



REPUBLIC OF NORTH MACEDONIA

MINISTRY OF FINANCE

**Annual Monitoring Report
on Implementation of the 2018 Action Plan
for Public Financial Management
Reform Programme**

for the period December 2017 - December 2018

March 2019

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Abbreviations and acronyms

AEO	Authorised economic operator
CARM	Customs Administration of the Republic of North Macedonia
CEFTA	Central European Free Trade Agreement
CSO	Civil Society Organisation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ENER	Single National Electronic Registry of Regulations of the Republic of North Macedonia
EO	Economic operator
ERP	Economic Reform Program
ESEA	Electronic System for electronic auction
ESPP	Electronic System for Public Procurement
EU	European Union
EUIF	EU Integration Facility
FMC	Financial Management and Control
GDP	Gross domestic product
GDRM	Government Debt and Risk Management Program (World Bank)
GFSM	Government Finance Statistics Methodology
HR	Human resources
IA	Internal Audit
ICT	Information and communications technology
IFI	International Financial Institution
IFMIS	International Financial Management Information System
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
ISSAI	International Standards of Supreme Audit Institutions
IT	Information technology

LSGU	Local self-government unit
MISA	Ministry of Information Society and Administration
MoF	Ministry of Finance
MTBF	Medium-term budget framework
MTDS	Medium Term Debt Strategy
NPAA	National Programme for Adoption of Acquis
OECD	Organisation for Economic Cooperation and Development
PAR	Public administration reform
PEFA	Public Expenditure Financial Accountability
PFM	Public financial management
PIFC	Public internal financial control
PIT	Personal Income Tax
PPB	Public Procurement Bureau
PPF	Project Preparation Facility (IPA)
PPP	Public private partnership
PRO	Public Revenue Office
ReSPA	Regional School of Public Administration
RIA	Regulatory Impact Assessment
SAA	Stabilisation and Association Agreement
SAFE	Strengthening Accountability and the Fiduciary Environment
SAI	Supreme audit institutions
SAO	State Audit Office
SIGMA	Support for Improvement in Governance and Management
SSO	State Statistical Office
SWG	Sector working group
TA	Technical assistance
TADAT	Tax administration Diagnostic Assessment Tool
UK	United Kingdom
USAID	United States Agency for International Development

WB	World Bank
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Introduction

The monitoring report on implementation of the 2018 Action Plan for realisation of the Public Finance Management Reform Programme was prepared by the Ministry of Finance (MoF) of the Republic of North Macedonia, with active participation of other line ministries and institutions represented in the Sector Working Group for PFM: Ministry of Economy, State Audit Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement.

The Report covers the period from December 2017 until December 2018, providing detailed information on developments and achievements during the first year of the Programme implementation.

1. Executive summary

The Government has adopted the PFM Reform Programme 2018-2021 (hereinafter: the Programme) in December 2017. The overall objective of the Programme is to ensure efficient and effective allocation of public funds towards activities that contribute to economic growth and development and maintain effective management of the use of public funds in all areas and sectors of public administration. The Government has also developed sub-system reform strategies, including in the areas of public internal financial control and tax system.

The PFM Reform Programme 2018-2021 is carefully designed as a reliable, comprehensive strategic framework, within which the government aims to implement its policies and execute its core functions in a most proficient and successful way for the wellbeing of the country and its citizens. In this regard, the 2018 Action Plan for PFM Reform Programme is an important, concrete instrument providing elaboration (on an annual basis) of the PFM Reform Programme by establishing clear activities, planned deliverables, proper prioritization, logical sequencing, institutional and monitoring arrangements.

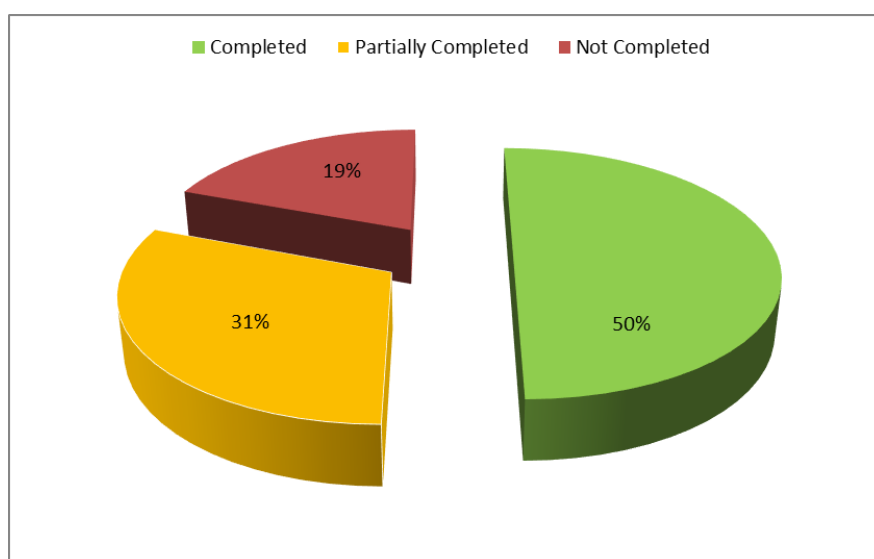
The key components of PFM monitoring and reporting are documented in the PFM Reform Programme 2018-2021. On this basis, a further concrete methodology for the preparation of the semi-annual and annual reports, with deadlines for reporting, relevant formats and templates to be used have been developed and deployed for the purpose of preparation of this Report. The methodology, deadlines and reporting templates have been determined by instruction for PFM monitoring and reporting, prepared by the IPA

and NPAA Unit at the Ministry of Finance, which facilitated the consolidation and presentation of the PFM reform reporting information.

It should be noted that the time period since the preparation and approval of the Programme in December 2017 was extremely short, making both, the implementation work and reporting activities very demanding to all relevant stakeholders. However, all stakeholders recognized the importance of the present (first) implementation report and their hard work has helped to prepare the ground for it to serve as a proper benchmark for the future reports to come. The reporting process was initiated in September 2018 and finalized in December 2018.

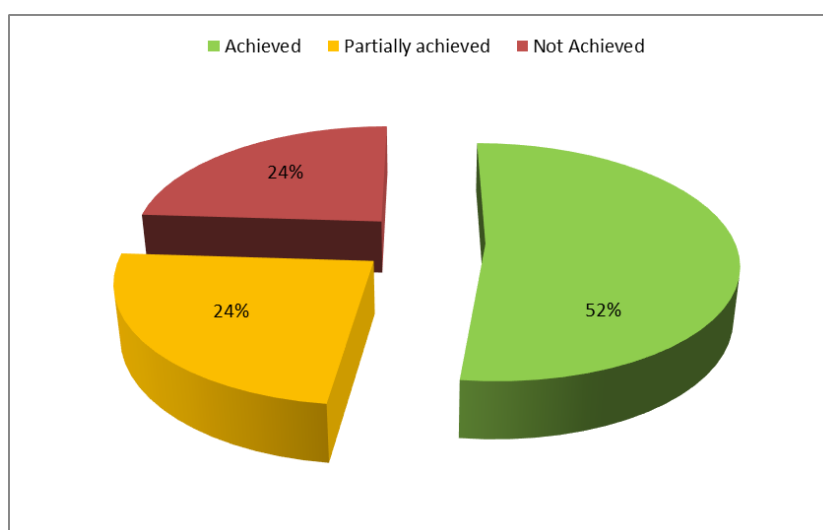
The status of the implementation of the activities/sub-activities covered by the Action Plan 2018 for the implementation of the Programme is as follows: out of 88 sub-activities, 44 are completed, 27 are in the process of implementation and 17 are not completed (not yet started), which in terms of the percentage of implemented activities is represented as follows:

Percentage of implemented activities in the reporting period from December 2017 to December 2018



The achievement of indicator targets for 2018 is the following: 26 indicator targets are achieved, 12 indicator targets are partially achieved and 12 are not achieved.

Percentage of achieved indicator targets in the reporting period from December 2017 to December 2018



The detailed status of achievement of indicator targets for 2018 and status of implementation of the planned activities are presented in the Annex 1: Performance Indicators Matrix on the 2018 Action Plan for PFM Reform Programme.

All the activities that were initially planned to be completed in 2018, but were not realised, will be planned in the 2019 or next Action Plans. Exception is made for the activity P4M1A1 which is going to be realised under the activity P4M1A5. The draft 2019 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

The Risk assessment of the 2018 Action Plan for PFM Reform Programme is presented in Annex 2.

2. Aggregate overview

2.1 Background

The PFM Reform Programme 2018-2021 was adopted by the Government of the Republic of North Macedonia on 19th December 2017.

Despite the progress made in improving the public financial management in recent years, thanks to reforms that paved the way towards the EU Accession with the support of the European Union (EU) by improving human resources, aligning our legal framework

on EU Acquis, improving systems and functions, there are still important challenges to be addressed for North Macedonia to achieve its objectives of robust economic growth and social inclusiveness. This requires better and modern public financial management tools. While there have been improvements in all PFM sub-system, lack of a comprehensive PFM strategy, addressing in a systematic and coherent manner the weaknesses in public finance, had decreased the synergetic effect of the measures undertaken and the impact of the reforms. Thus, adopting a credible, comprehensive and consistent PFM Reform Programme has been necessary. In this period, a number of assessments completed by international institutions (PEFA, WB, IMF, SIGMA/OECD) supported the national authorities to prioritise measures with impact on the whole PFM system.

The preparation process started in 2015 by the PFM working group comprising members from all relevant PFM institutions (Ministry of Finance, PRO, CARM, PPB, Ministry of Economy, SSO, SAO), supported by the EU Delegation and SIGMA.

Public consultations started in September 2017 with publishing of the draft Public Finance Management Reform Programme 2018-2021 on the web-site of the Ministry of Finance, in both languages, Macedonian and English. Public consultation event and the first high-level PFM Policy Dialogue was held on 19th September 2017 with broad participation of all relevant national and international stakeholders (donors, chambers, universities, local authorities, civil society and all other stakeholders for active contribution in document preparation process). This crucial step allowed the country to establish a credible PFM Reform Programme for the period 2018-2021 in a transparent and inclusive manner, gaining also the public support for the planned PFM reforms.

This PFM Reform Programme seeks to strengthen the public finance system, promoting transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. Importantly for the accession process, the PFM Reform Programme will support the dialogue with the EU and help use EU resources more efficiently throughout Macedonian institutions, on the road to EU accession.

Reforms under the Programme are structured in the form of 7 priorities, the goal of which is to improve both efficiency and effectiveness of public spending, through fiscal discipline, debt sustainability and efficient, transparent and modern public financial management, which is an imperative for a stable, sustainable development and well-being of the citizens of the Republic of North Macedonia.

7 priorities are envisaged under this PFM Reform Programme:

- Priority 1: Improved Fiscal Framework
- Priority 2: Revenue Mobilization

- Priority 3: Planning and Budgeting
- Priority 4: Budget Execution
- Priority 5: Transparent Government Reporting
- Priority 6: Internal Control
- Priority 7: External Control and Parliamentary Oversight

The PFM Reform Programme 2018 - 2021 is implemented through annual Action Plans approved by the Government of the Republic of North Macedonia for each year during the implementation period of the Programme, thus ensuring timely implementation and sequencing of the programme activities.

2018 Action Plan for Implementation of the PFM Reform Programme was adopted by the Government on 20th February 2018, following its endorsement by the PFM Council. It elaborates in details the measures, activities and sub-activities of the PFM Reform Programme that will start with implementation in 2018, as well as the costs and source of funds needed for implementation of these activities.

2.2 Links to Strategic Documents

2.2.1 Policies, Strategies and Programmes Linked to PFM

The PFM Reform Program 2018-2021 takes into account all the relevant documents in the field of European integration, starting from the Stabilisation and Association Agreement (SAA) between the European Communities and their Member States, on the one hand, and the Republic of North Macedonia, on the other hand, as well as all relevant national strategic documents in this area.

IPA II Indicative Strategy Paper 2014-2020

The priorities set in the PFM Reform Programme are in line with the priorities for EU financial assistance to support the Republic of North Macedonia on its path to EU accession for the period 2014 - 2020 set out in the the IPA II Indicative Strategy Paper 2014-2020. This Paper identifies the need to modernise public financial management based on a well - designed, multi - annual reform programme, covering the reform needs in the relevant public finance sub - systems, including revenue administration and collection, budget preparation, budget execution on the basis of cash management, public procurement, accounting and reporting, debt management, public internal

financial control and external audit and to continue with the general EU accession - related reforms with respect to gradually meeting EU standards and to developing regulatory and supervisory bodies, particularly with regard to statistics, as well as enhancing IT interconnectivity and interoperability of customs and tax administrations with EU systems.

Economic Reform Programme (ERP)

The Government prepares an annual ERP as part of the light European Semester for candidate and potential candidate countries, which is evaluated by the Commission. The EU also provides guidance on the reforms needed to achieve further progress towards meeting the economic accession criteria.

The European Commission's latest assessment¹ states that the policy guidance referring to the adoption of a comprehensive and credible public finance reform programme has been fully implemented, and substantial implementation has been noted of policy guidance related to increasing the fiscal transparency.

However, the assessment notes that limited implementation is registered in policy guidance that relates to the adoption of fiscal rules as an ordinary budget law if their constitutional embedding proves difficult; improvement of the efficiency and effectiveness of public spending by streamlining and better targeting transfer payments; prioritising public investments against clear policy objectives; increasing the transparency on the selection criteria for investments and on their impact on economic growth and on the fiscal path. The report notes partial implementation of policy guidance regarding the improvement of the budget planning capacity, in particular through the introduction of a medium-term expenditure framework, and it notes no implementation of policy guidance related to developing a proper fiscal consolidation strategy by defining and costing concrete revenue and expenditure measures on a multi-annual basis, whilst protecting growth-enhancing spending.

The implementation of the policy guidance contributes to improvement of the economic governance, that is one of the three key aspects of the EU enlargement process. It helps strengthening the economic policy coordination and multilateral surveillance under the European Semester.

Priorities set within the PFM Reform Programme are directly tackling those requirements. The PFM Reform Programme contributes to the Fiscal Strategy of the government by improving the planning and costing of programmes, by strengthening existing systems of internal controls, debt and cash management. By taking the commitment to improve revenue administrations and public procurement, the PFM Reform Programme also seeks to strengthen the fiscal position of the government and

¹ https://ec.europa.eu/info/sites/info/files/economy-finance/ip085_en.pdf

the transparency and accountability to the citizens and economic agents, closely related to PAR Strategy.

State Programme for Prevention and Repression of Corruption and Prevention and Reduction of Conflict of Interests with Action Plan 2016 - 2019

The implementation of the Action Plan and the PFM Reform Programme as a whole is expected to significantly improve the accountability and transparency in the management of the public finance as well as to strengthen the public and Parliamentary oversight. The planned improvements in the budgeting process and in the budget documentation, as well as in the public contracting process and procurement information will improve the quality of the available PFM information and will allow citizens to better follow and assess key PFM processes. In addition, the efforts to enhance the managerial accountability and internal audit are expected to result into stronger management systems less prone to corruption and maladministration. Finally, the investments in the external audit function have the potential to improve the effectiveness of the external audit, which is expected to result into a closer involvement of the Parliament in the oversight of the PFM. With transparency and accountability being the key instruments to prevent corruption, the Programme therefore is expected to support the implementation of the anti-corruption programme in a horizontal manner through a direct impact on all budget users.

Public Administration Reform (PAR) Strategy

Reform of public finances is one of the key pillars of the Public Administration Reform (PAR), and as such is embedded in the PAR Strategy and Action Plan for the implementation of the PAR Strategy. Given that managing public finances is directly related and of extreme importance for effective and efficient public administration reform, during the preparation of PFM Reform Programme and PAR Strategy, full coherence and harmonization of both strategic documents is provided. Particular attention will be given to the human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, the link between these two strategic documents has been further strengthened by participation of the Minister of Information Society and Administration in the process of management and coordination of the PFM Reform Programme, as member of PFM Council, and membership in Sector Working Group for PFM, thus ensuring consistency and complementarity in implementation of both strategies.

2.2.2 PFM Sub-areas Strategies

In the reporting period, several sub-system strategies have been developed.

Tax System Reform Strategy, which is being prepared in accordance with the PFM Reform Programme, has been finalised, however, yet to be adopted.

The Tax System Reform Strategy integrates the main priorities in the area of tax policy and tax administration in the period 2018-2021, covering all tax institutions in the Republic of North Macedonia - the Ministry of Finance, the Public Revenue Office, the Customs Administration, the Financial Intelligence Office and the Financial Police Office.

The implementation of the Strategy will be assessed following a performance assessment framework, which contains detailed indicators for each priority. An efficient Monitoring and reporting mechanism is planned to be established involving Tax System Reform Strategy Working Group, PFM Sector Working Group, PFM Council and Government. Activities in the Tax System Reform Strategy that refer to IT solutions will be consistent with the PFM integrated IT system.

Public Internal Financial Control (PIFC) Policy Paper (2019-2021) is in final stage of preparation and is expected to be adopted by the Government in the beginning of 2019. The document is consistent with PAR Strategy 2018-2022 and the PFM Program 2018-2021 and defines priorities aimed to ensure further consistent strengthening of the PIFC.

PRO Strategic Plan 2019 - 2021 is fully complementary with the Programme. Under Programme 3. Public Finance Management - Revenue Mobilisation, sub-programme 3.1. Improved stability, efficiency and quality of revenue collection system (tax system and policy) and sub-programme 3.3: Establishment of a Disaster Recovery Centre, it contains activities which are in full consistency with the planned activities under Priority 2 - Revenue mobilisation of the Programme.

SAO Development Strategy 2018 – 2022

Measures under the Priority 7: External Control and Parliamentary Oversight of the PFM Reform Programme 2018 -2021, are closely connected to the strategic goals in SAO Development Strategy 2018 – 2022. Thus,

- Measure 1: Improved strategic planning and external audit process in line with the ISSAIs is connected to Strategic goal 2 – Further improvement of the quality of audits and Strategic goal 3 – Further development of SAO institutional capacity;

- Measure 2: Improved scrutiny over the budget by the Parliament is connected to Strategic goal 5 - Improvement of communication and exchange of information with domestic and international entities and informing the public.

CARM Strategic Plan 2018 – 2020 is fully complementary with the Public Finance Management Reform Programme 2018 - 2021. Measures under the Priority 2: Revenue Mobilisation of the Programme are fully compliant with the CARM strategic objectives VI.1.1. Further harmonization of the national Customs Legislation and procedures with the legislation of the European Union, VI.1.3. Ensuring simple and predictable procedures and formalities and VI. 2.1. Ensuring effective and efficient controls and VI.4.3 Improvement and further development of IT support systems.

2.3 Links to external assessments

Number of assessments completed in the period of preparation of the PFM Reform Programme by international stakeholders supported the national authorities to prioritise measures with impact on the whole PFM system:

1. SIGMA: in cooperation with the European Commission, during 2015, SIGMA carried out an assessment following PAR principles including PFM.
2. A PEFA assessment funded by EU: in the course of 2015, the public expenditures and the financial accountability in line with PEFA (Public Expenditure Financial Accountability) Methodology were assessed. PEFA assessment is aimed at determining the present condition of the public financial management system in the Republic of North Macedonia and provided a comprehensive diagnostic of the situation in all PFM sub-systems.
3. World Bank: carried out a Public Expenditure Review: Fiscal Policy for Growth 2015, oriented towards a PFM analysis and the efficiency of government's spending to achieve growth. The analysis covers key PFM areas as budget structure and credibility, budget comprehensiveness and fiscal transparency, medium-term fiscal framework, capital investment management, treasury and cash management, public debt, public procurement, internal financial controls, accounting and external auditing.
4. IMF: Different IMF reports highlight a number of issues and recommendations in their Country Reports, Mission Reports, Assessment Reports and other documents.

5. EU: EU Progress Reports, reports produced by twinning projects, results of monitoring missions provide valuable input to this Programme.

The regular assessments and reviews on the functioning of the PFM system by the IMF, WB, SIGMA etc. provide a sound basis for defining gaps and weaknesses in the sector as well as for proposing mitigation measures and evaluating progress achieved. Furthermore, all these assessments and reviews support the policy dialogue with main stakeholders in the sector.

The recommendations by the IMF Fiscal Transparency Evaluation report are to be taken into consideration while defining the 2019 and next annual Actions Plans.

2.4 Donor coordination

There is a strong donor commitment to support the reforms in the public finance and maintain the policy dialogue in the country. Therefore, conducting an effective coordination of the various donors involved is of key importance for ensuring good planning and complementarity of external technical support, proper sequencing and successful implementation of the reforms. The process of donor coordination is channelled through the monitoring and coordination structures established under the Programme. PFM donor coordination is carried out on the following two levels:

1. Policy level - PFM Council and PAR Council. One of the main tasks of the PFM Council is to facilitate the policy dialogue with relevant institutions and donors.
2. Technical level - PFM Sector Working Group - directly related to the working groups established for the development and monitoring of the PFM subsystems strategies and policy papers. Also, separate donor coordination meetings on operational level are organised with regard to the implementation of specific PFM sub-areas measures.

During the reporting period, two PFM policy dialogues have been held with all relevant stakeholders (IFIs, CSOs, donors, academia active in the PFM sector).

Operational donor coordination meetings have been organised on budgetary reforms and development of integrated financial management information system, involving the World Bank, United Kingdom bilateral programme and EU Delegation.

In the area of tax system reforms, donor coordination meetings have been held with EU, IMF and Swiss bilateral programme in order to define future support and avoid overlapping of assistance.

On public debt management, good coordination has been achieved among IMF and the World Bank experts in providing assistance to the MoF in the development of the public debt management strategy, domestic securities market and IT system (e-debt).

2.5 Human, IT and financial resources - administrative capacities

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

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

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

The relevant financial resources are envisaged in the frameworks of the cost benefit analysis and regulatory impact assessment (RIA) done under each strategic document.

The progress in capacity building of PFM institutions is further elaborated under the status of implementation of the concrete activities planned in the Programme (Part 4. Assessment of 2018 Action Plan Implementation).

3. Overall Progress in the Implementation of the Programme- Summary of Progress Made During the Reporting Period

Improved Fiscal Framework

Capacity of the Ministry of Finance for macroeconomic forecasting is in a process of improvement aimed at enhancement of the credibility of macroeconomic prediction. The Fiscal Strategy Report provides comprehensive three-year projections of key economic variables setting the ground for regular structured monitoring and evaluation in preparation for future implementation of fiscal rules. A fully fledged Draft Organic Budget Law has been prepared including sections and provisions on fiscal rules and fiscal council.

In accordance with the prevailing conditions in North Macedonia and the recommendations provided under the technical assistance of IMF and WB, the draft design of fiscal rules envisages adoption of expenditure growth rate rule which will set multi-year expenditure levels and a debt stock/GDP ratio target. Fiscal targets were included in the Fiscal Strategy 2019-2021, while the midyear report covered a section on reporting against these targets. Amendments to the Rulebooks on the organizational set-up and on the systematisation of the Tax and Customs Policy Department (now Public Revenues and Tax and Customs Policy Department) were adopted in December 2018 and new staff hired.

Several technical missions of World Bank teams of experts were realised during 2018, financed by the WB, IMF and UK bilateral programme. As a result, the Draft Organic Budget Law, including provisions for fiscal rules and fiscal council will be made available to the public domain for discussion, comments, and potential recommendations. Afterwards, its adoption in the Parliament is foreseen for 2019.

Revenue mobilization

The IPA 2012 PPF Project "Simplification of procedures for reporting and payment of Personal Income Tax for taxpayer – individuals" started on 01.12.2016 and ended on 03.04.2018, the new electronic system of the PRO e-Personal tax <https://e-pdd.ujp.gov.mk> is operational and appropriate legislative changes in this area were made.

It is envisaged that from January 1, 2019, the PRO to prepare pre-populated Annual Tax Return for all citizens - natural persons.

In order to strengthen the PROs capacities for receiving and processing mass data through the electronic systems e-Personal tax <https://e-pdd.ujp.gov.mk> and e-Taxes <https://etax-fl.ujp.gov.mk> that are used for reporting and paying taxes, the Public Revenue Office has procured and put into operation new IT equipment (hardware and software) and completed the upgrade of the e-Tax system.

In April 2018 ended the implementation of the IPA II – EUIF Project “Supply of IT equipment for strengthening the capacity of the Public Revenue Office – Contact Centre/Call Centre” by which it was purchased the remaining IT equipment for establishing of a modern PRO Contact Centre and by the implementation of this project and the remaining 6 (six) linked EU IPA projects taxpayers have access to new and improved tax services developed / implemented within the projects.

As of 05.12.2018, in the PRO: 7 internal competitions for promotion of 37 tax officers have been carried out, whereby 30 tax officers have been promoted; it has been implemented 1 internal advertisement for promotion of administrative / civil servants and promoted 1 civil servant and 102 permanent deployments of tax officers have been realized to ensure adequate human resource planning and timely performance of the functions in scope, quality and deadlines determined by the work programs.

In regards to the development and re-engineering of business processes of the new tax integrated IT system as of November 1st, 2017 the IPA 2 / EUIF 2014 Project has been launched, aiming at improving the administrative capacities of the PRO and further development of efficient business processes. Approval of the prepared tender documentation with the Decision for public procurement of BMP software with licenses is ongoing.

In the PRO Annual Public Procurement Plan for 2018 adopted on January 31, 2018, procurements for realization of the Data IT System Centre are foreseen. Activities for securing appropriate location for the new Data IT System Centre are ongoing, which is precondition for starting the planned public procurement procedures.

- 1) Upgrade and maintenance of e-Personal tax, a public procurement procedure for services was published, the best bidder is selected and is in the phase of appeal.
- 2) Upgrade and maintenance of e-Tax system, technical specification has been prepared, preparation of tender documentation is ongoing.
- 3) Upgrade of the application for Tax accounting, technical specification has been prepared and tender documentation is sent to National Council for Information and Computer Technology for approval.

From 14.06.2017 till 27.09.2018, the Project "Risk Evaluation System – RES for tax audit was implemented in order to establish an objective and accurate selection of taxpayers for audit, through improvement of the process of risk analysis in the external audit and risk management of the taxpayers' compliance. The regular use of the system in the Tax Inspectorate should start from 01.01.2019.

In the area of customs policy, the Law Amending the Customs Law ("Official Gazette of the Republic of Macedonia" No. 144 of 03.08.2018) was published. The amendments to the Customs Law ensure alignment of the provisions that apply to authorized economic operators (AEO) with the EU Customs Code no. 952/2013, thus providing for mutual recognition of the granted authorized economic operator certificates within the CEFTA parties, for the benefit and facilitation to the regional trade. Furthermore, the amendments to the Customs Law were made to harmonize the legal provisions concerning the use of guarantees to secure the payment of customs debt or other charges that may arise related to goods placed under transit procedure with the provisions of the Union Customs Code no.952/2013 and the Convention on a Common Transit Procedure which entered into force on 1st May 2016. At the same time, the period to inform the debtor about the debt is clarified when the customs debt is a consequence of an act that at the time of its committing could result in a criminal procedure.

Planning and budgeting

Ministry of Finance in cooperation with IMF and WB experts in the past period, i.e. during 2018 intensively worked on detailed and comprehensive identification of areas for future improvement of PFM, preparation of structure, content and scope of the new Organic Budget Law, as well as preparation of proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities and fiscal rules).

Activities related to programme budgeting will continue in 2019 as part of the work of the Ministry of Finance supported by foreign experts for preparation of a new Organic Budget Law and implementing legislation - by-laws and other accompanying documentation, more precisely in the methodology and the guidelines for programme budget.

Furthermore, Ministry of Finance in cooperation with the World Bank and the Government of the United Kingdom will continue to work on the preparation of bylaws, guidelines, manuals etc. aimed at operationalizing the Organic Budget Law, further improvements of the PFM system, development of detailed plan of all working processes in the Ministry of Finance and their mapping, as well as on preparation of a detailed technical specification for Integrated Financial Management Information System (IFMIS).

Due to the expanded scope and content of the provisions to be included in the new draft law, the need for additional analysis of several other related laws and by-laws, as well as the need for engagement of further foreign expertise in the law preparation, the process of adoption of the new Organic Budget Law should be postponed for 2019.

Budget execution

Measure 1: Implementation of new financial management information system (IFMIS)

Implementation of a contemporary IFMIS by the Ministry of Finance is a crucial part of budget execution reforms planned in the PFM Reform Programme.

Built on the results from previous IPA funded project “Developing proposals for implementation of contemporary integrated information system for public finance management”, in November 2018, the Ministry of Finance in cooperation with the World Bank and funded by UK, started with implementation of a project for developing technical specifications for IFMIS, ready for procurement, in order to establish effective and integrated PFM information system by introducing new modules for managing public finances (recording commitments, invoices, financial plans, introducing modules for receivables, for liquidity, introducing a general ledger, reporting modules etc). The new system would strengthen the control and effectiveness of the management of public resources and increase largely the fiscal transparency.

Measure 2: Strengthening commitment controls

In April 2018, the Law on reporting and recording of liabilities was adopted (Official Gazette of the RM No.64/18) in order to ensure and maintain transparency and accountability, as well as to strengthen the responsibility regards the use of public funds. For the practical implementation of the Law and its operability, the Ministry of Finance

has developed Electronic System for Reporting and Recording of Liabilities, within the IPA Project for strengthening the medium term budgeting for effective public financial management, through which the public entities should report on liabilities on monthly basis.

In order to inform the wider public and enhance transparency, the Ministry of Finance publishes summary reports on a quarterly basis. The announced arrears of the government bodies are available on the website of the Ministry of Finance, with cut off date September 30, 2018.²

Measure 3: Strengthening debt management

With the aim to strengthen the public debt management capacities, the Ministry of Finance uses technical assistance from the World Bank through its GDRM Programme.

The Draft Law on Amending the Law on Public Debt has been prepared and published on ENER in November 2018. Law amendments are expected to be adopted by the end of the first quarter of 2019, i.e., with a delay of one quarter compared to the deadline envisaged in the 2018 Action Plan, given that it took longer time to define certain provisions in the amendments to the law. Also, the public debt unit was not strengthened with additional human capacities, and therefore it needed longer period for preparing the draft amendments.

With the amendments to the Law on Public Debt, prudent, more quality and more transparent public debt management in the Republic of North Macedonia is expected.

Measure 4: Strengthening public procurement system

In this period, the Ministry of Finance and Public Procurement Bureau were actively working on drafting a new Law on Public Procurement, which will be harmonized with the new Directives on public procurement from 2014 and also the Remedies Directives. The Draft Law on Public Procurement has passed the governmental procedure and is currently undergoing a procedure of adoption by the Parliament. The Law introduces an obligation for publishing the annual public procurement plans, and also for publishing of the concluded public contracts and their amendments, which is in line with increasing transparency. The Electronic system for public procurement has been upgraded with few functionalities, and also the implementation of so called „red flags“ is in progress, which will take significant part of in the administrative control introduced in the new Law. Also, a module for an E-appeal is being implemented, which is introduced in the new Law.

² <https://www.finance.gov.mk/mk/node/7317>

In the same period, the efforts for full implementation of SAFE Project with collaboration of World Bank has been finalised, whereof the activities were coordinated with the overall activities for reform of the public procurement system.

Measure 5: Effective PPP and concessions system

An initial draft version of the amendments to the Law on Concessions and Public Private Partnership for transposition of the Directive 2014/23/EU on the award of concession contracts has been prepared by the inter-ministerial working group composed of representatives from several institutions. However, the completion of this activity was prolonged, since the process of obtaining the expected technical assistance for harmonisation of the legislation is delayed.

The Ministry of Economy has explored the opportunities to upgrade the existing system for awarding contracts for establishing a public private partnership by incorporating the modules necessary for conducting the procedure with electronic means and establishing an electronic register for the concluded public-private partnership contracts. In parallel with this activity, the Inter-ministerial Working Group has also reviewed the possibilities and ways for amending the Law on Concessions and Public Private Partnership and relevant bylaws in order to provide a legal basis for the establishment of a Single Electronic System for awarding contracts for establishing a PPP and a register for all concluded PPP contracts. Negotiations for providing donor funds for both, the necessary technical assistance and development of electronic PPP register are in final phase, so these activities are expected to be completed in 2019.

Transparent Government Reporting

The fifth priority in the PFM Programme is transparency. Starting from the second half of 2017 the Ministry of Finance has focused much of its activities on improving transparency in the management of public finances by creating additional and quality information that will be easy to use and accessible to the wider public.

The timeliness and comprehensiveness of budgetary information has improved substantially. As per 2017 *Open Budget Survey*, Republic of North Macedonia scored lower than the global average in terms of the utility of the budget information made available to the public throughout the budget cycle. However, it should be noted that the *Survey* was carried out in the first part of the year -- before considerable improvements to transparency were made, e.g., the publication of the Citizen's Budget. Consequently, North Macedonia can be expected to achieve higher score in the next successive *Survey*.

IMF mission to assess Fiscal Transparency was conducted in the period of 30 April and 14 May 2018. The Fiscal Transparency Evaluation Report recognizes several key strengths of fiscal transparency practices in North Macedonia, as well as several areas where it can be further strengthened.

This IMF Report concludes: “Macedonian authorities have placed improving the quality and transparency of public institutions at the core of its medium-term public financial management reform strategy. The implementation of reforms recommended in this report, in addition to those already planned, will result in further improvements in fiscal transparency in North Macedonia in the coming years (Fiscal Transparency Evaluation Report for the Republic of North Macedonia, 29th October, 2018, IMF)”.

The recommendations by the IMF Fiscal Transparency Evaluation report are to be taken into consideration while defining the 2019 and next annual Actions Plans.

Internal control

In the first quarter of 2018, in cooperation with RESPA experts from the Republic of Croatia, the MoF analyzed the existing legislation on PIFC and prepared the first draft version of the Law on the Internal Financial Control System in the public sector. These activities continued within the framework of the IPA Twinning Light Project "Further Improvement of the Internal Control System in the Country" currently implemented.

In addition, the preparation of "Policies for Public Internal Financial Control in the period from 2019 to 2021" (PIFC Policy Paper 2019-2021) started in November 2017. This document is harmonised with the measures and activities of the Public Administration Reform Strategy 2018-2022 and the Public Finance Management Reform Program 2018 to 2021. The document has been finalised and will be sent for consultation with relevant EC services (DG Budget).

In September 2018, the Law Amending the Law on Financial Inspection in the Public Sector was enacted, published in the "Official Gazette of the Republic of Macedonia" No.194 of 05.09.2018, which simplifies the manner and conditions for staffing the Sector for financial inspection in the public sector.

External Control and Parliamentary Oversight

Under the ongoing IPA twinning project "Further improvement of administrative capacities and external audit efficiency of SAO", implemented in cooperation with the twinning partners - SAIs of Bulgaria and Croatia, the following outputs are delivered:

- Assessment Report including recommendations on improvement of audit process as per ISSAIs ;

- Report with comparative analysis, recommendations and suggestions with reference to develop strategic planning process ;
- Training on strategic planning (two training sessions) for up to 30 SAO staff in November and December 2018;
- Report with recommendations for strengthening SAO institutional capacity and HR capacities;
- Analysis of existing legal and institutional framework in regard to mutual cooperation between SAO and Parliament benchmarked to SAO-Parliament cooperation best practices in EU.

The pilot performance audits conducted in the areas such as EU funds, ICT, realization of higher education graduates on the labor market and public procurement, have been initiated in 2018 and based on the results from the preliminary studies, these audits will proceed and end in 2019.

4. Assessment of Action Plan 2018 Implementation

4.1. Priority 1: Improved Fiscal Framework

Measure 1: Formulation, adoption and implementation of fiscal rules

Ministry of Finance (Macroeconomic Policy Department and Budget Department) has analyzed international best practices regarding the implementation of fiscal rules. Consultations have been carried out with the European Commission and international financial institutions on developing the concept for application and follow-up of fiscal rules.

IMF fiscal expert had short-term technical mission on February 2018. A Report was prepared, containing recommendations on designing the framework for implementation of the Fiscal Rules and the Fiscal Council, in line with the conditions in the Republic of North Macedonia. Activities related to the formulation and adoption of fiscal rules are ongoing and according to IMF TA and previous analyses (by MoF), the legislative set up of the fiscal rules and fiscal council will be in the Organic Budget Law.

In accordance with the recommendations from IMF and World Bank, fiscal targets should first be included in the Fiscal Strategy, and the government would develop these targets and report against them as if it were a rule in order to gain experience with implementing a rule. The recommendations are to adopt expenditure growth rate rule which will set multi-year expenditure levels and a debt stock/GDP ratio target.

The introduction of total expenditure growth path in the Fiscal Strategy 2019-2021, is in line with recent recommendations, and it also includes annual spending limits by budgetary users.

In July 2018 World Bank fiscal expert had technical mission, during which the structure of the Organic Budget Law was drafted and will include section on fiscal rules and fiscal council as well as some provisions regarding the fiscal rules and fiscal council. In November 2018, a technical mission from the World Bank was conducted for the finalization of a Draft Organic Budget Law. The mission also aimed to define and finalize the provisions that will regulate the fiscal rules and the fiscal council.

First version of the Draft Organic Budget Law (including provisions on fiscal rules and fiscal council) was delivered by the WB expert at the end of 2018. This draft law will serve as a basis for further internal reviewing and drafting the law by responsible departments in the MoF during 2019. However, due to the scope and complexity of the Law, the need for engaging foreign experts as well as the need for enhancing overall capacities of the Ministry of Finance and other budget users, the adoption of the Law is expected in 2019.

Measure 2: Strengthening forecasting

In order to meet the objectives for strengthening forecasting, the following activities were undertaken:

In accordance with the analysis of the current process of revenue projections based on the best practices in the EU member countries and recommendations for their improvements from the twinning project “Strengthening the medium-term budgeting for effective public financial management” in 2015-2017, “the current organizational set-up does not provide a clear role of responsibilities for revenue projection between departments.” To fulfill this recommendation, amendments to the Rulebook on organization and operation and the Rulebook on systematisation of working posts of the MoF were adopted in December 2018, which stipulate that the responsibility of forecasting public revenues is assigned to the Unit for forecasts and analyses within the Public Revenues and Tax and Customs Policy Department.

Within the twinning project “Strengthening the capacity of the MoF for macroeconomic analysis and policy formulation” in 2013-2015, Tax and Customs Policy Department has developed new models for tax revenue projections that also support estimation of fiscal impacts of new policy changes. In order to continue the development of tax models as well as their maintenance, new staff for tax revenue projections was necessary. In order to meet this objective, MoF successfully completed the procedure of recruiting new staff for tax revenue projections, i.e. employed 2 (two) persons with relevant technical skills. Maintenance and improving of Tax and Macroeconomic models was carried out.

Concerning the activity “Further development of the macroeconomic model”, one short-term expert mission was planned by the end of the year, aimed at improving the supply side block of the macroeconomic model using a different methodology/approach. This mission is postponed for the next year, in order to utilize certain disaggregated quarterly national accounts expenditure categories, which are expected to be published the following year. As regards the purchase of an additional license of the statistical software, planned for this year, this activity is also expected to be realized during the next year, due to delays in the procurement process.

4.2. Priority 2: Revenue Mobilization

Measure 2: Improved tax and customs services and procedures

Regarding the implementation of the project activities foreseen in the PROs Modernisation Programme (including reengineering of business processes, new Tax Integrated IT system), the following progress has been achieved:

In the area of introducing E-submission of the “Calculation for all personal income payments (except the payments of salary)”, the IPA 2012 PPF Project "Simplification of procedures for reporting and payment of Personal Income Tax for taxpayer – individuals" started on 01.12.2016 and ended on 03.04.2018, and within that framework:

- As of January 1st 2018, entered into force the Law for Amending the Law on Personal Income Tax ("Official Gazette", No.190 / 2017) and the Rulebook on the Manner of Calculating and Payment of Advance Payments of Personal Income Tax, the form and the content and the manner of submitting and approving the electronic calculation for income and tax ("Official Gazette", No.197 / 2017), which establishes the framework for submitting electronic tax calculations for each payment of income for individual (except salary) by the payer and for any income that the natural person realizes from another natural person in the country and abroad;
- As of January 1st 2018, the new electronic system of the PRO e-Personal tax <https://e-pdd.ujp.gov.mk> is operational, through which is provided service for the taxpayers for preparation and submission of electronic calculations for income and tax with direct data entry or loading of data prepared with appropriate structure, whereby the system ensures the accuracy of the data in the electronic calculation based on built in controls and delivers/issuing an automatic electronic payment order to the payment operations carriers. From 01.01.2018 till 16.10.2018, a total of 541,839 e-calculations were submitted through the e-personal tax system [https://e-](https://e-pdd.ujp.gov.mk)

pdd.ujp.gov.mk by 51,335 taxpayers, i.e. 488,671 e-calculations were submitted by legal entities and 53,168 by natural persons;

- A series of trainings³ for taxpayers and employees and focus groups were held for acquainting with the manner and testing of the electronic calculation of income and tax.

Regarding introducing pre-populated Annual Tax Return by PRO, within the PROs new electronic system e-Personal tax <https://e-pdd.ujp.gov.mk>, the future business processes ("To-Be") and software were developed and tested, that will enable the issuance of a pre-populated Annual Tax Return by PRO in 2019, in accordance with the amendments to the Personal Income Tax Law ("Official Gazette", No.190 / 2017), which entered into force on 01.01.2018. It is envisaged that from January 1, 2019, the PRO to prepare pre-populated Annual Tax Return for all citizens - natural persons who have realized income during 2018, i.e. the pre-populated Annual Tax Return should be submitted by the PRO to the citizens no later than April 30, 2019 through the system e-pdd.ujp.gov.mk (see also Upgrade and maintenance of e-Personal Tax).

Introduction of e-tax services for Personal Income Tax facilitates the accessibility and the opportunities for electronic filing by the citizens and legal entities - income payers, as well as extending the range of initiatives and efforts of the PRO to reduce taxpayers compliance costs, including pre-populated tax returns, that contributes to overcoming TADAT performance assessment of the PRO regarding the Indicator P4-11 Timely Filing of Tax Declarations and P3-8 Supporting Voluntary Compliance.

In order to strengthen the PROs capacities for receiving and processing mass data through the electronic systems e-Personal tax <https://e-pdd.ujp.gov.mk> and e-Taxes <https://etax-fl.ujp.gov.mk> that are used for reporting and paying taxes, the Public Revenue Office has procured and put into operation new IT equipment (hardware and software)⁴ and completed the upgrade of the e-Tax system in accordance with Contract PRO No. 03-587/2 from 31.01.2018, which started its implementation on 06.02.2018 and ended on 29.06.2018.

In April 2018, the implementation of the IPA II – EUIF Project “Supply of IT equipment for strengthening the capacity of the Public Revenue Office – Contact Centre/Call Centre” ended, by which the remaining IT equipment for establishing of a modern PRO

³ Final Report as from March 31, 2018 for the IPA 2012 PPF Project "Simplification of procedures for reporting and payment of Personal Income Tax for taxpayer – individuals", Activity 3 and 4, page 12-14

⁴ Final Report as from March 31, 2018 for the IPA 2012 PPF Project "Simplification of procedures for reporting and payment of Personal Income Tax for taxpayer – individuals" (Cross-cutting activities with other projects/stakeholders, page 19-20)

Contact Centre was purchased. By the implementation of this project and the remaining 6 (six)⁵ linked EU IPA projects in total amount of EUR 1.5 million, new user friendly environment of the PRO Contact Centre was established and taxpayers have access to new and improved tax services developed/implemented within the projects:

- specialized website <http://kontaktcentar.ujp.gov.mk>;
- electronic system “Schedule a meeting” for scheduling an appointment with tax agents in the PROs Contact Centre via Internet <http://kontaktcentar.ujp.gov.mk/Избери-услуга/преглед-на-услуга> or phone Info Centre for consultation regarding specific tax questions/issues. From May 1, 2018 to October 15, 2018, through the system, a total of 1,742 appointment were scheduled at the Contact Center, of which 1532 were realized;
- electronic Knowledge Base "Informa" <http://kontaktcentar.ujp.gov.mk/Избери-услуга/преглед-на-услуга> that provides easy and quick access to tax information on all questions and answers from tax practice;
- the operational capacities for providing tax services in the smaller settlements have been strengthened by procurement of the two new Mobile Tax Counters, thus increasing the total number of PRO mobile tax counters to a total of 5 (five) serving the municipalities where there is no financial justification for establishing permanent PRO offices http://www.ujp.gov.mk/mk/otvoreni_povici/pogledni/391.

With the establishment of a modern Contact Center, measurement of the services is enabled, in particular the waiting time for using the services of the Center, as well as widening the scope and easing the accessibility to information for taxpayers, that contributes to overcoming the TADAT performance assessment of the PRO⁶ regarding the Indicator P3-7 Supporting Voluntary Compliance.

For continuing the trend of building a user-oriented environment and improving the quality and access to the services in the tax offices (which started with the establishment of the new PRO Contact Center), but also providing energy efficiency, environmental care with access adapted for persons who have a certain type and degree of disability, the PRO in 2018 implements its own Project "User-oriented Environment" (Contract

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1) IPA 2010 / TAIB I Works Project “Renovation and adaptation of the ground floor of Public Revenue Office, Regional Office Skopje to become the new PRO Call Centre/Contact Centre”

2) IPA 2010 / TAIB I Twinning Project “Improving of the PRO Taxpayers Services”

3) IPA 2012 / TAIB I Project “Supply of office furniture for the Public Revenue Office - Contact/Call Centre”

4) IPA 2012 / TAIB I Project “Supply of queuing system for the Public Revenue Office - Contact/Call Centre”

5) IPA 2012 / TAIB I Project “Supply, delivery and installation of Integrated Call Centre System - hardware and software” and

6) IPA 2012 / TAIB I Project “Supply of customized vehicles (van) - Mobile Service Counters”

⁶ IMF “TADAT Performance Assessment Report in PRO” (July 2016)

No.03-3814/12 од 02.11.2017 and No.03-2392/29-30-31 од 19.10.2017) and activities for renovation of the Branch offices Kicevo and Gevgelija, Regional Office Tetovo and General Directorate Skopje (2-nd and 9-th floor). For building better communication with the public and the media, conditions for functioning of PROs Press Center (General Directorate Skopje) were created as well.

Regarding the strengthening of PRO staff and new recruitments (total of 35 new employments and 70 reassignment (promotion) in 2018), an Annual Employment Plan for 2018 has been prepared, for which consent from the Ministry of Finance has been obtained, and during the technical adjustments with the Secretariat for Implementation of the Framework Agreement and the Ministry of Information Society it was concluded that it is necessary to make changes, so that it foresees 38 retirements, 35 new employments and 70 promotions. As of 05.12.2018, in the PRO: 7 Internal competitions for promotion of 37 tax officers have been carried out, whereby 30 tax officers have been promoted; it has been implemented 1 Internal advertisement for promotion of administrative/civil servants and promoted 1 civil servant and 102 permanent deployments of tax officers have been realized to ensure adequate human resource planning and timely performance of the functions in scope, quality and deadlines determined by the work programs.

As of November 1st, 2017 the IPA 2 / EUIF 2014 Project "Development and re-engineering of business processes of the new tax integrated IT system" has been launched, aiming at improving the administrative capacities of the PRO and further development of efficient business processes on which the new integrated IT system will be built and at the same time will provide a reduction of the costs for tax collection and better services to taxpayers and third parties, through the following components: 1) Redesign and re-engineering of the processes in order a functional integrated IT system of the PRO in line with the EU standards and requirements to be obtained; 2) Defining user requirements for implementation of the new integrated IT system of the PRO; and 3) BMP software and licenses. The implementation of the IPA project is ongoing and it is implemented according to the work plan. To implement, monitor and report for the project implementation, Project Team was established in PRO. Two workshops were held, one with the Project team, one with the PROs management team, as well as training for a BMP tool for the purpose of the project and the further PRO activities on reengineering the business processes. In parallel with the project activities related to the AS-IS and TO-BE business process model, the team of experts together with PRO Project Team work on the functional specification of the future tax integrated IT system of the PRO. A document that represents the highest level information for the future business model and the necessary changes in the legal, operational and technical framework of the PRO was prepared.

Technical specification for BMP software with licenses has been prepared and tender documentation is sent to National Council for Information and Computer Technology for approval.

In the PRO Annual Public Procurement Plan for 2018 adopted on January 31, 2018 (see [http://www.ujp.gov.mk/mk/osnovni dokumenti/category/1557](http://www.ujp.gov.mk/mk/osnovni_dokumenti/category/1557)), procurements for establishment of new Data IT System Centre are foreseen, i.e. 1) Design and design supervision of IT system hall; 2) Supervision during the performance of works for renovation of the IT system hall; 3) Renovation of IT system hall.

Activities for securing appropriate location for the new Data IT System Centre are ongoing, which is precondition for starting the planned public procurement procedures.

Regarding the upgrade of current PRO IT sub-systems and equipment, maintaining, licenses etc., the following progress has been achieved:

- 1) Upgrade and maintenance of e-Personal tax (planned amount 12.000.000 MKD, on 04.09.2018 a public procurement procedure for services No. 07/2018 was published, the best bidder is selected and is in the phase of appeal). The upgrade of the e-Personal tax system with the User Modules for Integrated Collection of Contributions and PIT from salary and for the taxation of real-income entrepreneurs should enable administering of the personal tax through one system for all categories of taxpayers and for all types of income subject to taxation with PIT, rather than through separate systems. At the same time, the project should enable sustainability of the systems and their ongoing maintenance, as well as the possibility for their adjustment to the changes in the legislation.
- 2) Upgrade and maintenance of e-Tax system (planned amount 7.000.000 MKD) - technical specification has been prepared, preparation of tender documentation is ongoing.
- 3) Upgrade of the application for Tax accounting (planned amount 5,000,000 MKD) - technical specification has been prepared and tender documentation is sent to National Council for Information and Computer Technology for approval.

From 14.06.2017 till 27.09.2018, the Project "Risk Evaluation System – RES for tax audit" (donation Austrian Development Agencies (ADA) & WedoIT-Solutions GmbH) was implemented in order to establish an objective and accurate selection of taxpayers for audit, through improvement of the process of risk analysis in the external audit and risk management of the taxpayers' compliance. The RES system has been successfully implemented in the PRO. Licenses for the smooth functioning of the SQL database used

by the RES application are procured. The regular use of the system in the Tax Inspectorate should start from 01.01.2019.

Risk Evaluation System implies a systemic structured process that enables identification, assessment, ranking and quantification of risks in the area of tax control, that contributes for improvement of TADAT performance assessment of the PRO regarding the Indicator P2-3 Effective Risk Management.

In the area of customs policy, the Law Amending the Customs Law ("Official Gazette of the Republic of Macedonia" No. 144 of 03.08.2018) was published. The amendments to the Customs Law ensure alignment of the provisions that apply to authorized economic operators (AEO) with the EU Customs Code no. 952/2013, thus providing for mutual recognition of the granted authorized economic operator certificates within the CEFTA parties, for the benefit and facilitation to the regional trade. Furthermore, the amendments to the Customs Law were made to harmonize the legal provisions concerning the use of guarantees to secure the payment of customs debt or other charges that may arise related to goods placed under transit procedure with the provisions of the Union Customs Code no.952/2013 and the Convention on a Common Transit Procedure which entered into force on 1st May 2016. At the same time, the period to inform the debtor about the debt is clarified when the customs debt is a consequence of an act that at the time of its committing could result in a criminal procedure.

The AEO status is an internationally recognized quality mark, which shows that economic operators in the Republic of North Macedonia (producers, exporters, importers, forwarders, transporters) are safe and secure in the global trade supply chain and that their customs controls and procedures are efficient and harmonized. Acquiring Authorized economic operator status is certification of the company as reliable and secure partner of the Customs Administration and a reliable and secure partner in the international and regional trade supply chain and therefore can receive a high degree of simplifications nationally and internationally when conducting trade and customs clearance activities and cross border trade. AEO is a key activity envisaged in the Multi-Annual Regional Action Plan for Economic Integration of the Western Balkan countries, adopted at the Trieste Summit. The companies that acquire the status of Authorized Economic Operator are able to get involved in the regional supply chains within CEFTA and to take advantage of the benefits of the possibility for mutual recognition of the approved status. The promotion of the concept of Authorized Economic Operator in the Republic of North Macedonia and its importance for the economic operators is under way (promotion started in June 2018 - The organization of the event was supported by the USAID Regional Economic Growth Project (REG)).

As concerns the activity for introducing enhanced models and methods to strengthen the control system to prevent, detect and fight against customs frauds and illegal trafficking of goods while facilitating the trade, the process of analyses of gaps and needs in order to increase the quality of controls and responses throughout the country for the purpose of drafting the twinning fiche under IPA 2 - 2018 by the Customs Administration is ongoing and will be completed in the first half of 2019.

4.3. Priority 3: Planning and Budgeting

Measure 1: Upgraded programme based budget approach and improved project information, and

Measure 3: Revised Organic Budget Law in line with the improvements of the PFM system

Maintaining the overall fiscal discipline in the medium term is one of the priorities within the planning and budgeting process, which will result in: i) Medium term fiscal consolidation; ii) Allocation of resources based on programs and program indicators included; and, iii) Medium-term budget framework serves as a reliable guide to future budget allocation for each budget user.

Measures implemented under this priority are aimed to strengthen and upgrade programme budgeting, provide improved project information and continue the process of introduction of a comprehensive Medium-term Budget Framework (MTBF). Programme based budget will enable budget users to manage their budgets in line with the policies and priorities in their institutions. Project activities are aimed to define a structure for comprehensive programme budgeting. This includes developing and defining a structure of programmes and sub-programmes with key results thereof.

Furthermore, using unified approach for appraisal and selection of proposals for public investment projects and improving organizational aspects would make project implementation more transparent.

Introduction of a comprehensive Medium-term Budget Framework (MTBF) is the key planning tool to link medium-term budgetary decisions with those deficit and debt targets that have been set. Moreover, reliable medium term budget planning is of key importance in medium term fiscal policy making. First thing needed is a reliable medium term baseline scenario so that fiscal space for new initiatives for financing or possible cuts can be estimated.

All the above mentioned initiatives and their successful implementation are to be firmly based on the new Organic Budget Law. This law is the framework legislation that defines public financial management system in North Macedonia – it is the main legislation that defines the scope of the central and general government in the country. The Organic Budget Law is the basic legal act regulating the overall budget process, including the main participants in the budget process, the procedure for preparation and adoption of the budget, execution of the budget and Final Account, management of the budget allocations and preparation of a Medium-term Fiscal Strategy.

Ministry of Finance in cooperation with foreign experts in the past period (from the IMF and World Bank), i.e. during 2018 intensively worked on detailed and comprehensive identification of areas for future improvement of PFM, preparation of structure, content and scope of the new Organic Budget Law, as well as preparation of proposals for certain areas included in the law (medium-term fiscal strategy, budget document structure, organizational structure, register of public sector entities and fiscal rules).

The work during 2018 was built on the draft law and the overall documentation (manuals and guidelines) prepared by experts who were engaged through two-year twinning project for "Strengthening medium-term budgeting for effective public finance management" (completed in November 2017) financed by IPA funds.

Considering that all measures, activities and sub activities under Priority 3 proposed in the 2018 Action plan (P3M1: Upgraded programme based budget approach and improved project information and P3M3: Revised Organic Budget Law in line with the improvements of the PFM system), are closely interlinked with preparation of the new Organic Budget law, during 2018 following activities were realized aimed at fulfilling the set targets, in accordance with our possibilities:

- Technical assistance mission was carried out in December 2017 with the assistance of IMF, whereby the existing documents, produced within the twinning project, were analyzed and a Mission Report was prepared with guidelines for the procedures and the operation of MoF in the coming period.

- Short-term mission with an IMF expert took place in February 2018 aimed at revising the first version of the Organic Budget Law (that was prepared from foreign experts during Twinning project for improvement for medium- term budgeting) - Mission report is prepared.

- An expert was engaged in April 2018 in cooperation with the World Bank, who worked on the draft Public Entities Registry, which is to be included in the new Law, as well as the draft Organizational Classification, also as part of the new Organic Budget Law.

- On the basis of identified recommendations for improvement of the previous prepared law version and extension of the scope of some issues in the law that were not included in the first draft law version (document for internal use provided from twinning expert) an expert was engaged in July 2018 in cooperation with the World Bank for structuring the new Organic Budget Law. Some articles for medium term fiscal strategy, budget structure and fiscal rules were written.

-A technical mission with experts engaged by the World Bank and funded by UK to complete the Draft Organic Budget Law commenced in November 2018. During the mission, meetings between experts and different departments in the Ministry of Finance were held, having in mind extension and scope of the new Organic Budget Law, issues that are not included in the current law.

The new law which is under preparation is in line with the improvements of the PFM system, aiming to ensure framework for conducting a sound, predictable and sustainable fiscal policy and increasing the budget discipline and responsibility. Important new mechanism of the law include:

- i) Establishment of fiscal rules and institutionalization of fiscal council;
- ii) Publication of a Register of Public Sector Entities;
- iii) Medium-Term Fiscal Strategy process improvement, preparation of a baseline scenario and other new initiatives; and
- iv) Improvement of transparency (submission of data for public enterprises, LSGUs).

On the basis of the internally established work plan for preparation of the new draft Organic Budget Law, it was concluded that achievement of targets for some identified indicators in the programme will be postponed, especially indicators related to the programme budgeting. Activities related to programme budgeting will continue in 2019 as part of the work of the Ministry of Finance supported by foreign experts for preparation of a new Organic Budget Law. Namely, these activities will be covered during preparation of secondary legislation - by-laws and other accompanying documentation, more precisely in the methodology and the guidelines for programme budget.

Considering the fact that some of the targets set were not realized within the planned timeframe, such as: adoption of the Organic Budget Law, training of Ministry of Finance employees and budget users for new program classification, we identify the reasons for this delay in: the broadened scope of the law, need for additional analysis of related laws and by-laws, need for engagement of further foreign expertise in the law preparation, as well as the fact that strengthening the capacities of the Ministry of Finance and budget users for proper implementation of budget programs, training, monitoring and control

of the program budgeting will be implemented in the period when appropriate program classification will be established. This process is inseparably linked to the new IFMIS.

Furthermore, Ministry of Finance in cooperation with the World Bank and the Government of the United Kingdom will continue to work on the preparation of bylaws, guidelines, manuals etc. aimed at operationalizing the Organic Budget Law, further improvements of the PFM system, development of detailed plan of all working processes in the Ministry of Finance and their mapping, as well as on preparation of a detailed technical specification for Integrated Financial Management Information System (IFMIS).

First version of the draft Organic Budget Law was delivered by the WB expert at the end of 2018. This draft Law will serve as a basis for further internal reviewing and drafting the law by responsible departments of the MoF during 2019. The procedure for adoption by the Parliament should be completed in 2019.

4.4. Priority 4: Budget Execution

Measure 1: Implementation of new financial management information system (IFMIS)

Concerning the implementation of the new financial management information system (IFMIS), Ministry of Finance faced the need for additional assistance to implement it, having in mind the situation that at the moment when the PFM Reform Programme was adopted, the focus was on the necessary reform commitment of the Ministry of Finance to establish a new information system that will connect all the key processes that need to be integrated, whereas the need for additional engagement of experts from different fields, which would provide assistance (quality assurance) for system development, was not anticipated.

The activities for introduction of IFMIS commenced in January 2016, when the one-year IPA funded project “Developing proposals for implementation of contemporary integrated information system for public finance management” was started. Under the project, which ended in February 2017, an analysis and assessment of the current capacity of the MoF’s IT systems for public financial management and future software and hardware capacity needs was carried out, considering their connectivity and compatibility with IT systems of other relevant PFM institutions and based on that, proposals (software and hardware solutions) for implementation of contemporary integrated information system for public financial management, with the aim of improving the efficiency of the working processes were designed and presented.

In the course of 2018, the Ministry of Finance in cooperation with foreign donors worked to provide financial resources needed for engaging technical assistance for the Ministry of Finance in the area of preparation of tender documentation for the IFMIS.

Regarding the realization of the activity for Introduction of IBAN accounts and in the direction of delaying the realization related to the engagement of consultants as technical assistance, it was decided that this activity should be merged with the activity Introduction of General Ledger. Namely, within the implementation of the module for the main book, it would be more convenient and practical to make the changes for the IBAN codes, i.e., depending on the creation of the general ledger and the execution of the payment operations, the codification of the accounts would be made.

In November 2018, the Ministry of Finance in cooperation with the World Bank commenced the implementation of a project precisely in this direction as support to the Ministry of Finance in establishing effective and integrated PFM information system by introducing new modules for managing public finances (recording commitments, invoices, financial plans, introducing modules for receivables, for liquidity, introducing a general ledger, reporting modules etc). The new system would strengthen the control and effectiveness of the management of public resources and increase largely the fiscal transparency.

Measure 2: Strengthening commitments controls

In order to ensure and maintain transparency and accountability, as well as strengthening the responsibility regards the use of public funds, in April 2018 the Law on reporting and recording of liabilities was adopted (Official Gazette of the RM No.64/18). For the practical implementation of the Law and its operability, the Ministry of Finance has developed Electronic System for Reporting and Recording of Liabilities, within the IPA Project for strengthening the medium term budgeting for effective public financial management.

In this way, legal duty was established for monthly reporting on liabilities (no later than the 10th of the month, for the previous month) via the electronic system by the:

- government bodies - budget users;
- local government units;
- institutions performing activities in the field of culture, education, health, child care and social protection, as well as other activities of public interest determined by law, established by the Republic of North Macedonia or the local government units;
- public enterprises, state-owned companies, and

- other legal entities established by the Republic of North Macedonia or local government units.

Based on the recorded data for the reported liabilities, and in order to inform the wider public and enhance transparency, the Law also prescribes the publication of summary reports on a quarterly basis by the Ministry of Finance. The announced arrears of the government bodies, with cut off date on September 30, 2018, are available on the website of the Ministry of Finance.⁷

Measure 3: Strengthening debt management

Regarding the revision of the Law on Public Debt, the activities are ongoing. A two-day workshop was organised within the Government Debt and Risk Management Program (GDRM Program), where discussion took place on all possible changes to the Public Debt Law with World Bank experts, the involved departments within the Ministry of Finance and other involved institutions. Draft proposals and recommendations for amendments to the law were submitted by the World Bank.

The Draft Law on Amending the Law on Public Debt has been prepared and published on ENER in November 2018. Law amendments are expected to be adopted by the end of the first quarter of 2019, i.e., with a delay of one quarter compared to the deadline envisaged in the 2018 Action Plan, given that it took longer time to define certain provisions in the amendments to the law. Also, the public debt unit was not strengthened with additional human capacities, and therefore it needed longer period for preparing the draft amendments.

The activity for supplementing current risk indicators for refinancing and interest rate risk is in progress. Within the GDRM program, a mission was realised to improve public debt management strategy, attended by 7 people from the department. With the help of the World Bank experts, the analytical foundation of the public debt management strategy has been strengthened by introducing the MTDS (Medium Term Debt Strategy) analytical tool intended to improve the decision-making process related to the financing of the budget, aiming at successful realization of the established goals of the public debt management policy. Also, 6 employees from the department attended trainings organized by the IMF and the World Bank on topics related to public debt management.

The activity for strengthening human capacities through 2 new employments in 2018 was not realized and the realization is expected in 2019.

Measure 4: Strengthening public procurement system

⁷ <https://www.finance.gov.mk/mk/node/7317>

The Law Amending the Law on Public Procurement ("Official Gazette of the Republic of Macedonia" No. 165/17) was adopted in November 2017, for the purpose of streamlining the mandate and responsibilities of the institutions involved in the public procurement system. Precisely, with the entry into force, of the amended Law, the provisions which referred to obtaining consent from the Public Procurement Council ceased to apply and the Public Procurement Council was abolished, based on the recommendations from the Progress Reports for the Republic of North Macedonia by the European Commission and SIGMA.

The preparation of the new draft Law on Public Procurement has been envisaged in the PFM Programme, within the activity for harmonization of the public procurement legal framework with the acquis. During 2018, the Ministry of Finance and Public Procurement Bureau, supported by SIGMA experts, were intensively working on drafting a new Law on Public Procurement, which will be harmonized with the new Directives on public procurement from 2014 and also the Remedies Directives. The new Law has been presented on the Technical meeting held with representatives of DG GROW within the Subcommittee on Internal market and Competition in May 2018. The text of the Law has passed all the obligations for its impact assessment, it has been published twice on ENER and all stakeholders were able to give an opinion and make suggestion for improving the text. Numerous subjects, from the public and private sector used this possibility and participated in the process of regulatory impact assessment. Also, several public debates for the economic operators and contracting authorities were held throughout the country. The Draft Law on Public Procurement has passed the government procedure in September 2018 and currently is in the process of adoption by the Parliament.

The realization of large part of the activities planned in the 2018 Action Plan depends on the adoption of the new Law. The new Law introduces an obligation for publishing the annual public procurement plans, and also for publishing of the concluded public contracts and their amendments, which is in line with increasing transparency. With this legal obligation, the key remark from PEFA report on the Republic of North Macedonia from 2015 referring to public procurement will be overcome.

The Electronic system for public procurement (ESPP) has been upgraded with few functionalities, and also the implementation of so called „red flags“ is in progress, which will take significant part of the administrative control introduced in the new Law. Development of module for integrity-related reports with procurement performance indicators and governance (anti-corruption) red flags on ESPP on was completed with technical assistance from the World Bank under the project “Enhancing the implementation of public procurement” (funded by SAFE Multi-Donor Trust Fund). Also, under the same project, a module for E-appeal which will be introduced with the new Law has been developed. New modules on the ESPP were completed at the end of 2018.

Moreover, under the same project, a strategy with recommendations for implementation of new procurement tools: e-marketplace for small value procurement and e-catalogues and best scenarios was prepared and delivered.

To the end of raising the level of transparency and accountability in public procurement, the Government of the Republic of North Macedonia in December 2017 obliged all contracting authorities to publish the concluded contracts on the ESPP, thus ensuring full insight for the public in such contracts. In order to implement this government commitment, in December 2017, the Electronic System for Public Procurement was upgraded, thus providing for publishing of awarded public contracts. After the adoption of the draft Public Procurement Law, this requirement will be introduced as a legal obligation. With the new module, even now, the ESPP blocks the contract authority profile for further publishing of notices if for some of the published notices there is no contract award notice or record published. More precisely, taking into account that PPB, in line with its competences, monitors the timely delivery of the concluded contracts on the ESPP, fully automated process on mandatory uploading of concluded contracts is established. When filling in the Contract Award Notice and the Records on Simplified Competitive Procedure, it is mandatory to upload the concluded contract as well. On the contrary, the system would not allow for publication of the Contract Award Notice or the Records on Simplified Competitive Procedure. Should, as regards particular contract notice, no Contract Award Notice or Records on Simplified Competitive Procedure be published, ESPP will block the EO profile for further publishing of contract notices.

The process of institutional strengthening of the public procurement system, including the review set-up, in view of the new expanded competences of the Public Procurement Bureau envisaged with the new Law, was not completed in 2018. The 18 new employments that are needed would be realised in 2019 and are to be envisaged in the Action plan for 2019.

Measure 5: Effective PPP and concessions system

Regarding the activity for harmonisation of the legislation with the relevant EU legislation in the area of concessions and public private partnership, i.e transposition of the Directive 2014/23/EU on the award of concession contracts, an inter-ministerial working group composed of representatives from several institutions (Ministry of Economy, Ministry of Finance, Ministry of Transport and Communications, Ministry of Culture, Ministry of Environment and Physical Planning, Ministry of Agriculture, Forestry and Water Economy, Ministry of Education and Science, Ministry of Health, Secretariat for European Affairs, Office of the Deputy Prime Minister for Economic Affairs) was established, which in July 2018 started the activities related to drafting of amendments to the Law on Concessions and Public Private Partnership (analysis of the

law, analysis of the Directive and finding the way of transposition and preparation of the Draft Law on Amending and Supplementing the Law on Concessions and Public Private Partnership).

An initial draft version of the Law was prepared by the inter-ministerial working group. However, the completion of this activity was prolonged, since the process of obtaining the expected technical assistance for harmonisation of the legislation is delayed. Namely, at the beginning of the year a technical assistance from the OECD was announced, but later cancelled. An attempt was made with the World Bank, the IMF and the EBRD. The World Bank still does not have a final response, although in the preliminary talks and meetings there was a positive attitude and opportunity for cooperation in this area. The EBRD also offered technical and financial assistance in the field of public private partnership. The IMF expressed their readiness to technically help us after drafting the law with their opinions and comments.

Therefore, the completion of implementation of the activity needs to be prolonged for 2019, when technical assistance from foreign donors is expected to be provided.

Regarding the activity for establishing Single electronic PPP register, contacts and preliminary interviews have been made with the economic operator who maintains the Electronic System for electronic auction (ESEA) in the Ministry of Economy and it has been established that there is an opportunity to upgrade the existing system for awarding contracts for establishing a public private partnership by incorporating the modules necessary for conducting the procedure with electronic means and establishing an electronic register for the concluded public-private partnership contracts.

In parallel with this activity, the Inter-ministerial Working Group also reviewed the possibilities and ways for introducing provisions in the Law on Concessions and Public Private Partnership and amending the bylaws regulating this issue in order to provide the legal basis for the establishment of a Single Electronic System for awarding contracts for establishing a public private partnership and a register containing data for all concluded contracts for establishment of a public private partnership in the Republic of North Macedonia. Regarding that and this activity causes fiscal implications falling on the state budget, and given the fact that financial and technical assistance from foreign donors (World Bank, EBRD) was requested and offered, the realization of this activity will be prolonged for 2019. Negotiations with foreign donors are in the final phase, when the donor activities and further steps for realization of this activity would be identified.

4.5. Priority 5: Transparent Government Reporting

Starting from the second half of 2017 the Ministry of Finance has focused much of its activities on improving transparency in the management of public finances by creating additional information and quality information that will be easy to use and accessible to the wider public.

The timeliness and comprehensiveness of budgetary information has improved immensely. While in the 2017 Open Budget Survey, Republic of North Macedonia scored lower than the global average in terms of the utility of the budget information made available to the public throughout the budget cycle, the Survey was carried out in the first part of the year -- before considerable improvements to transparency, e.g., the publication of the Citizen's Budget -- were put into operation. Consequently, a remarkably higher score in the next successive Survey is expected to be achieved.

IMF mission to assess Fiscal Transparency was conducted in the period of 30 April and 14 May 2018. The Fiscal Transparency Evaluation Report published on 29 October 2018, recognizes several key strengths of fiscal transparency practices in North Macedonia, as well as several areas where fiscal transparency can be further strengthened.

This IMF Report concludes: "Macedonian authorities have placed improving the quality and transparency of public institutions at the core of its medium-term public financial management reform strategy. The implementation of reforms recommended in this report, in addition to those already planned, will result in further improvements in fiscal transparency in North Macedonia in the coming years (Fiscal Transparency Evaluation Report for the Republic of North Macedonia, 29th October, 2018, IMF)".

The recommendations by the IMF Fiscal Transparency Evaluation report are to be taken into consideration while defining the 2019 and next annual Action Plans.

The new additional comprehensive budget information is provided on the MoF web site including:

- Reports on budget execution by budget users on a monthly basis;
- Reports on budget execution by municipalities on a quarterly basis;
- Quarterly report on the execution of the general government budget;
- Semiannual report for execution of the Budget of the Republic of North Macedonia, supplemented with detailed data for all budget users and macroeconomic review;
- Citizens' Budget for the Supplementary Budget for 2017 and the Budget for 2018 on the website of the Ministry of Finance has been published for the first time. Also, Citizens' Budget were made by some ministries for their individual budgets;

- Legal changes that introduce an obligation for all budget users and public enterprises to publish their final accounts on their websites and make them available to the public;
- Obligation to budget users and public enterprises to publish all public procurement contracts and annexes to the electronic public procurement system;
- For the first time, the Ministry of Finance has organized a public debate on the Budget for 2018, before it enters a government procedure;
- Additional information for the Budget of the Republic of North Macedonia have been supplemented with new data (primary budget balance, memorandum, % of difference, a graph showing expenditures by functional areas, quantified amounts are presented for new initiatives and government measures);
- For the first time general government data for budget execution are published in the IMF's GFS Yearbook for the period 2013-2016 according to GFSM 2014 methodology of the IMF;
- Fiscal strategy 2018-2020 (ceiling of expenditure for budget users in the medium term, additional coverage of the fiscal data tables, wider scope of the narrative part, new tables and graphs for the part of the local government budget, part on fiscal risks, additional data for components financed by IPA funds. Within the Fiscal Strategy 2018-2020, i.e. in the part of the public debt management policy, for the first time an analysis of alternative borrowing strategies, i.e. quantitative analysis through the use of the MTDS (Medium Term Debt Management Strategy) analytical tool developed by the World bank and the IMF;
- Web application "Citizens budget" has been prepared and published, for the Supplementary budget for 2018, as well as for the Draft Budget for 2019⁸. This would be a regular activity to be conducted for each budget cycle.
- The Ministry of Finance in the past period also worked on a project i.e "Open Finance" portal, which is aimed at providing the public with an insight into the data, available to the Treasury Department within the Ministry of Finance, as regards the realization of transactions of all budget users in the Republic of North Macedonia. The first phase envisages publishing of all the transactions of the budget institutions within the Central Budget of the Republic of North Macedonia, covering the institutions from the Core Budget (ministries, agencies, offices, etc.) and the social security funds. Transactions of the local government units and their budgetary institutions will be published in the second phase. The portal is in the final stage of production, to be followed by a test period and amendments to the Law on free access to public information.

⁸ <http://budget.finance.gov.mk/#>

4.6. Priority 6: Internal Control

In 2018, activities to strengthen the internal control system in the public sector continued through the development of a stable and efficient financial management and control system and internal audit. By the end of 2017, the activities planned under the Strategy for Development of Public Internal Financial Control for the period from 2015 to 2017 were realized, and in 2018 the activities continued within the PFM Reform Programme 2018-2021.

Pursuant to the PFM Reform Programme, further improvement of the legal and methodological framework for PIFC is planned (by adopting a new Law on the Internal Financial Control System in the public sector and bylaws), as well as undertaking measures for strengthening the administrative capacities for FMC and IA at the central and local level.

In the first quarter of 2018, working group established for preparation of the PIFC Policy Paper, in cooperation with RESPA experts from the Republic of Croatia, analyzed the existing legislation on PIFC and prepared the first draft version of the Law on the Internal Financial Control System in the public sector. These activities continued on 15 October 2018 with the launch of the Twinning Light Project "Further Improvement of the Internal Control System in the Country" funded by the EU (IPA), which will be implemented by June 15, 2019.

Within this project, an analysis of the first draft version of the Law on the Internal Financial Control System in the public sector was conducted in order to harmonize it with other laws (Law on Budgets, Law on Organization and Work of State Administration Bodies, Law on Local Self-Government, Law on Inter-Municipal Cooperation, etc.). Simultaneously, an analysis of the by-laws for FMC and IA is being made. Although the initial plan was to finalise the procedure for adoption of the new PIFC legislation by the Parliament by the end of 2018, due to the need for further harmonisation with the new Organic Budget Law which is also currently under preparation, the activities for preparation and adoption of new legislation for PIFC should be prolonged and are expected to be finalised in 2019.

In parallel, in November 2017, the activities for the preparation of the strategic document "Policies for Public Internal Financial Control in the period from 2019 to 2021" (PIFC Policy Paper 2019-2021) started. Working group with representatives from the relevant MoF departments (Budget Department, Treasury Department, Audit Department and Financial Issues Department), SAO, MISA and General Secretariat of the Government was established for preparation of this policy document. The purpose of the document is

to implement the identified priorities, measures and activities, to enable further development of the PIFC system, thus ensuring that the public administration meets the objectives and activities assigned to it, be accountable for its operations, applying the principles of legality, regularity and ethics, as well as the principles of economy, efficiency and effectiveness. In addition, the document aims to strengthen the role of internal audit and financial inspection in the public sector. The approach used in drafting the document is policy analysis of the existing legal framework in line with EU requirements and best practices, as well as analyzing current developments in practice. This document is harmonised with the measures and activities of the Public Administration Reform Strategy 2018-2022 and the Public Finance Management Reform Program 2018 to 2021. The document has been finalised and will be sent for consultation with relevant EC services (DG Budget).

In September 2018, the Law Amending the Law on Financial Inspection in the Public Sector was enacted ("Official Gazette of the Republic of Macedonia" No.194 of 05.09.2018), which simplifies the manner and conditions for staffing the Sector for financial inspection in the public sector.

4.7. Priority 7: External Control and Parliamentary Oversight

Measure 1: Improved strategic planning and external audit process in line with the ISSAIs

The objective of this measure is to enhance SAO as sustainable institution capable to apply the most modern and up to date methodologies and guidance on how to plan the process of external audit and thus deliver its core competence as embedded in the provisions in the State Audit Law and other relevant legal framework.

Developing and implementation of the Strategic Plan of SAO is essential condition for successful audit execution and reporting by using all of SAI's capacity and resources on the most effective and efficient manner.

The activities for preparing Assessment Report, including recommendations for improving the audit process in line with ISSAIs, are ended. Within the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO" implemented in cooperation with the twinning partners - SAIs of Bulgaria and Croatia, eight missions have been planned and completed until the end of 2018.

During the first mission 1.1.1 (05 - 09.03.2018), a list of methodology documents for audit processes to be subject of ISSAI Compliance Assessment was drafted. During the

mission 1.1.2 (16 - 19.04.2018) experience was exchanged on regularity audit (financial and compliance audit) through presentation of audit files. In the missions 1.1.3 (28-31.05.2018) and 1.1.4 (04-07.06.2018) discussions and analysis were performed with aim to analyze SAO procedures and practices, including the application of specialized audit software. Mission 1.1.5 (02-05.07.2018) and Mission 1.1.6 (17-20.09.2018) were performed successfully for analyzing the quality and follow-up of audit recommendations and exchanging experiences on improvement of audit process as per ISSAIs in the field of financial, regularity and performance audits; During mission 1.1.7. (01-03.10.2018) the current State Audit Law was analyzed and the role and responsibilities of the auditors regarding fraud and irregularities were discussed.

Based on the analysis and discussions from the above missions, Draft Assessment Report including recommendations on improvement of audit process as per ISSAIs was prepared and discussed together with SAO on the final mission 1.1.8 (December 2018). The Assessment Report including recommendations on improvement of audit process as per ISSAIs shall be presented to SAO management in the beginning of January 2019.

Activities for preparing Report with comparative analysis, recommendations and suggestions with reference to developing strategic planning process, are ended. In accordance with the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO", three missions were held in the period June-November 2018. On these missions, the experience of the SAI of Bulgaria in strategic and annual audit planning was presented and proposals for introducing strategic audit planning process in SAO was discussed. In addition, the process for developing the European Court of Auditors' 2018 -2020 strategic plan and the underlying annual work programmers, undertaken using the IDI methodology, was presented.

Based on the exchange of experience and discussions during the missions, the Report with comparative analysis, recommendations and suggestions with reference to develop strategic planning process, was produced at the end of November 2018.

Based on the Report with comparative analysis, recommendations and suggestions with reference to developing strategic planning process, the activities for training on strategic planning (two training sessions) for 74 SAO employees in accordance with the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO" were conducted in November and December 2018.

SAO continuously build itself as a professional institution that maintains high quality work and is appreciated and respected by the primary users of the results of its operation (the Parliament, the Government, the auditees and the public). Therefore, the assessment of institutional and human resources capacity of SAO will be performed in order to maintain high quality of audits, it will detect eventual gaps and give recommendations

for improvement of SAO resources in order to increase audit coverage of the budget, but also to ensure continuous quality operation, high integrity of staff and fulfilment of the relevant legal requirements for audit.

The activities for drafting report with recommendations for strengthening SAO institutional capacity and HR capacities are ended. In accordance with the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO", two missions were held in July and November 2018. During these missions, different aspects of the staff training and professional development were discussed and review of SAO's institutional and human resources framework was performed.

Based on the identified needs, Report with recommendations for strengthening SAO institutional capacity and HR capacities was produced at the end of November 2018. In order to support the human resources capacity building of external auditors, a set of training in performance audit was performed leading to qualitative improvement of the performance audit process as such.

Pilot performance audits in the areas such as EU funds, ICT, realization of higher education graduates on the labor market and public procurement, will be conducted with expertise support under the Twinning Project, in order to improve audit practice in such audits based on ISSAI's and EU best practices.

Training of SAO employees on performance audit and audit of EU funds were performed in April and June 2018. Within the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO", implemented in cooperation with the twinning partners - SAIs of Bulgaria and Croatia, four trainings on performance audit and audit of EU funds were organized. Presentations, case studies and working documents were distributed to all participants for spreading the professional knowledge and experience. 22-24 SAO auditors per each group and type of audit were trained.

The activities for pilot performance audits in the area of EU funds, ICT, realization of higher education graduates on the labor market and public procurement within the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO", started in September 2018 and are expected to be finished by September 2019.

Measure 2: Improved scrutiny over the budget by the Parliament

The objective of this measure is to improve institutional and/or legal mechanism for anticipation of audit reports by the Parliament.

Analysis of existing legal and institutional framework with regard to cooperation between SAO and Parliament shall thoroughly focus its scope on assessment of the ongoing relation between SAO and the Parliament benchmarked to best EU practices, delivering recommendations on the best-case scenarios for improving such relationship.

The activities for making analysis of the existing legal and institutional framework regarding cooperation between SAO and the Parliament in comparison with EU best practice are ended. Within the Twinning Project on "Further improvement of administrative capacities and external audit efficiency of SAO", three missions and two study visits have been completed so far. During the first mission (26 February - 2 March 2018), the existing legal and institutional framework on SAO cooperation with the Parliament of the Republic of North Macedonia was analysed. In the second mission, the cooperation between the German SAI and German Parliament was presented as good EU practice. Third mission (29.10 - 02.11.2018) was dedicated to present the questionnaire for assessing the need to raise awareness and understand the audit process and the role of SAO for members of the Parliament. Within the study visit organized from 23-26 April 2018 in Zagreb, Croatia, representatives of SAO and the Parliament of the Republic of North Macedonia had the opportunity to exchange experience with their Croatian counterparts and attend a session in the Croatian Parliament, where Croatia SAO audit reports were reviewed. During the second study visit (16-19.10.2018) representatives of SAO and the Parliament of the Republic of North Macedonia visited Bulgarian NAO and Bulgarian Parliament and saw in practice their mutual cooperation. All missions and study visits were realized with support and active participation of representatives from the Parliament of the Republic of North Macedonia.

Analysis of existing legal and institutional framework and practices in dealing with cooperation between SAO and Parliament benchmarked to best practices in EU was performed at the end of November 2018.

5. Monitoring and Coordination

For the purpose of monitoring of the progress in implementation of the PFM reforms, priority outcomes with outcome indicators and activity outputs with output indicators for each priority/activity are defined in the log-frame of the Programme.

In addition, the 2018 Action Plan sets up indicators and targets per year for each activity planned.

The country, with the support of the Commission, is in a process of developing a sector-based performance assessment framework structured around a set of objectives, result

and impact indicators and targets. For the PFM sub-sector the PAF integrates the indicators and targets as per the PFM Reform Programme and the responsibilities for data collection and processing are being assigned on the grounds of the monitoring and reporting system planned in the PFM Reform Programme. The PAF is indeed the e-tool to support the monitoring and reporting system as established by the PFM Reform Programme.

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

- PFM Council
- PFM Working Group
- Coordinators per Priorities
- Measure Leaders

Strong political commitment is in place as regards the fulfilment of the reform goals set in the 2018 - 2021 PFM Reform Programme. The Government has therefore established PFM Council in February 2018, comprising heads of the key institutions involved in the PFM system reforms, chaired by the Minister of Finance (Deputy Prime Minister for economic affairs, Deputy Prime Minister for European affairs, Minister of Information Society and Administration, Minister of Economy, Auditor General of State Audit Office, Director of State Statistical Office, Director of Customs Administration, Director of Public Revenue Office, Director of Public Procurement Bureau, Director of State Appeal Commission for Public Procurement). The main tasks of the Council are to monitor the implementation of the Program and Annual Action Plans in terms of achievement of the identified results, indicators and targets, to make decisions with regard to overcoming critical bottlenecks during its implementation and to pursue a high-level policy dialogue with donors and other stakeholders on the implementation, financing and scope of public finance reform.

The PFM Council held its first meeting on 19th February 2018 on which the 2018 Action Plan for implementation of the PFM Reform Programme was endorsed, before its submission for approval by the Government.

The Sector Working Group (SWG) for PFM has been established in June 2015 for the purpose of preparation of the PFM Reform Programme. However, in April 2018, the Minister of Finance adopted new Decision for establishing the new structure of the SWG for PFM, with inclusion of the donor community and civil society, thus ensuring the good practise to maintain an inclusive and open dialogue on PFM policies with all

stakeholders, during implementation of the reforms. SWG comprises representatives from all relevant PFM and other related institutions (Ministry of Finance, State Audit Office, State Statistical Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement, Ministry of Economy, Secretariat of European Affairs, Ministry of Information Society and Administration, Cabinet of the Deputy Prime Minister for Economic Affairs), as well as observers from donor community and civil society organisations. The Decision appoints priority coordinators and measure leaders for each priority and measure from the Programme, giving them certain tasks in the system for monitoring and reporting.

Priority Coordinator will monitor fulfilment of indicators under the respective priority and report on the progress in reforms on priority level to the PFM Working Group.

Measure Leader shall monitor the fulfilment of indicators under his measure and prepare summary reports on reform execution to the Priority Coordinator.

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

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

The concept of inclusive and open dialogue on PFM policies with all stakeholders which was introduced during preparation of the Programme, as a good practice, also continues during the reform implementation process. The goal of this sector dialogue is to ensure joint efforts and work on both the priorities and the policies in the public finance management sector, to establish synergy and to harmonise the different initiatives, as well as to ensure that budget funds and all other available resources, including the donor funds, will be used in a proper and transparent manner. In this regard, meetings of the PFM SWG are held both, on policy and technical level.

On policy level, meetings of the PFM SWG are held in a form of PFM policy dialogues with all relevant stakeholders. The first high level-policy dialogue was launched on 19 September 2017, following the publication of the PFM Reform Programme 2018-2021 on

the web-site of the Ministry of Finance, with the participation of all stakeholders, civil society, business sector, donors and international partners active in the sector.

On 31 May 2018, the Second PFM Policy Dialogue was conducted with EC, on which the implementation of the 2018 Action Plan for Implementation of PFM Reform Programme was presented and discussed with representatives from the EC, civil society, donors, IFIs and academia.

On 20 December 2018, the third PFM Policy Dialogue was conducted, on which the first draft Annual Monitoring Report on Implementation of the 2018 Action Plan for Public Financial Management Reform Programme and the draft 2019 Action Plan were presented and discussed with all relevant stakeholders (representatives from the EC, civil society, donors, IFIs and academia).

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

In order to improve the communication with all the relevant stakeholders, a special banner referring to the PFM Reform Programme 2018 - 2021 has been created on the homepage of the Ministry of Finance <https://www.finance.gov.mk/mk/node/7603>, where all documents related to the PFM Reform Programme can be found. This adds to the visibility and transparency of the PFM reform process.

6. Financing of 2018 Action Plan

The 2018 Action Plan provides details on the cost implications of the reform activities in 2018: budget funds were allocated, while part of these activities were planned to be financed with donor funds. The following table presents the realisation of the budget for implementation of the 2018 Action Plan.

Table - financing of 2018 Action Plan

Priority	Budget in EUR					
	National budget		Donor funds		Total	
	Planned	Realised	Planned	Realised	Planned	Realised
1: Improved Fiscal Framework	35,700	13,000	40,500	22,000	76,200	35,000
2: Revenue Mobilization	1,492,641	1,432,232	983,171	683,405	2,475,812	2,115,637
3: Planning and Budgeting	70,000	70,000	500,000	200,000	570,000	270,000
4: Budget Execution	170,519	110,761	231,426	160,416	401,945	271,177

5: Transparent Government Reporting	33,500	28,500	40,000	40,000	73,500	68,500
6: Internal Control	58,200	8,200	20,000	20,000	78,200	28,200
7: External Control and Parliamentary Oversight	0	0	432,939	432,939	432,939	432,939
Total	1,860,560	1,662,693	2,248,036	1,558,760	4,108,596	3,221,453

Annexes

Annex 1: Performance Indicators Matrix on the 2018 Action Plan for PFM Reform Programme

Annex 2: Risk assessment of the 2018 Action Plan for PFM Reform Programme