

Annex 3: Selected results achieved in the period 2022-2023

PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework

Priority 1: Revenue forecasting and reporting

There has been a significant progress in implementing the activities under this Priority within the reporting period. Namely, with a technical assistance from the World Bank, tax models have been developed in the areas of PIT, CIT, VAT and excise duties, which models remain to be fully implemented at the Ministry of Finance over the course of 2024. 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, with a technical assistance from the IMF, trainings were delivered in the area of costing and reporting of Tax expenditures. They contributed to significantly enhance the capacity of the Unit for revenue forecasting and analysis at the Department for public revenue and tax and customs policy, for comprehensive identification of the tax expenditures within the different tax instruments, estimation of their fiscal effects, as well as for drafting the TE Report as part of the Final Account of the State Budget for 2025.

Within the framework of the IPA 2018 twinning project "Improving revenue collection and tax and customs policy", several activities were planned for realization/for implementation, as following:

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

which have not been implemented yet, given that the twinning project has been suspended and then cancelled at the end of 2022. In an adequately revised form, these activities are planned to be realized with the new PFM Programme 2024-2027.

Priority 2: Economic analysis and Macroeconomic forecasting

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.

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 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.

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.

Priority 3: Strengthening Debt Management

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.

PILLAR II - Revenue Mobilisation

Priority 1: Tax and customs policy

Implementation of the Action Plan for the Tax System Reform Strategy 2021-2022 started in 2021. In 2022, Ministry of Finance embarked on ambitious tax reforms in the area of personal income tax, corporate income tax and value added tax, aimed at broadening the tax base by abolishing nonproductive tax relieves and preferential tax regimes. This tax reform package was adopted by the Government in December 2022, with the Amendments to the Personal Income tax Law passing the Parliamentary procedure by the end of 2022, and the amendments to the Corporate Income Tax Law and Value Addd Tax Law in 2023. The tax reforms continued in 2023 in the areas of tobacco excise duties and taxation of motor vehicles, with adoption of the amendments to the Law on Excises and the amendments to the Decree on the manner of calculation of the motor vehicle tax and of the ammounts for callculation of the motor vehicle tax.

Priority 2: Tax administration

PRO continuously strengthens the operational and administrative capacities 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.

Particular attention is paid to the strengthening of 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 accordance with the IMF recommendations pertaining to strengthening tax compliance management, as well as implementing the 2023-2025 Strategy for Managing Risks in the PRO Processes, Compliance Management Committee was established with expanded powers and responsibilities.

The project "Building effective, transparent and accountable institutions for the management of public finances" became effective in the beginning of 2023 with the conclusion of an Agreement with the World Bank through which financial resources were provided for certain modules of the new integrated TIS of the PRO. The new tax information system (ITIS) aims to improve the operational efficiency of tax administration functions, as well as increase revenues by strengthening compliance monitoring and improving taxpayer services.

With the amendments to the Law on the Public Revenue Office, which are in force from 03.05.2023 the formal organization and structure for the implementation of the digital transformation reform of the PRO has been arranged and accordance with the legal provisions, the Director of the Public Revenue Office with a decision dated 18.05.2023 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 order to ensure the reliable realization of the project for the establishment of a new TIS, the Working Body prepared a reform program - a program for the implementation of the TIS 2023-2028 and for the purpose of more effective monitoring of the implementation, it established a Reform Committee.

Priority 3: Customs

Customs Administration has continuous working to improve the flow of information between all stakeholders in the activities related to the Customs Administration. Functionalities for data exchange data exchange from CDEPS with other with other institutions – takes place through the Interoperability Platform of the Ministry of Information Society and Administration. In 2023, several trainings have been organized for the users of the customs IT systems.

According to the EU Report 2023, Republic of North Macedonia has a good level of preparedness in the customs area. Some progress has been achieved through continuous consolidation, application and upgrading of IT systems. The promotion of the concept of Authorized Economic Operator (AEO) continued, including through regional cooperation between the services of the states of WB6.

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

be developed in the coming period, and the funds for financing the implementation are expected to be provided by the IPA 3 funds.

In November 2022 the application of green customs declaration was introduced, and the customs clearance is being completed in one hour.

In 2023 Customs Administration received a 4.8 million dollars grant from the Government of the Republic of Korea for the development and implementation of a risk management system and Data warehouse. The establishment of this system will enable better targeting of declarations: where there is a risk of paying duties in an amount lower than the real price of the goods, incorrect customs classification of the goods or incorrect origin of the declared goods. Future policies based on this system are aimed at developing the Customs Administration and improving risk management.

Within the framework of the IPA 2018 national program, the Customs Administration procured equipment - Improving the quality of customs controls and the fight against fraud and illegal trade in goods from the Project "Increasing the quality of customs controls in the fight against fraud and illegal trade in goods", as well as equipment for a computer-data center at a remote location in order to ensure the continuity of business processes in the Customs Administration and the preservation of data through the consolidation of ICT systems and the establishment of a common Data Center in case of crisis and natural disasters.

The Customs Administration has started activities for establishing a system for marking and tracking tobacco products (cigarettes) through the TRACK&TRACE system. The purpose of this measure is, through the introduction of procedures and instruments, to fight against the illegal trade in tobacco products and to increase the collection of excise taxes.

The connection of the customs administration to the appropriate IT infrastructure (CCN/CSI as well as to ie CA & CTA CONF), i.e. systems necessary for the testing of the new system, has been established. Once the installation of the new NCTS 5 system has been completed, the necessary tests for the commissioning will continue.

PILLAR III: Planning and Budget

Priority 1: Budget Planning

On 15th of September 2022, the Parliament adopted the Organic Budget Law, which came into force on 27th September 2022 and will start 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”, US Treasury, as well as with other donor assistance.

Priority 2: Strengthened Public Investment Management

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 planned at 14, and as of end - December 2023, the PIM sector consists of 6 (six) employees.

The PIM Department has started preparing the 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.

Priority 3: Effective Instruments under the Growth Acceleration Plan

This priority envisages establishment of 6 different Funds the objective of which, under this Priority, is to provide easier access to financial resources for companies, financing investments in the field of energy efficiency, supporting export-oriented companies, encouraging innovative activities. So far, two out of six of the envisaged Funds have been established: Guarantee Fund and Research and Development Fund, established and operating within the Development Bank of the Republic of North Macedonia. Furthermore, the Amendments to the Law on the Development Bank of North Macedonia were adopted on July 25, 2023 by the Government, then it was approved by the Parliament on October 3, 2023. As a result, the legal framework for the Energy Efficiency Fund was established, along with further possibility of its implementation. Regarding the Fund to be established in DTIDZ, the amendments to the Law on TIDZ

that will enable DTIDZ to establish and manage the fund are in governmental procedure.

PILLAR IV - Public procurement

Priority 1: Public Procurement Policy

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. The Strategy is comprehensive document and brings together the activities of the key institutions in the public procurement system in the country ie Public Procurement Bureau, State Appeals Commission, State Audit Office, Commission for Protection of Competition, State Commission for Prevention of Corruption, and Ministry of Economy. It establishes several priority areas with measures which contribute to improvement of public procurement process. The implementation of the Strategy is supported by annual action plans and it is monitored by Coordinating body, composed by representatives of all involved institutions and chaired by the Director of PPB. According to the Annual Monitoring Report for 2022, the realisation of the activities is 68%. The Annual Monitoring Report for 2023 and Annual Action Plan for 2024 are in final phase of preparation.

In order to improve the cooperation among the key institutions in public procurement system, an Advisory group composed of representatives of PPB, SAC, CPC, SAO SCPC and ME was established. The communication and coordination within the Advasory group on regular basis will lead to timely identification of legal gaps, system weaknesses and issues for improvement.

New tool for downloading published data from contract notices was introduced on ESPP application, which ensures more transparency and opening of data for further processing by all interested groups such as, participants in public procurement, relevant institutions and the general public.

An extensive activity for redesign of the PPB's education system was commenced, aiming to improve the public procurement trainings for acquiring theoretical and practical knowledge, and developing skills and competences for professional, efficient and effective implementation of public procurement at each level.

Priority 2: Public Private Partnerships (PPPs)

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. The Draft Law on Public Private Partnership was completed and sent for opinions to the relevant institutions. The submission of the Draft Law to the Government is postponed after the elections.

Ministry of Economy prepared initial version of the Draft Law on Concessions for Goods of General Interest. The Draft Law of Concessions On Goods of General Interest was sent to the relevant institutions for opinions. The Draft Law on Concessions for Goods of General Interest will be submitted to the Government alongside the Draft Law on Public Private Partnership, when elections will be finished.

Priority 3: Appeal mechanism

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

PILLAR V - Integrated Public Finances

Priority 1: Implementation of an Integrated Financial Management Information System (IFMIS) to support the implementation of Public Financial Management reforms and Organic Budget Law

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.

A portion of the loan proceeds has been used to established a Project Unit aimed to oversee the IFMIS 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 tasked for implementation, upgrading, optimization, execution, regulation, maintenance, control, staff education, and analysis of all system processes and functionalities.

Furthermore, significant progress was made with finalizing the functional and technical requirements of IFMIS, and the subsequent publication of public announcement along with the tender documentation for the procurement of IFMIS, in November 2023.

Also, a call for expressions of interest from consulting firms was published in July 2023, to provide technical assistance to the working body and to facilitate the change management process related to IFMIS.

Priority 2: Strengthen the accounting of budgets and budget users

In 2023, by the consultants engaged through the UNDP project were held two missions regarding the preparation of the Strategy for Improvement of Budget Institutions' Accounting. In June 2023 were presented the GAP Analysis for the introduction of accrual accounting in the Republic of North Macedonia the prepared Strategy with the Action Plan. Following the adoption of the Strategy, new regulatory framework will be prepared for implementing reforms in the field of budget accounting in order to adoption of new accounting practices and standards for financial reporting in the public sector.

Priority 3: PFM Academy

The Public Finance Academy was established by the Rulebook on Organizational Setup on the Ministry of Finance No. 01-11277/1 of December 29, 2022. The process of filling the positions in the Public Finance Academy is ongoing. 7 position have been filled.

There is a public announcement for the filling of 2 positions and 1 active transfer procedure for employee from another institution. The process of providing premises in the ministry has started and it is expected that they will be operational during 2024.

With expert support from CEF, Ljubljana, the Academy's team prepared a Methodology for the operations of the Public Finance Academy, as well as conducted training need analyzes and accordingly prepared an Annual Training Program for 2024.

PILLAR VI - Public Internal Financial Control

Priority 1: Financial Management and Control

- Draft versions of methodological tools and by-laws in the area of Financial Management and Control have been prepared. These draft documents will be prepared in a final version and published on the MoF website after the adoption of the draft Law on the system of internal financial control in the public sector.

- A new Unit for quality checks of financial management and control and internal audit was established within the CHU.

-There have been started activities for the execution of three pilot quality checks of the financial management and control.

-Lots of trainings/workshops/working meetings were held with the employees of the institutions in the public sector (especially the collaborators in the Financial Affairs Units) in order to strengthen the quality of financial management and control.

More of the above-mentioned activities were implemented by MoF-CHU with the support of experts from the twinning project "Strengthening the functions of budget planning, execution and internal control".

Priority 2: Internal Audit

At the 221st session of the Government of the RNM held on 16.01.2024, with Conclusions on strengthening the internal audit units in the ministries, there is adopted the "Information on the actions of the ministries according to Conclusion No. 2 after the adoption of the "Annual report on the functioning of the system of public internal financial control for 2021" (this report was adopted by the Government of the RNM at the 79th session, held on 06.09.2022).

-Draft versions of methodological tools and by-laws in the area of Internal Audit have been prepared. These draft documents will be prepared in a final version and published on the MoF website after the adoption of the draft Law on the system of internal financial control in the public sector.

-Activities have been started to execute three pilot quality checks of the internal audit units

-Lots of trainings/workshops/working meetings were held with the employees of the institutions in the public sector (especially the collaborators in the Financial Affairs Units) in order to strengthen the quality of internal audit.

More of the above-mentioned activities were implemented by MoF-CHU with the support of experts from the twinning project "Strengthening the functions of budget planning, execution and internal control"

Priority 3: Financial Inspection

On 30th January 2023, the Parliament adopted the new Law on Public Sector Financial Inspection. The Law is aimed to protect the financial interests in the financial management of the state Budget funds, the budgets of self-government units and the funds from other public sources, as well as the EU funds, by determining the legality and their efficient and accountable use in accordance with the specific regulations stipulating the competence for performing financial inspection. Respective draft bylaws and internal acts are prepared and adopted or are in the process of final preparation.

With the new law, the basis for starting a financial inspection has been redefined by introducing provisions regarding the form of submitted reports and their ranking, in a manner prescribed in an act adopted by the Minister of Finance, considering the efficiency of the procedure and the public interest. Also, a new provision has been introduced which stipulates that a financial inspection can be carried out ex officio, in cases of tampering or after information obtained during a financial inspection, for the existence of a well-founded suspicion of an irregularity, deficiency and/or suspicion of a criminal act in the financial management of public funds as well as of the EU funds among the subjects of the financial inspection. The law is also aligned with the Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC, in order to digitize the financial inspection processes.

PILLAR VII - External Control and Parliamentary Oversight

Priority 1: External Audit

The State Audit Office continuously invests in strengthening the skills and knowledge of state auditors, which ensures additional quality in work and maintaining professional integrity as an institution-bearer of progress in public funds management.

The institutional and human resource capacities of the SAO have improved through the implementation of SAO Strategic documents and activities outlined in the SAO Annual Work Program for 2022/23. New SAO Strategic Documents have been created in accordance with the principles, standards, and guidelines of INTOSAI, aligned with the SAO Development Strategy 2023-2027. SAO Annual Plan for Continuous Professional Development for 2022/23 was implemented with internal resources and by using national and international experts in the relevant field as well as with international support and cooperation with other SAIs and other international organizations.

With the support of the Twinning project "Improvement of external audit and parliamentary oversight", SAO prepared:

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

SAO has implemented new and improved methodologies for compliance audit, performance audit, LSG audits along with a new structure for audit reports that are in line with ISSAIs, applicable financial reporting, and legal frameworks. SAO has adopted mandatory internal guidelines, in cooperation with the Public Prosecutors Office, for further actions to be taken post-audit. These guidelines aim to enhance communication and cooperation between the two bodies and will lead to more effective audits.

The SAO has improved its communication processes with stakeholders using electronic tools and media. It has also adopted innovative ways to present audit results to the public. To ensure better results and effectiveness of the audits performed, SAO has strengthened its cooperation with stakeholders. This has resulted in an increased level of visibility and added value of SAO's operations. The state audit's efficiency improved due to the modernization of processes, equipment and tools.

Priority 2: Parliamentary oversight

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

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

and the Memorandum on Cooperation between the Assembly of the Republic of North Macedonia and the State Audit Office signed on October 21, 2022.

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

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

Also in 2023 meetings between the SAO and the Parliament, including the Committee on Financing and Budget, the Parliamentary Budget Office, and the Parliamentary Institute, with the support of the National Democratic Institute NDI were held, in the direction of greater cooperation between institutions and supervision of public spending.

In October 2023, for the first time in the history of the Assembly, Final Audit Report for the audit of the financial statements and compliance audit of PHI University Clinic for Radiotherapy and Oncology Skopje for the year 2021, of the Committee on Financing and Budget as parent body in the Assembly, was considered. This activity is realized as a result of the signed Memorandum of Cooperation between the State Audit Office and the Assembly of RNM, which provides for the consideration of individual final audit reports of the SAO.

PILLAR VIII - PFM at Local Level

Priority 1: Fiscal decentralisation

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.

In August 2022, the Assembly of the Republic of North Macedonia adopted Amendments to the Law on Financing Local Self-Government Units. 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. According to these changes, the income from the value added tax will be provided in the amount of 6% of the collected value added tax realized in the previous

fiscal year starting from 2024. They will be distributed in three parts: basic part - 4.5% of the collected value added tax realized in the previous fiscal year, performance part - 0.75% of the collected value added tax realized in the previous fiscal year and part for equalization - 0.75% of the collected value added tax realized in the previous fiscal year.

The increase was done so that in 2022, the rate was 5% and in 2023 the rate is 5.5%.

During 2022, municipalities were allocated 5% of the collected value added tax, divided into three parts: basic part - 4.5%, part for performance - 0.25% and part for equalization - 0.25%.

The performance section rewards municipalities that have a better realization of own revenues compared to planned own revenues and a higher collection of own revenues in the current year compared to the average of realized own revenues in the previous three years. The equalization part is intended to overcome the differences according to the fiscal capacity of the municipalities due to limited capacity of resources, that is, the municipalities that have lower incomes from the personal income tax per inhabitant receive additional funds.

A new Decree on the methodology for the distribution of the income from the value added tax by municipalities for 2022 and 2023 has been prepared, in which the criteria according to which the funds are distributed in the basic part, the equalization part and the performance part have been determined.

In 2023, the municipalities are provided with funds in the amount of 5.5% of the value added tax collected in the previous fiscal year, distributed in three parts: basic part - 4.5%, part for performance - 0.5% and equalization part - 0.5%.

As a result of the changes in the Law, in the last quarter from 2022 the municipalities received an additional 291 million denars, in 2023 an additional 684 million denars.

Assessment of the Law of Financing local self government is made.

The working group prepared 3 scenarios which were adopted from the Government in October 2023, for establishing the Agency for Regional and Local Development reviewed the comparative analysis from countries that have this type of institutions.

Working group was established for preparing the amendments of the Law on property tax.

Report for capital grants was prepared with comparative analyses in other EU countries.

There was prepared a analyse for the arrears and unpaid obligation of the municipalities in other countries, that will be used for preparing a New Law on unpaid obligations of the municipalities.

Idea for Municipal development index was presented which will be prepared in upcoming period.

Priority 2: Financial discipline, transparency and accountability on local level

With the latest amendments to the Law on Financing of Local Self-Government Units from August 2022, a more realistic planning of municipal budgets is ensured, whereby own revenues in the municipal budget can be planned with an increase of 10% of the average realized revenues in the last three years.

There was prepared a Rolebook for the municipalities with measures that can be undertaken by municipalities to overcome financial instability. The MoF Issued structural bond for 3 municipalities in the amount of 275 million denars. Increased number of reports and financial data published on the municipalities' and MoF's websites.