| **Measure 4. Spending review** | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Share of total expenditure in GDP | | | Medium-term fiscal strategy + annual budget | | | 36% of GDP | | 35% of GDP | | | 34.5% of GDP | | 34.2% of GDP | | | 33.9% of GDP | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Build capacity at the MoF and line ministries for conducting Spending Reviews on a regular base | | | 2025-2027 | | | MoF - Budget and Funds Department, and Gov. | | Budget users/PE/JSC/LSGu | | | / | | / | | |  | | |
|  | | | |  | | | 2. Prepare and adopt methodology with defining criteria and procedures for conducting Spending review. | | | 2025-2027 | | | MoF - Budget and Funds Department and Gov. | | Budget users/PE/JSC/LSGu | | | / | | / | | |  | | |
|  | | | |  | | | 3.Spending review as a basis for appropriate budgeting for the next mid-term period | | | 2027 | | | MoF - Budget and Funds Department and Gov. | | Budget users/PE/JSC/LSGu | | | / | | / | | |  | | |
| **Pillar III. Planning and budget** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Strengthened Public Investment Management** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Efficient and effective planning, selection and implementation of major public investment projects | | | | | | PEFA score for indicator PI - 11.Public Investment Management 11.1. Economic analysis of investment projects  11.2. Investment project selection 11.3. Investment project costing 11.4. Investment project monitoring | | | PEFA Assessment Report | | | PEFA Score D+ | | / | | | / | | /- | | | PEFA Score: >C | | |
| C | | >C | | |
| D | | >C | | |
| C | | >C | | |
| C | | >C | | |
| **Measure 1. Efficient coordination and development of public investment management processes** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | 1) Staff capacity of the PIM Department in the MoF  2) Supporting legal framework for PIM adopted | | | MoF | | | (Baseline 2023)  1) 6 employees  2) 1 act adopted (OBL) | | 1) 70% of planned staff engaged  2) 2 acts adopted | | | 1) 90% of planned staff engaged  2) Number of new acts adopted | | 1) 100% of planned staff engaged | | | 1) 100% of planned staff engaged | | |
|  | | |  | | | **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1.Strengthen the supporting legal framework for PIM | | | 2024 - 2025 | | | MoF – PIM Department | | External expertise(WB/IMF/EU) | | | 30.000 | | External funding | | |  | | |
|  | | |  | | | 2.Strengthen the institutional capacity of the MoF in the PIM system | | | 2024 - 2027 | | | MoF – PIM Department | | External expertise  (WB/IMF/EU) | | | 350.000 | | National budget | | |  | | |
|  | | |  | | | External funding | | |  | | |
|  | | |  | | | 20.000 | |
| **Measure 2. Established single pipeline of appraised capital public investment projects** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | Average effectiveness score of institutions 4 and 10 of PIMA | | | MoF | | | / | | Methodology for pre-appraisal, appraisal, prioritization of public investment project adopted | | | Standard criteria for project selection/ prioritization adopted | | All budget users at central and local level prepare public investment proposals following the PIM methodology | | | Developed single pipeline of appraised capital public investment projects | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Develop general public investment project appraisal methodology | | | 2024– 2025 | | | MoF – PIM Department | | External expertise (WB/EU) | | | 25,000 | | External funding | | |  | | |
|  | | |  | | | 2. Establish standard criteria for project selection/ prioritization | | | 2024 - 2025 | | | MoF – PIM Department and Government | | External expertise (WB/EU) | | | 25,000 | | External funding | | |  | | |
|  | | |  | | | 3 Provide training to MoF professionals on project appraisal and review of preinvestment studies | | | 2024– 2027 | | | MoF – PIM Department and Government | | External expertise  (WB/IMF/EU) | | | 50,000 | | External funding | | |  | | |
|  | | |  | | |
|  | | |  | | | 4. Provide training to budget users/SoEs/LSGUs professionals on project formulation appraisal and selection | | | 2024 - 2027 | | | MoF – PIM Department | | BU/SoEs/ LSGUs External expertise  (WB/EU) | | | 30,000 | | National budget  External | | |  | | |
|  | | |  | | |  | |
|  | | |  | | | 10,000 | |
| **Measure 3. Efficient and effective monitoring of capital investments** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | |  | | | 1) Created database of public investment projects from which to select budget candidates and monitor financial implementation of projects  2) Number of monitoring reports for the public investment portfolio prepared | | | MoF | | | / | | **/** | | | 1. Developed short - term IT solution that will provide the MoF with a database of projects 2. 1 | | 1) /  2) 2 | | | 1) /  2) 2 | | |
|  | | |  | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Introduce procedures for risk-based centralized monitoring | | | 2024– 2027 | | | MoF – PIM Department | | External expertise  (WB/ IMF/EU) | | | 35,000 | | External funding | | |  | | |
|  | | |  | | | 2. Introduce formal requirement for ex-post review of completed projects | | | 2025 - 2027 | | | MoF – PIM Department | | External expertise  (WB/ IMF/EU) | | | 35,000 | | External funding | | |  | | |
|  | | |  | | | 3. Develop a short-term IT solution for PIM | | | 2024 - 2025 | | | MoF – PIM Department | | External expertise  (IMF) | | | 65,000 | | External funding | | |  | | |
| **Pillar III. Planning and budget** | | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 3. Strengthen the accounting of budgets and budget users** | | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Improved financial reporting by establishing new accounting practices. | | | | | | | Percentage of budget users applying new accounting practices. | | | MoF | | |  | | 0 | | | 0 | | 50% of budget users apply new accounting practices | | | 100% of budget users apply new accounting practices | | |
| **Measure 1. Strengthening the accounting system by applying new accounting practices and capacity building of public sector accountants** | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Adoption of new accounting practices | | | MoF | | |  | | Adoption of Strategy for improvement of the accounting of budgets and budget users and amendments of the Law on accounting of budgets and budget users | | | New regulatory framework on accounting of budgets and budget users and bylaws | | Harmonizing budget information systems and budget users with the new accounting requirements | | | Harmonizing budget information systems and budget users with the new accounting requirements | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Adoption a Strategy for Improvement of the Budget Institutions’s Accounting with a gap analysis, setting priorities and goals and action plan and amendments of the Law on accounting of budgets and budget users | | | 2024 | | | MoF – Financial System Department | | / | | | 10,000 | | UNDP | | |  | | |
| 2. Adopting a new regulatory framework on accounting of budgets and budget users and bylaws | | | 2025 | | | MoF – Financial System Department | | / | | | 0 | | MoF | | |  | | |
|  | | | | | | | 3. Harmonizing budget information systems and budget users with the new accounting requirements | | | 2026-2027 | | | All budget institutions | | / | | | 0 | | Budget institutions | | |  | | |
|  | | | | | | | 4. Training and examination for accountants in the public sector | | | 2025-2027 | | | MoF – Financial System Department | | Universities  CEF | | | / | | / | | |  | | |
| **PILLAR IV. PUBLIC PROCUREMENT** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. PUBLIC PROCUREMENT POLICY** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Improved public procurement process. | | | | | | Percentage one bid tenders | | | ESPP | | | 29,70% | | -≤ 29 % | | | -≤ 28 % | | -≤ 27 % | | | ≤ 26 % | | |
| Percentage cancelled procedures | | | ESPP | | | 21,16% | | -≤ 21 % | | | -≤ 19,5 % | | -≤ 19 % | | | ≤ 18,5 % | | |
| Number of appeals | | | SAC/ESPP | | | Total number of received complaints before the SAC - 837 | | Reduction by 0.5% of appeals | | | - Reduction by 1% of appeals | | Reduction by 1.5% of appeals | | | Reduction by 2% of appeals | | |
| numberofappealsbeforeboththeAdministrativeCourtandtheHigherAdministrativeCourt. | | | SAC | | | Lawsuits filed before the Administrative Court -10,58% Judgments of the Administrative Court - 54 Appeals before the High Administrative Court - 58 | | Reduction by 5% of the annulled Decisions of SAC | | | - Reduction by 5% of the annulled Decisions of SAC | | Reduction by 5% of the annulled Decisions of SAC | | | Reduction by 5% of the annulled Decisions of SAC | | |
| **Measure 1. Improving the cooperation among the key institutions in the public procurement system** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Held working meetings | | | PPB | | | Advisory group is established and official communication and cooperation was initiated | | Held at least 2 meetings | | | Held at least 2 meetings | | Held at least 2 meetings | | | Held at least 2 meetings | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1.Regular communication and coordination of Advisory group of the key institutions in the procurement system | | | 2024-2027 | | | PPB | | PPB,  SA Commission,  SA Office, SCP Corruption, SCP Competition,  ME | | | / | | / | | |  | | |
| **Measure 2. Combating corruption in public procurement** | | | | | | | | | | | | | | | | | | | | | | |
|  | | | **Performance Indicator** | | | | **DataSource** | | **Baseline FY22** | | | **Target FY24** | | **Target FY25** | | | | **Target FY26** | | | **Target FY27** | |
| Template of Statement for impartiality and confidentiality (SI&C) | | | | PPB | | Advisory group is established and official communication and cooperation was initiated | | | Template of SI&C published on PPB | | / | | | | / | | | / | |
| **Activities** | | | | **Implementation period** | | **Responsible institution** | | | **Other partners** | | **Costs** | | | | **Source of financing** | | |  | |
| 1.Introducing documents for strengthening the integrity of the procurement process | | | | 2024-2025 | | PPB | | | SCP Corruption, | | / | | | | / | | | / | |
| **Measure 3. Introducing new system for education within PPB** | | | | | | | | | | | | | | | | | | | | | | |
|  | | | **Performance Indicator** | | | | **DataSource** | | **Baseline FY22** | | | **Target FY24** | | **Target FY25** | | | | **Target FY26** | | | **Target FY27** | |
| 1.Established new system for education within PPB | | | | PPB | | Analysis of the system for education with in PPB | | | - | | - | | | | Established new system for education within PPB | | | 15 organized trainings according new established system for education within PPB | |
| **Activities** | | | | **Implementation period** | | **Responsible institution** | | | **Other partners** | | **Costs** | | | | **Source of financing** | | |  | |
| 1.Revision of the programme for education | | | | 2024-2026 | | PPB | | | / | | / | | | | / | | |  | |
| **Measure 4. Increasing the administrative capacities of the SAC** | | | | | | | | | | | | | | | | | | | | | | |
|  | | | **Performance Indicator** | | | | **DataSource** | | **Baseline FY22** | | | **Target FY24** | | **Target FY25** | | | | **Target FY26** | | | **Target FY27** | |
| 1.Number of new employments in SAC | | | | SAC | | - | | | 5 new employees | | / | | | | / | | |  | |
| **Activities** | | | | **Implementation period** | | **Responsible institution** | | | **Other partners** | | **Costs** | | | | **Source of financing** | | |  | |
|  | | | 1.Increasing the administrative capacities of the SAC | | | | 2024-2025 | | SAC | | | MF | | 84.000 | | | | National budget | | |  | |
| **PILLAR IV. PUBLIC PROCUREMENT** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Public Private Partnership (PPPandConcession on goods of general interest)** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Unification and digitalization of the process of awarding contracts for establishing public-private partnership, increased transparency and efficiency in the implementation of the Law on Public-Private Partnership and strengthening and developing the capacities of the Ministry of Economy for consistent realization of competencies according to law. | | | | | | 1)Number of concluded agreements for establishing a public-private partnership 2) Effective and consistent implementation of the obligations of the contracting parties in accordance with the agreements for establishment of public-private partnership. | | | ME | | |  | | / | | | 1) Potential increase in the number of concluded contracts for public-private partnership by 5% compared to the number of contracts concluded in the year as a basis for monitoring 2) Potential reduction by 20% of concluded contracts for public-private partnership in which certain legal obstacles in the realization occurred, compared to the percentage of contracts concluded in the year as a basis for monitoring | | 1) Potential increase in the number of concluded public-private partnership agreements by 5% compared to the previous year 2) Potential reduction by 10% of concluded public-private partnership agreements in which certain legal obstacles in the realization occurred, compared to the previous year | | | 1) Potential increase in the number of concluded public-private partnership agreements by 5% compared to the previous year 2) Potential reduction by 10% of concluded public-private partnership agreements in which certain legal obstacles in the realization occurred, compared to the previous year | | |
| **Measure 1. Establishment of the Unique Electronic System Public Private Partnership System (UESPPP)** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| 1)Commissioning of the UESPPP and the Register of awarded contracts for the establishment of a public-private partnership and its functionality  2)percentage of PPP contracts whose progress in implementation is regularly reported to the system within the deadlines provided by the law  3)percentage of initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed | | |  | | | 2) 0% of the public-private partnership agreements whose progress in the implementation is regularly reported in the system within the deadlines provided by law  3)20% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed | | / | | | 1)Establishment of the UESPPP and start of implementation - The software solution for the establishment of the UESPP and the Register of awarded contracts for the establishment of a public-private partnership have been prepared  2) 50% of the public-private partnership agreements, which progress of the implementation is regularly reported in the system within the deadlines provided by law 3)Reduction by 10% of the initiated procedures for awarding a contract for establishing a public-private partnership, which are not completed, compared to the percentage of initiated but not completed procedures in the year as a basis for monitoring | | 2) 70% of the public-private partnership agreements, which progress of implementation is regularly reported in the system within the deadlines provided by law  3) Reduction by 5% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed, compared to the previous year | | | 2) 100% of the public-private partnership agreements, of which progress in the implementation is regularly reported in the system within the deadlines provided by law 3) Reduction by 5% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed, compared to the previous year | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership | | | 2024 | | | MoE | | / | | | N/A | | N/A | | |  | | |
| 2. Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts the establishment of public-private partnership | | | 2024-2025 | | | MoE | | PPB, MoF | | | 1,000,000 | | Financing gap | | |  | | |
| **Measure 2. Completion of the legal and regulatory framework in the field of public-private partnership and Concession on goods of general interest** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Adoption of the bylaws that will arise from the Law on public private partnership by the Minister of economy.  Adoption of the bylaws that will arise from the Law on concession on goods of general interest by the Minister of finance. | | | MoE | | |  | | / | | | Publication of 13 bylaws in the Official Gazette of RNM which prescribe in more detail the rules for: Register of awarded contracts for establishing public-private partnership, UESPPP, criteria for preparation of PPP projects, Feasibility study, PPP agreements, planning reporting e.t.c  Publication of 2 bylaws in the Official Gazette of RNM which will arise of the Law on Concession on goods of general interest | | Implementation of the bylaws | | | Implementation of the bylaws | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1Preparation and adoption of 13 bylaws that will arise from the Law on Public Private Partnership and preparation of the Guideline with examples of PPP projects | | | 2024-2025 | | | MoE | | Working group for preparation of the bylaws | | | EUR 22,000 | | / | | |  | | |
| 2. Preparation and adoption of the bylaws that will arise from the f the Law on Concession on goods of general interest | | | 2024-2025 | | | MoF | | MoE | | | / | | / | | |  | | |
| **Measure 3. Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Increasing the capacity and efficiency of the Public Private Partnership and Concessions Unit t | | | / | | | / | | Employment of 2 new civil servants - ratio of approved financial resources for employment from the Ministry of Finance versus the real employment needs in the Department for Public Private Partnership and Concessions and their training in the area of public private partnership | | | Employment of 1 new civil servant - ratio of approved financial resources for employment from the Ministry of Finance versus the real employment needs in the Department for Public Private Partnership and Concessions and their training in the area of public private partnership | | Development and improvement of the capacities of the employees in the Department for Public Private Partnership and Concessions | | | Development and improvement of the capacities of the employees in the Department for Public Private Partnership and Concessions | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership | | | 2024-2025 | | | MoE | | MoF | | | 96,000 | | National Budget | | |  | | |
| **PILLAR V. .Public finance digitalisation and continuоus learning** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Implementation of an Integrated Financial Management Information System (IFMIS)** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Improved operational efficiency and transparency through IFMIS in line with the new OBL. | | | | | | The required time for the processing of payments through IFMIS and Treasury Single Account interface was reduced | | | PFM Reform Program Annual Progress Reports, Project reports | | | No IFMIS; 30 days for entities to submit the invoice to the Treasury +1 for payment processing | | / | | | / | | On average, 15 days for entities to submit invoices to Treasury +1 day for payment processing by Treasury | | | 5 days for entities to submit invoices to Treasury +1 day for payment processing by Treasury | | |
|  | | | | | | Comprehensiveness of publicly published general government reporting | | | PFM Reform Program Annual Progress Reports, Project reports | | | Annual Budget preparation and budget execution reports do not cover all relevant institutions in accordance with international standards (ESA 2010 and GFS) | | IFMIS bidding process is launched including the requirements for necessary improvements in reporting. | | | IFMIS development is completed and the pilot implementation includes testing of reporting improvements | | IFMIS is fully operational and new reporting capabilities are available. Government entities can generate reports including all relevant institutions. | | | Regulatory agencies and PEs are included as part of the budget preparation and execution reports through the new IFMIS, in line with new PE Registry. | | |
| Open Budget Index Score (transparency) increased | | | Open Budget Survey Results | | | 36 out 100 (2021) | | 50 out of 100 (2023) | | | / | | 90% | | | 61 out of 100 (2025) | | |
| **Measure 1. Development of IFMIS as an integrated centralized web-based system** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| New IFMIS is operational | | | Project Reports | | | No IFMIS | | New IFMIS is being developed | | | IFMIS has gone live after being piloted | | IFMIS is used in the preparation and execution of the central government budget | | | At least 95 percent of payments processed through the IFMIS | | |
| **Activities:** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Selection of IFMIS Solution Provider | | | 2024 | | | MoF – IFMIS WG | | World Bank, EU | | | / | | MoF Budget, WB Projects (including EU contribution) | | |  | | |
| 2. Development of IFMIS modules and interfaces | | | 2024-2025 | | | MoF – IFMIS WG | | World Bank, EU | | | / | | WB Loan (including EU contribution) | | |  | | |
| 3 IFMIS pilot implementation and operational acceptance | | | 2024-2026 | | | MoF – IFMIS WG | | World Bank, EU | | | / | | WB Loan (including EU contribution) | | |  | | |
| **Measure 2. Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | | | | | The percentage growth in the hosting capacity of MoF ICT infrastructure to support the implementation of new IFMIS | | | Project Reports | | | The current IT IS does not have the functionalities supported by the project | | New data warehouse and BI tools developed and linked with the IFMIS. | | | / | | / | | | Improved availability of the MDS and DRC | | |
|  | | | | | | **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | | | | | 1. Enhancement of the existing data centers and network connectivity | | | 2024-2027 | | | MoF – IFMIS WG | | World Bank, EU | | | N/A | | WB Loan (including EU contribution) | | |  | | |
|  | | | | | | 2. Establishment of the secure backup network connections | | | 2024-2027 | | | MoF – IFMIS WG | | World Bank, EU | | | N/A | | WB Loan (including EU contribution) | | |  | | |
| **Measure 3. Capacity strengthening training and change management to support OBL reforms and IFMIS operations** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **PerformanceIndicator** | | **DataSource** | | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
|  | | | | | | Improvement in user proficiency with the IFMIS following the capacity-strengthening training and change management initiatives | | Project Reports | | | | No user proficiency with the IFMIS | |  | | | Assessment of user proficiency with the IFMIS and initiate capacity-strengthening training programs and change management initiatives | | Training and Skill Development | | | Consolidation and Continuous Improvement | | |
|  | | | | | | **Activities** | | **Implementation period** | | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | | | | | 1. Transition from existing MoF Systems to IFMIS | | 2025-2027 | | | | MoF – IFMIS WG | | World Bank, EU | | | N/A | | WB loan (including EU contribution) | | |  | | |
|  | | | | | | 2. Training of IFMIS users from central and local budget entities | | 2025-2027 | | | | MoF – IFMIS WG /PFA | | World Bank, EU | | | N/A | | WB loan (including EU contribution) | | |  | | |
|  | | | | | | 3. Development of a business continuity plan and disaster recovery skills | | 2025-2027 | | | | MoF – IFMIS WG | | World Bank, EU | | | N/A | | WB loan (including EU contribution) | | |  | | |
| **PILLAR V. Public finance digitalisation and continuоus learning** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Public Finance Academy (learning organization)** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **DataSource** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Provided continuing education in the field of Public Financial Management | | | | | | Management's perception of whether the Academy adds value to their employees (low, medium or high level of value added perception) | | | Internal survey of the Ministry of Finance | | | / | | low | | | medium | | high | | | high | | |
| **Measure 1. Developing and implementing a curriculum** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Prepared annual training program and curricula | | | Ministry of Finance | | | / | | Training program and curricula prepared for 2024 | | | Training program and curricula prepared for 2025 | | Training program and curricula prepared for 2026 | | | Training program and curricula prepared for 2027 | | |
| Satisfaction of the participants from the conducted trainings (low, medium or high level of satisfaction) | | | Ministry of Finance | | | / | | medium | | | medium | | high | | | high | | |
| Number of organized trainings | | |  | | | 0 | | 5 | | | 10 | | 20 | | | 30 | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs (in EUR)** | | **Source of financing** | | |  | | |
| 1.Developing methodology for preparing annual training programm and curriculum | | | 2024 | | | MoF – PF Academy | | / | | | / | | / | | |  | | |
| 2.Developing evaluation form for participants | | | 2024 | | | MoF – PF Academy | | Twinning project / donators | | | 5,000 | | EU twinning project | | |  | | |
|  | | |  | | |
| **Measure 2. Developingt of e-learning platform** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Number of organized trainings | | | MoF | | | / | | 1 | | | 4 | | 8 | | | 12 | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Developing of the e – learning platform | | | 2024-2025 | | | MoF – PF Academy | | Donators | | | 50,000 | | Donators | | |  | | |
| 2. Developing video tutorial and guidelines | | | 2024-2025 | | | MoF – PF Academy | | Donators | | | / | | / | | |  | | |
| 3.Organizing online trainings | | | 2024-2027 | | | MoF – PF Academy | | Donators | | | / | | / | | |  | | |
| **Measure 3. Developing leadership program** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Organizing leadership trainings | | | Ministry of Finance | | | / | | 0 | | | 0 | | 0 | | | 2 | | |
| **Activities** | | | **Implementation period** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Developing methodology for preparing annual training programme and curriculum | | | 2026-2027 | | | MoF – PF Academy | | Donators | | | 30,000 | | Donators | | |  | | |
|  | | | | | | 2.Organizing trainings | | | 2026-2027 | | | MoF – PF Academy | | Donators | | | / | | / | | |  | | |
| **PILLAR VI. Public Internal Financial Control** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Financial management and control** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Prepared procedures for key financial management elements | | | | | | Percentage of institutions that have applied the guidelines for risk management in their operations | | | MF | | | 50 | | 55 | | | 60 | | 65 | | | 70 | | |
| Percentage of institutions that have delegated authorities and responsibilities for financial management and control | | | MF | | | 40 | | 50 | | | 60 | | 70 | | | 80 | | |
| percentage of implemented recommendations given during quality checks | | | MF | | | 0 | | 50 | | | 60 | | 70 | | | 80 | | |
| **Measure 1. Creating the conditions for improvement of a system of financial management based on risk management** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Prepared Simplified guideline for risk management process | | | MF | | | / | | Prepared and promoted of the new more practical and simplified guideline for risk management process | | | Trainings 2 | | Trainings 2 | | | Trainings 2 | | |
| Prepared practical guideline for managerial accountability | | | MF | | | / | | Prepared and promoted of the new practical guideline for managerial accountability | | | Trainings 2 | | Trainings 2 | | | Trainings 2 | | |
| Strengthen the capacities of CHU | | | MF | | | Employed a totalof8people Trainings 6 | | Employed a total of 10 people Trainings 4 | | | Employed a total of 12 people Trainings4 | | Employed a total of 13 people Trainings 4 | | | Employed a total of 14 people Trainings 4 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of funding** | | |  | | |
| 1. Strengthen the capacity of the CHU to monitor and report on the functioning of the overall internal control system | | | 2024-2027 | | | MoF- PIFC | | Twinning project / /EU / NAFE / SIGMA | | | 61,000 | | Other partners/ National Budget | | |  | | |
| 2: Preparation of the methodology for specific Financial Management and Control issues; | | | 2024-2027 | | | MoF - PIFC | | / | | | 10.000 | | National budget | | |  | | |
| 3. Establishment of a network of institutions of financial issues units in coordination with the CHU, for exchange of experiences, best practices and raising awareness among public sector entities about responsibilities for the quality of financial management and control | | | 2025-2027 | | | MoF | | / | | | 15,000 | | National budget | | |  | | |
| **PILLAR VI. Public Internal Financial Control** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Internal audit** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Strengthened internal audit units that operate in line with the standards and that contributes to achievement of the goals of the public sector institutions | | | | | | Number of internal auditors in the ministries | | | MF | | | 33 | | 50 | | | 60 | | 65 | | | 70 | | |
| percentage of implemented recommendations given during quality checks | | | MF | | | 0 | | 50 | | | 60 | | 70 | | | 80 | | |
| Percentage of certified internal auditors | | | MF | | | 30 | | 45 | | | 60 | | 70 | | | 80 | | |
| Percentage of implemented recommendations | | | MF | | | 64 | | 68 | | | 72 | | 76 | | | 80 | | |
| **Measure 1. Strengthening the quality of work of the internal audit units in the ministries** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Organized trainings for internal auditors; | | | MF | | | 3 | | 5 | | | 6 | | 7 | | | 8 | | |
| Organized certification of internal auditors. | | | MF | | | 0 | | 1 | | | 60 Internalauditors | | 2 | | | 2 | | |
| Strengthen the capacities of CHU | | | MF | | | Employed a total of 8 people Trainings 6 | | Employed a total of 10 people, Trainings 4 | | | Employed a total of 12 people 12  Trainings 4 | | Employed a total of 13 people Trainings4 | | | Employed a total of 14 people  Trainings 4 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of funding** | | |  | | |
| 1. Improving of Human Resources capacities of Internal Audit Units in the Ministries through adequate staffing and Continuous Professional Development at the internal auditors | | | 2024-2027 | | | Ministries / MF - PIFC | | / | | | 60.000 | | Budget funds | | |  | | |
| 2. Strengthening CHU’s capacities for checking the quality of operations of the internal audit units | | | 2024-2027 | | | MF - PIFC | | Twinning project /EU/NAFE/SIGMA | | | 61,000 | | Other sources and budget funds | | |  | | |
| 3. Establishment of a network of institutions of internal audit units in coordination with the CHU, for exchange of experiences and best practices | | | 2025-2027 | | | MF - PIFC | | / | | | 15,000 | | Budget funds | | |  | | |
| **Measure 2. Improving the abilities to carry out performance and IT internal audits in the public sector institutions** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
|  | | | | | | Prepared Guideline for performance internal audits | | | MF | | | 0 | | Prepared and promoted Guideline for performance internal audits | | | 4 | | 6 | | | 10 | | |
| Prepared Guideline for IT internal audits | | | MF | | |  | | Prepared and promoted Guideline for IT internal audits | | | / | | / | | | / | | |
| Increased number of conducted performance audits and IT audits. Signed Charter for conducting IT audits and performance audits | | | MoF and ministries | | | 3 | | 6 | | | 15 | | 21 | | | 27 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of funding** | | |  | | |
| 1. Preparation and promotion methodology for specific type of internal audits | | | 2024-2027 | | | MF - PIFC | | / | | | / | | / | | |  | | |
|  | | | | | | 2. Analysis of the situation and determination of the need for the establishment of a Central Unit for IT internal audits in the Ministry of Finance | | | 2026 | | | MF - PIFC | | SIGMA/EU | | | 25,000 | | Budget funds and donors funds | | |  | | |
| **PILLAR VII. External audit and parliamentary oversight** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. External audit** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| I. Reduced tax evasion and increasing fiscal discipline / increasing revenues in the Budget of RNM | | | | | | Established amount of funds that have not been paid in the Budget of RNM | | | SAO Annual report on the performed audits and operation | | | ≥ 17,000 euros | | ≥ 16,000 euros | | | ≥ 11,000 euros | | ≥ 9,000 euros | | | ≥ 7000 Eur | | |
| II. Reduced tax evasion and increasing fiscal discipline / increase in revenues in the budgets of LSG and the City of Skopje | | | | | | Established amount of funds that have not been paid into the Budget of the municipalities and the city of Skopje | | | SAO Annual report on the performed audits and operation | | | ≥ 12,000 euros | | ≥ 8,000 euros | | | ≥ 6,000 euros | | ≥ 4,000 euros | | | ≥ 2,000 euros | | |
| III. Adhered principles when awarding public procurement contracts | | | | | | Established amount of funds during the awarding of contracts for public procurement where irregularities were identified with the audits; | | | SAO Annual report on performed audits and operations | | | ≥ 10,900 euros | | ≥ 8,100 euros | | | ≥ 7,500 euros | | ≥ 7.300 euros | | | ≥7.000 euros | | |
| IV. Scope of audits of LGUs and the City of Skopje, PE at the central and local level and JSC in state ownership | | | | | | Number of covered audits of LGUs and the City of Skopje, PE at the central and local level and JSC in state ownership | | | SAO Annual report on performed audits and operations | | | ≥ 12 | | ≥ 14 | | | ≥ 15 | | ≥ 16 | | | ≥ 17 | | |
| **Measure 1. Approval legislative framework for external audit** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
|  | | |  | | | Adopted amendments to the Constitution of RNM regulation of the SAO as a constitutional category | | | Submitted proposal-amendment of the Constitution of the RNM for the regulation of SAO as a constitutional category; | | | The legal framework contains satisfactory provisions for the independence and mandate of the SAO, but its independence is not yet guaranteed by the Constitution.  A proposal-amendment of the Constitution of the RNM has been prepared for the regulation of SAO as a constitutional category and submitted to the authorized proposer of the constitutional amendment to be submitted to the Assembly of the RNM; | | / | | | / | | / | | | Adopted amendments to the Constitution of RNM for the regulation of SAO as a constitutional category | | |
|  | | |  | | | A new draft law on state audit has been submitted to strengthen the financial and operational independence of the SAO.. | | |  | | A new draft Law on State Audit to strengthen the financial and operational independence of the SAO to be approved and adopted by the RNM Assembly. | | | / | |
|  | | |  | | | **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Approval of constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI | | | 2022-2027 | | | SAO | | Authorized proposer of the constitutional amendment; Assembly of RNM | | | 7,000 | | External funding  NDI and others | | |  | | |
|  | | |  | | | 2. Approval of external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines | | | 2024 | | | SAO | | Ministry of Finance, Government of RNM and Assembly of RNM | | | 14,000 | | External funding  NDI and others | | |  | | |
| **Measure 2. Strengthening the institutional capacity and human resource capacities of the SAO** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Percentage of implementation of SAO Development 2023-2027 | | | SAO Annual report on performed audits and operations | | | 0 | | Percentage of implementation of the activities determined in the Strategy for the Development of SAO 2023 - 2027 -  40% | | | Percentage of implementation of the activities determined in the Strategy for the Development of SAO 2023 - 2027 -  -60% | | Percentage of implementation of the activities determined in the Strategy for the Development of SAO 2023 - 2027 -  -80% | | | Percentage of implementation of the Strategy for the Development of SAO 2023 - 2026-  100% | | |
| Percentage of audit scope of total public expenditures | | | SAO Annual report on performed audits and operations | | | 59% | | ≥60% | | | ≥60.5% | | ≥61% | | | ≥61.5% | | |
| Perception of stakeholders' on SAO added value | | | Results of stakeholder surveys on the added value of SAO | | | Progress has been made in raising public awareness of the SAO's activities, increasing media interest, as well as in implementing the SAO Communication Strategy | | Stakeholders' perception of the added value of SAO-81% | | | Stakeholders' perception of the added value of SAO-82% | | Stakeholders' perception of the added value of SAO-83% | | | Stakeholders' perception of the added value of SAO-85% | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Implementation of adopted strategic, planning and methodological acts of the SAO and adoption of new methodological acts of SAO | | | 2023 - 2027 | | | SAO | | / | | | 500.000 | | External funding  WFD, NDI, USAID, UNDP, UnWomen and others | | |  | | |
| 2. Strengthen the capacity to conduct audits | | | 2023- 2027 | | | SAO | | / | | | 8.836.000 | | External funding  WFD, NDI, USAID, UNDP, UnWomen and others | | |  | | |
| 3. Increasing the visibility of the SAO and communication with the stakeholders | | | 2023 - 2027 | | | SAO | | Stakeholders (Assembly, Government, Ministry of Finance, Public Prosecutor's Office, Ministry of Interior, State Commission for Prevention of Corruption, audited entities, the public). | | | 1.000.000 | | External funding  WFD, NDI, USAID, UNDP, UnWomen and others | | |  | | |
| **PILLAR VII. External audit and parliamentary oversight** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Parliamentary oversight** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| I. Enhanced effects of audit | | | | | | Percentage of external audit recommendations for which corrective measures have been taken | | | SAO Annual report on the performed audits and operation | | | 84% | | ≥72% | | | ≥74% | | ≥76% | | | ≥78% | | |
| **Measure 1. Establishing a mechanism for reviewing the audit reports and the measures taken following the recommendations given in the audit reports in the RNM Assembly** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Number of audit reports that are under the scrutiny of the Parliament | | | SAO Annual report on the performed audits and operation | | | The individual audit reports are not considered in the Parliament and there is no discussion with the entities that are subject to audit. | | Number of audit reports that have been reviewed by the Assembly  ≥2 | | | Number of audit reports that have been reviewed by the Assembly  ≥3 | | Number of audit reports that have been reviewed by the Assembly  ≥4 | | | Number of audit reports that have been reviewed by the Assembly  ≥5 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Implementation of concluded Memorandum of Cooperation between the Assembly and the SAO. | | | Q4/2022-Q4/2027 | | | SAO | | Assembly of RNM | | | 0 | | / | | |  | | |
| 2. Preparation of final/proposal procedures in the SAO and the Assembly for submission and review of audit reports and other documents. | | | Q4/2022-Q4/2027 | | | SAO | | Assembly of RNM | | | 46,000 | | External financing  NDI and others | | |  | | |
| 3. Reviewing of summary reports from final audit reports from certain areas by the Assembly. | | | Q4/2022-Q4/2027 | | | SAO | | Assembly of RNM | | | 100,000 | | External financing  NDI and others | | |  | | |
| **Measure 2. Strengthening the institutional capacities for reviewing audit reports in the Assembly of RNM** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY20** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Number of MPs trained on the role of the SAO | | | SAO Annual report on the performed audits and operation | | | Cooperation between the SAO and the Assembly has improved, but parliamentary oversight of budget preparation and implementation needs to be further strengthened. | | Number of MPs trained for the role of SAO-10 | | | Number of deputies trained for the role of SAO-13 | | Number of MPs trained for the role of SAO-16 | | | Number of MPs trained for the role of SAO-19 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Preparation of a Training Plan for MPs and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports. | | | Q4/2024-Q4/2027 | | | SAO | | Assembly of RNМ | | | 11,000 | | External financing  NDI, WFD and others | | |  | | |
| 2. Conducting trainings in accordance with the Training Plan for the Members of Parliament and employees of the RNM Assembly Service in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports. | | | Q4/2024-Q4/2027 | | | SAO | | Assembly of RNМ | | | 140.000 | | External financing  NDI, WFD and others | | |  | | |
| 3. Implementation of activities for strengthening cooperation with Committee on Financing and Budget,  Parliamentary Institute and the Parliamentary budget office of the RNM Assembly. | | | Q4/2024-Q4/2027 | | | SAO | | Committee on Financing and Budget, Parliamentary Institute and the Parliamentary budget office of the RNM Assembly. | | | 120,000 | | External financing  NDI, WFD and others | | |  | | |
| **PILLAR VIII. PFM at Local Level** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 1. Fiscal decentralisation** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Improved fiscal capacity and increased municipal revenues | | | | | | Percentage of increased municipal revenues compared to 2022 | | | MoF - Budget and Funds Department | | | 40.338million denars | | 15% | | | 20% | | 25% | | | 30% | | |
| Ratio of local revenues as % of GDP | | | MoF - Budget and Funds Department | | | 5,1% | | 5,5% | | | 6% | | 6,5% | | | 7% | | |
| Ratio of local revenues as percentage of total public revenues | | | MoF - Budget and Funds Department | | | 16,6% | | 17% | | | 18% | | 19% | | | 20% | | |
| **Measure 1. Improving fiscal capacity and increasing municipal revenues** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
|  | | |  | | | New law on financing of local self-government units | | | MoF - Budget and Funds Department | | | Law on Financing of Local Self-Government Units | | New law on financing of local self-government units | | | / | | / | | | / | | |
|  | | |  | | | By-laws of the new Law on financing of local self-government units | | | MoF - Tax and Customs Policy Department | | | Law on Financing of Local Self-Government Units | | 50% of by- laws | | | 50% of by- laws | | / | | | / | | |
|  | | |  | | | Revised Property Tax law | | | MoF - Tax and Customs Policy Department | | | PropertyTax Law | | / | | | / | | Amnedet Property Tax Law /New By laws | | | continue | | |
|  | | |  | | | Revised Law on communal fees | | | MoF - Tax and Customs Policy Department | | | Law on communal fees | | / | | | / | | Amended Law on Communal Fees | | | Modified Law on communal fees-2026 | | |
|  | | |  | | | Prepared analysis of other laws regulating municipal own revenues | | | MoF – Tax and Customs Policy Department | | | Various laws in this domain | | / | | | 1 | | 1 | | | 1 | | |
|  | | |  | | | Number of revised decrees on block grants, earmarked grant and New Decree/s for distribution of capital grants | | | MF - Budget and Funds Department, Ministry of education and science, Ministry of labor and social policy, Ministry of culture, Ministry of defense, Other competent ministries and institutions from where capital grants are transferred | | | Existing decrees  for block grants and earmarked grant | | Two new decrees for block grants | | | New Decree on distribution of grant for firefighters and Two new decrees for block grants | | One new decree for block and one Decree of capital grants | | | Two new decrees for capital grants | | |
|  | | |  | | | **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
|  | | |  | | | 1. Addoption of a New Law on Financing Local Government Units | | | 2024 | | | MoF | | MLS  Municipalities  ZELS  USAID  UNDP | | | 20,000 | | Donors | | |  | | |
|  | | |  | | | 2.Preparation of by-laws of the new Law on financing of local self-government units | | | 2024-2025 | | | MoF | | MLS  Municipalities  ZELS  USAID  UNDP | | | 10,000 | | Donors | | |  | | |
|  | | |  | | | 3.Improving the legal regulation for local revenues | | | 2024-2027 | | | MoF | | Municipalities  ZELS  USAID  UNDP | | | 20.000 | | USAID  UNDP | | |  | | |
| 4. Revision of the criteria for distribution of block and earmarked grants and determination of criteria for allocation of capital grants | | | 2024-2027 | | | Ministry of Finance  Ministry of Education and Science  Ministry of Labor and Social Policy  Ministry of Culture  Ministry of Defense  Other competent ministries and institutions, where from capital grants are transferred | | Government of RNM  Ministries  Municipalities  ZELS  USAID  UNDP | | | 10,000 | | Donors | | |  | | |
| **Measure 2. Regional and local development** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Established Agency for regional and local development | | | MLSG, MoF, Bureau for Regional Development, Cabinet of the DPM for Economic Affairs, Ministry of Justice, Ministry of Political System and Community Relations, MISA | | | **/** | | Report with legal and operational solutions for the establishment of the Agency | | | Established Agency for Regional and Local Development | | monitoring the work of the agency | | | Monitoring the work of the agency | | |
| Municipal development index | | | UNDP | | | Municipal development index determined by UNDP with 44 indicators | | +5 new indicators | | | +5 new indicators | | +5 new indicators | | | +5 new indicators | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Establishment of the Agency for Regional and Local Development and achieving balanced regional development. | | | 2024-2027 | | | Ministry of Local Self -Government | | Bureau for Regional Development, MoF, Cabinet of the DPM for Еconomic Аffairs, Ministry of Justice, Ministry of Political System аnd Community Relations, MISA | | | 20,000 | | USAID  Donors | | |  | | |
|  | | | | | | 2. Determination of municipal development index | | | 2024-2027 | | | MinistryofFinance  Ministry of Local Self -Government  UNDP | | Municipalities  ZELS  UNDP | | | 80.000 | | UNDP | | |  | | |
| **PILLAR VIII. PFM at Local Level** | | | | | | | | | | | | | | | | | | | | | | | | |
| **PRIORITY 2. Financial Discipline, Transparency and Accountability at the Local Level** | | | | | | | | | | | | | | | | | | | | | | | | |
| **Outcome(s)** | | | | | | **Performance Indicator** | | | **Data Source** | | | **Baseline FY22** | | **Target FY24** | | | **Target FY25** | | **Target FY26** | | | **Target FY27** | | |
| Increased financial discipline | | | | | | Percentage of reduction of the amount of due unpaid liabilities in the current year compared to 2022 | | | Quarterly Reports ESRRL. | | | Denar 3,698 million | | 10% | | | 20% | | 30% | | | 40% | | |
| Reduction of the number of municipalities with blocked account in the current year compared to 2022 | | | Ministry of Finance | | | 13 municipalities (average of the number of municipalities with blocked accounts by months, in 2022) | | 2 | | | 3 | | 4 | | | 5 | | |
| Increased transparency and accountability of municipalities | | | | | | Percentage of municipalities out of the total number of municipalities (81) that have published financial documents (annual, semi-annual and quarterly reports) on their websites. | | | Websites of municipalities | | | 70% | | 75% | | | 80% | | 90% | | | 100% | | |
| **Measure 1. Increasing the financial discipline** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Number of trained employees in the LGU | | | Ministry of Finance | | | / | | 81 | | | 81 | | 81 | | | 81 | | |
| Number of additional employments in the Unit for LGU Budgets | | | Ministry of Finance | | | 3 current employees | | 2 | | | 2 | | 1 | | | 1 | | |
| Percentage of realized revenues in relation to the planned ones during the current year | | | Budgets of municipalities | | | 70% | | 86% | | | 89% | | 90% | | | 92% | | |
| Percentage of share of capital expenditures in relation to the total expenditures in the current year | | | Budgets of municipalities | | | 20% | | 28% | | | 30% | | 33% | | | 35% | | |
| New Law on unpaid obligations of the municipalities | | | Ministry of Finance  USAID | | | / | | New Law on unpaid obligations of the municipalities | | | / | | / | | | / | | |
| By-laws of a New Law on unpaid obligations of the municipalities | | | Ministry of Finance  USAID | | | / | | 50% new by-laws | | | 50% new by-laws | | / | | | / | | |
| Internal procedures for declaring financial instability | | | Ministry of Finance | | | / | | Internal procedures for declaring financial instability | | | / | | / | | | / | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1. Trainings for strengthening the capacities of the employees in the municipalities for realistic planning of the revenues and expenses of the municipalities | | | 2024-2027 | | | MoF | | Municipalities | | | 32.000 | | National budget | | |  | | |
| 2. Strengthening the capacity of employees in the Unit of budget of the local self-government unit | | | 2024-2027 | | | MoF | | / | | | 55.800 | | National Budget | | |  | | |
| 3. Decreasing current expenses and increasing capital expenses in the structure of total expenses by establishing performance indicators | | | 2024-2027 | | | MoF | | Municipalities | | | / | | National Budget | | |  | | |
|  | | | | | | 4. New Law on unpaid obligations of the municipalities | | | 2025-2027 | | | MoF | | Municipalities  USAID  ZELS  MLS | | | 30.000 | | National Budget  USAID | | |  | | |
| **Measure 2. Increasing the transparency and accountability throughout the operations of the municipalities** | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | **Performance indicators** | | | **Data source** | | | **Baseline FY22** | | **Target FG24** | | | **Target FG25** | | **Target FG26** | | | **Target FG27** | | |
| Number of oversight conducted by the all ministries that transfer funds from the RSM Budget | | | All ministries that transfer funds from the RSM Budget | | |  | |  | | | 1 | | 3 | | | 5 | | |
| Number of municipalities that regularly publish financial reports | | | Ministry of Finance | | | 60 | | 65 | | | 70 | | 75 | | | 81 | | |
| Number of reports on the financial operations of the municipalities published on the web page of the Ministry of Finance | | | Ministry of Finance | | | 5 | | 6 | | | 7 | | 8 | | | 9 | | |
| Number of reports with data on due and unpaid liabilities from the ESPEO system of 81 the municipalities published on the web page of the Ministry of Finance | | | Ministry of Finance | | | 4 | | 4 | | | 4 | | 4 | | | 4 | | |
| **Activity** | | | **Period of realization** | | | **Responsible institution** | | **Other partners** | | | **Costs** | | **Source of financing** | | |  | | |
| 1.Increasing supervision by the state and activities focused on suspicions of fraud and corruption | | | 2024-2027 | | | MoF | | Municipalities | | | / | | / | | |  | | |
|  | | | | | | 2. Monitoring the transparency of the municipalities in order to timely inform the general public | | | 2024-2027 | | | MoF | | Municipalities | | | / | | / | | |  | | |
|  | | | | | | 3.Increasing the transparency of the Ministry of Finance for the financial operations of the municipalities | | | 2024-2027 | | | MoF | | Municipalities | | | / | | / | | |  | | |
|  | | | | | | 4.Participation of citizens in policy decision making and monitoring results | | | 2024-2027 | | | MoF | | Municipalities | | | / | | / | | |  | | |

# Annex III - Risk Management

Risk assessment regarding the implementation of reform measures envisaged in the PFM Reform Programme 2024-2027 will be based on PFM SWG - Priority Coordinators and PFM Council actively monitoring the implementation of the activities, as well as the lessons learned in the period 2022-2023. Like in the previous programme period, risk monitoring under the new Programme will be incorporated in the monitoring and reporting framework, i.e. it will be an integral part of the progress monitoring reports. Risk assessment will be updated yearly in the Risk Assessment Plan. Priority Coordinators will monitor the implementation of the Annual Action Plan on regular basis, assess the risk level and define adequate measures to mitigate them, which are to be undertaken by the competent institutions within the set deadlines. The assessment should be updated whenever a significant change in the risk exposure occurs or when a new decision on mitigating or reducing the risk is adopted by the person in charge.

PFM SWG and PFM Council manage the risks in order to monitor the implementation and the progress of the undertaken corrective activities

Key risks to implementation of each measure under a given priority identified in the Programme preparatory stage are presented in Chapter II: Pillars, Priorities, Measures and Results.

The Table below summarises the key risks identified in the preparatory stage, to be the basis for further risk management:

|  |  |  |  |
| --- | --- | --- | --- |
| **List of risks** | | | |
| **No.** | **Pillar/Priority** | **Risk trigger event, situation or factor** | **Responsibility** |
| **PILLAR I – Economic Analysis, Macroeconomic and Fiscal Framework** | | | |
| 1 | **Priority 1:**  Revenue Forecasting and Reporting | Lack of awareness and commitment from high-level officials | Ministry of Finance and PRO |
| Lack of data availability |
| Excessive staff turnover |
| Due to the complexity of the model, it is not fully operational |
| Lack of data availability for regular updating of the models with latest tax data |
| Insufficient training of the staff in fully utilizing the tax models |
| Internal resistance to reform processes |
| 2 | **Priority 2:**  Economic Analysis and Macroeconomic Forecasting | Over optimistic growth forecasts | Ministry of Finance |
| High staff turnover |
| Failure to procure appropriate software |
| Externalities, as in the case with the energy crisis, inflation pressures and war in Ukraine disrupting the quality of economic forecasting |
| Availability of official national statistical data as input for economic analysis |
| Certain sectors may not be able to provide data and analysis relevant to the preparation of the Fiscal Risk Statement | Ministry of Finance and other relevant institutions and entities  Fiscal Council, Ministry of Finance, Assembly of the Republic of North Macedonia |
| Lack of adequate capacity in the Ministry of Finance to implement the activities for implementation of the fiscal risks analyses |
| Inadequate and incomplete trainings of employees in relation to fiscal risks analyses in MoF |
| Difficulties in recruiting suitable staff who will be able to participate in the work of the Fiscal Council |
| Lack of adequate capacity in the Ministry of Finance and the Fiscal Council to implement the activities for implementation of the fiscal rules provided by the Law |
| Inadequate and incomplete training of employees in the MoF and Fiscal Council in relation to fiscal rules implementation |
| 3 | **Priority 3:**  Debt Management | Externalities which can cause a deterioration of the international standing of the Government’s debt | Ministry of Finance |
| Insufficient human capacity to carry out the activity |
| Outflow of educated staff |
| Political factors, as by amending government debt definition, general government debt stock will be increased |
| Limited demand for the new instruments |
| **PILLAR II – Revenue mobilization** | | | |
| 4 | **Priority 1:**  Tax and Customs Policy | Human resources limitation | Ministry of Finance |
| Lack of awareness and commitment from high-level officials |
| Internal resistance to modernization processes |
| Continuous outflow of staff |
| 5 | **Priority 2:**  Tax Administration | Organizational and other risks that are related to the implementation of Tax Enforcement Center | PRO |
| Failure to implement compliance risk management |
| The process of enacting legal amendments has been delayed |
| Insufficient commitment to reform |
| Lack of finance |
| Lack of capacity and commitment of the employees of the PRO, especially the IT staff |
| Major changes in legal provisions |
| 6 | **Priority 3:**  Customs | Different levels of customs staffing can be an incentive for organized crime networks to redirect their operations to border points with weaker customs control | Customs Administration |
| Timely and quality implementation of trainings for handling the new sophisticated control equipment |
| Untimely implementation of all phases in the process of harmonization with EU systems |
| Resistance of economic operators due to large financial investments and request for a transitional period |
| Uncertainty of the duration of the process of providing necessary prerequisites for implementation (choice of code issuer, secondary depository) |
| Lack of organizational experience in the operation of such a system |
| Unpredictability of the system testing process (mandatory trial period) |
| Risk of problems when harmonizing the Track & Trace system with the existing customs electronic system |
| **PILLAR III – Planning and Budget** | | | |
| 7 | **Priority 1:**  Budget Planning | Human potential for implementation | Ministry of Finance |
| 8 | **Priority 2:**  Strengthened Public Investment Management | Lack of political will to support reforms, insufficient staff and lack of capacities, poor coordination between institutions, | Ministry of Finance, BUs/SoEs/LSGUs  Government Cabinet, Municipal Council |
| Insufficient staff, lack of capacities, lack of coordination between institutions and lack of data |
| 9 | **Priority 3:**  Strengthen the Accounting of Budgets and Budget Users | Insufficient human capacities for realization of this activity | Ministry of Finance |
| **PILLAR IV – Public procurement** | | | |
| 10 | **Priority 1:**  Public Procurement Policy | Adoption of Law Amending the Law on Public Procurement | PPB, SAC |
| Shortage of qualified trainers’ |
| Low attendance to training activities |
| Leaving of competent PPB employees |
| Inappropriate detecting of the weaknesses in the system and the issues for improvement |
| Possible outflow of SAC qualified employees and cause of difficulties in the functioning of SAC |
| SAC system failure |
| 11 | **Priority 2:**  Public Private Partnerships (PPPs)and Concession on goods of general interest | Inability to provide financial and technical assistance, breach of deadlines for the establishment of the Unique Electronic System for Public Private Partnership which is crucial for implementation of the Law on PPP. | Ministry of Economy |
| Extension of deadlines for adoption of bylaws. |
| Difficult functioning and execution of the determined competencies in accordance with the law because of low capacity of the employees in the Ministry of economy in the Unit of public private partnership and concession. |
| **PILLAR V – Public finance digitalisation and continuоus learning** | | | |
| 12 | **Priority 1:**  Implementation of an Integrated Financial Management Information System (IFMIS) to Support the implementation of Public Financial Management Reforms and OBL | Insufficient staffing and insufficient training of human resource | Ministry of Finance |
| Postponing in adoption of OBL might postpone the implementation of the IFMIS |
| Employee turnover involved in the implementation and use of IFMIS; |
| Insufficient commitment of senior management |
| 13 | **Priority 2:**  Public Finance Academy (learning organization) | Deficiency of technical support and maintenance, low responsiveness and acceptance by the stakeholders | Ministry of finance |
| Low responsiveness of the stakeholders, resistance from the new approach of leadership learning styles |
| **PILLAR VI – Public Internal Financial Control - PIFC** | | | |
| 14 | **Priority 1:**  Financial Management and Internal Control | Insufficient staffing and insufficient training of human resources (in the CHU and Financial Affairs Units | Ministry of Finance |
| 15 | **Priority 2:**  Internal Audit | Lack of internal auditors in the labor market |
| Insufficient IT technical support for a web platform |
| Insufficient number of adequately trained internal auditors |
| **PILLAR VII – External Audit and Parliamentary Oversight** | | | |
| 16 | **Priority 1:**  External Audit | The proposal for amending the Constitution of RNM for regulating the SAO as a constitutional category was not submitted by the authorized proposer of the constitutional amendment and was not adopted by the Assembly | State Audit Office in cooperation with the authorized proposer of the constitutional amendment and the Assembly of RNM |
| New draft State Audit Law for strengthening SAO financial and operational independence not submitted and not adopted by the Assembly | The Ministry of Finance, the RNM Government and the RNM Assembly  SAO, after the adoption of the Law on State Audit, for the adoption of by-laws |
| Limited opportunities for modernization of audit processes and presentation of audit results | SAO |
| Insufficient interest of stakeholders for cooperation with SAO |
| Lack of funds provided for full financing of the activities for the period 2023 - 2027 | State Audit Office in cooperation with stakeholders |
| Lack of support from relevant experts for drafting new or improved methodological acts and audit tools |
| SAO institutional and HR capacities not strengthened to satisfactory level |
| Limited opportunities for modernization of audit processes, obtaining modern equipment and improved working conditions |
| 17 | **Priority 2:**  Parliamentary Oversight | Uncreated conditions of implementing the Memorandum of cooperation between the Assembly and the SAO. | SAO  State Audit Office in cooperation with stakeholders |
| Uncreated conditions to prepare and adopt final/proposal procedures of the Assembly for the mechanism for reviewing audit reports. |
| Uncreated conditions for reviewing of summary reports from the final audit reports from certain areas by the Assembly. |
| Inability to provide sufficient funds for education. |
| Insufficient interest in conducting trainings. |
| Lack of funds for conducting trainings. |
| **PILLAR VIII - PFM at Local Level** | | | |
| 18 | **Priority 1:**  Fiscal Decentralisation | Insufficient human capacity to implement the planned activities | Ministry of Finance |
| Delay in the adoption of laws and by-laws | Assembly of RNM |
| Political risks - untimely constitution of the Government and the Assembly of the RNM | Government and Assembly of RNM |
| Insufficient interest of the top management | Ministry of Local Self-Government |
| Departure or reduced interest among donors to support activities | Donors |
| 19 | **Priority 2:**  Fiscal Discipline, Transparency and Accountability on Local Level | Insufficient human capacity to implement the planned activities | Ministry of Finance |
| Delay in the adoption of laws and by-laws | Assembly of RNM |
| Departure or reduced interest among donors to support activities | Donors |
| Political risks - untimely constitution of the Government and the Assembly of the RNM | Government and Assembly of RNM |

1. Pursuant to the 2021 Modifications and Amendments to the Budget of the Republic of North Macedonia (“Official Gazette", no. 171/21) [↑](#footnote-ref-1)
2. The Strategy for Public Administration Reform (2023-2030) with Action Plan 2023-2026 was adopted by the Government on 11th July 2023. [↑](#footnote-ref-2)