



REPUBLIC OF NORTH MACEDONIA

MINISTRY OF FINANCE

**Monitoring Report
on Implementation of the 2021 Action Plan
for Public Financial Management
Reform Programme**

for the period January - June 2021

July 2021

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Abbreviations and acronyms

AEO	Authorised economic operator
CARNM	Customs Administration of the Republic of North Macedonia
CDEPS	Customs Declarations and Excise Documents Processing System - CDEPS
CEFTA	Central European Free Trade Agreement
CHU	Central Harmonisation Unit in the MoF
EC	European Commission
EFTA	European Free Trade Association
ERP	Economic Reform Program
ESA	European System of Accounts
ESPP	Electronic System on Public Procurement
EU	European Union
EUIF	EU Integration Facility
GDP	Gross domestic product
HR	Human resources
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
MoF	Ministry of Finance

MTBF	Medium-term budget framework
NPAA	National Programme for Adoption of Acquis
OECD	Organisation for Economic Cooperation and Development
PAR	Public administration reform
PFM	Public financial management
PIFC	Public internal financial control
PIT	Personal Income Tax
PPB	Public Procurement Bureau
PPP	Public private partnership
PRO	Public Revenue Office
SAA	Stabilisation and Association Agreement
SAC	State Appeal Commission for Public Procurement
SAI	Supreme audit institutions
SAO	State Audit Office
SEED	Systematic Electronic Exchange of Data
SIGMA	Support for Improvement in Governance and Management
SSO	State Statistical Office
SWG	Sector working group
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank

Introduction

The monitoring report on implementation of the 2021 Action Plan for realisation of the Public Finance Management Reform Programme for the period January - June 2021 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 (SAO), State Statistical Office (SSO), Customs Administration of the Republic of North Macedonia (CARNM), Public Revenue Office (PRO), Public Procurement Bureau (PPB), State Appeal Commission for Public Procurement (SAC). The process of preparation of the report was initiated and finalised by the end of July 2021. The report was prepared based on an instruction for reporting, including deadlines and reporting templates, prepared by the IPA and NPAA Unit at the Ministry of Finance (coordination unit), which facilitated the consolidation and presentation of the PFM reform reporting information.

The Report provides information on progress achieved in implementation of reform activities for the period January – June 2021.

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.

In the fourth year of implementation of the PFM Reform Programme, the Government is continuing the PFM reforms activities which started in 2018, 2019 and 2020, but also planned new reform activities launched in 2021.

The 2021 Action Plan for implementation of the PFM Reform Programme was prepared by the Ministry of Finance of the Republic of North Macedonia, in close collaboration with the following institutions: Ministry of Economy, State Audit Office, State Statistical Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement. The Action Plan was adopted by the Government in April 2021. The 2021 Action Plan provides continuation of the planned PFM reform agenda and ensures its sustainability.

The status of implementation of the planned activities as of 30 June 2021 is presented in the Annex 1: Performance Indicators Matrix on the 2021 Action Plan for PFM Reform Programme.

The updated Risk assessment of the 2021 Action Plan for PFM Reform Programme is presented in Annex 2.

2. Aggregate overview

2.1Background

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

The 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 supports the dialogue with the EU and help use EU resources more efficiently throughout North Macedonia's 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 the 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's activities.

The 2021 Action Plan for Implementation of the PFM Reform Programme was adopted by the Government on 27th April 2021, following its endorsement by the PFM Council.

It elaborated in details the measures, activities and sub-activities of the PFM Reform Programme to be implemented in 2021, defined specific indicator targets to be achieved and presented an estimation of the costs implications and sources of funds needed for implementation of these activities. The 2021 Action Plan was based on continuation of the reform activities started with the previous Action Plans for 2018, 2019 and 2020, which were mainly focused on improving legislation in several areas (public procurement, public internal financial control, budget planning, public debt management), but also contained new activities to commence in 2021.

Sound public financial management is a key requirement in the European integration process and is linked to a large number of negotiating chapters, (Chapter 5 – Public Procurement, Chapter 16 - Taxation, Chapter 17–Economic and Monetary Policy, Chapter 18 - Statistics, Chapter 29 – Customs Union, Chapter 32 – Financial control and Chapter 33 – Financial and Budgetary Provisions).

2.2 Links to Strategic Documents

2.2.1 Policies, Strategies and Programmes Linked to PFM

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

The PFM Reform Programme 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 IPA II Indicative Strategy Paper 2014-2020. Along with improved capacities for macro-economic planning, IPA will also invest in establishing a robust framework for the management of economic changes and financial crisis. IPA will also provide support for the preparation and implementation of a comprehensive public financial management reform programme. Specific focus will be put on improving the revenue administration and collection (customs/tax) and strengthening the operational and institutional capacities including the IT interconnectivity and interoperability of customs and tax administrations with EU systems. A key priority will be the improvement in the medium term budget planning and introduction of a solid programme-based budgeting. At the same time IPA funds will also be invested in optimising the budget preparation, budget execution and cash management, including the introduction of the integrated PFM IT System, covering all key PFM sub-systems and gender responsive budgeting. Assistance will be allocated for ensuring the efficiency and effectiveness of the public procurement system. Strengthening the public internal financial control and the external audit remains among the key priorities of the sector as well. Particular focus will be put on statistics where investments will be made into the data collection (sex-disaggregated), processing and publication and ensuring the compliance with the EU statistical criteria for production of statistics and organisation of the statistical system.

Economic Reform Programme (ERP)

The Economic Reform Programme is prepared and submitted to the European Commission (EC) in accordance to EC Guidance and in the frame of European Semester - light which follows similar time dynamic as the European Semester for Member States. The Economic Reform Programme 2021 - 2023 has been submitted to EC on 29 January 2021¹ after government's formal endorsement.

The European Commission's assessment² of ERP 2021 - 2023 points that the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2020 has been partially implemented. In the area of macro-fiscal reform measures, the EC acknowledges the efforts of the government for used fiscal policies to mitigate crisis-induced impact on growth and employment. About the adopted Tax System Reform Strategy some measures have started with implementation for improving revenue collection. Regarding transparency of public finances, public enterprises are now obliged to publish their reports on the website, and also some measures have been adopted to include some enterprises in the general government fiscal documentation. For improving the public investment management, the assessment noted the developed PIMA Action plan by MoF, as well as the introduced mechanism within 2021 Annual Budget law on monitoring capital expenditures and measures to be undertaken thereupon in case of low realisation. Limited implementation is recorded in establishing a state-aid register. The OBL was adopted by the Government, and it is in parliamentary procedure now.

The Economic and Financial Dialogue between the EU and the Western Balkans and Turkey took place on 12th July, where the representatives of the EU Member States, the Western Balkans and Turkey, the European Commission and the European Central Bank, as well as representatives of the central banks of the Western Balkans and Turkey will adopt the Joint Conclusions with the specific targeted Policy Guidance for the 2022-2024 ERP cycle.

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

The implementation of the annual 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

¹ <https://finance.gov.mk/wp-content/uploads/2021/01/Economic-Reform-Programme-2021-2023.pdf>

² https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/assessment_of_north_macedonias_2021-2023_erp.pdf

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, and as such is embedded in the PAR Strategy and Action Plan for the implementation of the PAR Strategy. Given that modern public administration is a basis for efficient and effective management of the public finances, during the preparation of PFM Reform Programme and PAR Strategy, full coherence and harmonization of both strategic documents is provided. Particular attention has been 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. Also, PFM reforms are placed on the agenda of the SAA monitoring process, in particular, the progress in implementation of the reforms is discussed during the meetings of the Special Group for Public Administration Reform. Moreover, the agendas for conducting both, the PFM policy dialogue and Special Group for PAR are aligned.

2.2.2 PFM Sub-Areas Strategies

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

Tax System Reform Strategy was officially adopted by the Government on 29.12.2020 after two public consultations with stakeholders. The first public consultation was

conducted in February 2020 and the second one in December 2020, following which many suggestions were implemented in the final text of the Strategy. The strategy covers a period of 5 years (2021 - 2025) and is in correlation with the timeline of other strategic documents of the Ministry of Finance and its bodies. The Tax System Reform Strategy includes 5 priorities of the tax policy-makers and the public revenues administration institutions for the period 2021 - 2025 (1 - Increase Fairness of Taxation, 2 - Improve Efficiency and effectiveness of the Tax System, 3 - Increase Tax Transparency, 4 - Improve Quality of Services, 5 - Introduce Green- ecology Taxation), elaborating their key activities, results, responsible entities and key performance indicators. The 2021 Action Plan for implementation of the Tax System Reform Strategy was adopted in March 2021.

Policy for internal financial control in the public sector (with Action Plan for the period 2019-2021) (hereinafter: PIFC Policy Paper 2019-2021) was adopted by the Government in March 2019. The document is consistent with the PAR Strategy 2018-2022 and the PFM Program 2018-2021 and defines priorities aimed to ensure further consistent strengthening of the PIFC. For the purpose of monitoring the implementation of the PIFC Policy Paper 2019 - 2021, on May 21, 2019, the Minister of Finance adopted a Decision on the establishment of a Committee for monitoring the implementation of the Internal Financial Control Policy in the public sector.

The implementation of the measures and activities set out in the PFM Program and PIFC Policy Paper are supported by the Twinning project "Strengthening the functions of budget planning, execution and internal control", within Component 2: "Strengthening the system of public internal financial control through effective Implementation of the PIFC Policy Paper". Due to the situation with COVID-19, the activities within the Twinning project started in June 2020 and are implemented with reduced dynamics.

The progress report on the implementation of the PIFC Policy Paper 2019 - 2021 for July-December 2020 was adopted by the Committee for Monitoring the Implementation of the Internal Financial Control Policy in the Public Sector in March 2021.

PRO Strategic Plan 2021 - 2023 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.

PRO IT Strategy for the period from 2019 to 2022 is in line with the PFM Reform Programme and the Tax System Reform Strategy. The key goal of the IT Strategy of the PRO is to define the overall development strategy for the information and communication systems of the PRO in accordance with the development strategy of the PRO as a whole. The Strategy defines the future development of the IT systems, infrastructure and technical environment and the development direction of the Directorate for Information Technology and its employees, mandatory application of IT standards and methodologies.

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.

- 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.

CARNM Strategic Plan 2021 – 2023 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 CARNM 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.

Strategy for ICT development of the Customs Administration 2021 – 2025 and Action Plan for Interconnection and Interoperability of the Customs Administration with the EU systems 2021-2023, provides a basis for implementation of the IT systems for the coming mid-term period, according to the Multi-Annual Strategic Plan for Implementation of e-Customs of the EU for harmonisation with the UCC and EU accession. The Strategy gives the mission, vision and strategic priorities and goals of the Customs Administration in the development of ICT, as well as the activities and the necessary resources for their realization. In the period 2021-2025, the Customs Administration plans to implement several projects from all areas of customs

operations, which should be IT supported and to assist the CA in the timely implementation of the planned activities to create adequate administrative capacity and establish interoperability with the systems of the EU, which are a precondition for the accession of the Republic of North Macedonia to the European Union.

The **2019-2022 Strategy for Integrity and Fight against Corruption** was adopted in CARNM, the implementation of which was subject to Action Plan containing measures with a time limit of 2019-2022.

2.3 Links to external assessments

Assessment of the Principles of Public Administration

In February 2021, the evaluation mission by SIGMA for the "Principles of Public Administration" has started. This assessment also covers the field of Public Financial Management, including PFM strategic framework. Due to the COVID-19 pandemic, the assessment activities were carried out online and through data entry on the PAR.IS platform. The final report is expected to be delivered by SIGMA in December 2021.

Public Expenditure Assessment and Financial Responsibility (PEFA)

The Government and the Ministry of Finance in the second half of 2021 will begin the process of preparation of the new Program for Public Financial Management Reform for the next programming period 2022 - 2025, which requires coordinated technical support for this purpose. In this regard, technical assistance has been received from the IMF and the World Bank for the implementation of the second PEFA assessment, which started on April 19, 2021, and the initial report of the assessment is expected to be received by mid-July 2021. The PEFA assessment will provide a comprehensive diagnosis of the current situation in all PFM subsystems and will help identify reform priorities in the Programme process. Also, at the request of the MoF, OECD/ provided technical assistance for the preparation of the new PFM Programme.

2.4 Donor coordination

Commitment of donors to support the PFM reforms and maintain the policy dialogue in the country continues during the third year of implementation of the Programme. Therefore, in order to ensure good planning and complementarity of external technical support, proper sequencing and successful implementation of the reforms, the MoF will

continue to co-ordinate the donors' assistance through conducting open and inclusive PFM policy dialogue with all relevant institutions and donors.

Due to the COVID 19 pandemic, one PFM policy dialogue was held on 19th March 2021.

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. Members of the PFM Council participate in the PFM Policy Dialogues with all relevant stakeholders.

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.

In December 2020, several public consultations with stakeholders were organised for presenting and discussing the draft OBL, draft PIFC Law and draft Tax System Reform Strategy.

Starting from the beginning of 2020,

until 2023 Ministry of Finance in cooperation with other institutions (Public Revenue Office, Customs Administration, Public Procurement Bureau, State Appeal Commission on Public Procurement and Ministry of Economy) has been implementing two major twinning projects funded by EU - IPA 2018, which should provide support to the functions of the MoF in the field of budget planning and execution, internal control, public procurement, as well as in the field of tax and customs policy and system and revenue collection:

- 1. Strengthening budget planning, execution and internal control functions,** with twinning partner consisting of the following EU member states: Netherlands (National Academy of Economics and Finance of the Ministry of Finance), Croatia (Ministry of Finance), Latvia (Ministry of Finance) and Bulgaria (Ministry of Finance).
- 2. Improving Revenue Collection and Tax and Customs Policy,** with twinning partner consisting of the following EU member states: Austria (Agency for European Integration and Economic Development together with the Federal Ministry of Finance) and Croatia (Ministry of Finance - Customs and Tax Administration).

The FAD technical assistance for the Tax Administration of Republic of North Macedonia is crucial for successful implementation of the foreseen strategic priorities, measures and activities. In addition, IMF's continuous support to the long-term modernization processes and the already developed reform programs will greatly contribute to ensuring smooth change management to the end of establishing

electronic tax administration and improving the public finance management – revenue mobilization.

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

In June 2021, the SAO, the Foreign Commonwealth and Development Office of the United Kingdom and the Westminster Foundation for Democracy (WFD), by signing a Memorandum of Understanding, agreed to support the implementation of SAO Communication Strategy 2020 - 2023. This will enable SAO to provide timely, accurate and precise information to the media, public, CSOs and relevant institutions. SAO continues its cooperation with the WFD by implementing the project entitled "Increasing accountability and transparency in Macedonia through improved implementation of SAO recommendations", supported by the British Government. Activities relate to the implementation of the remaining two phases of the Project regarding the SAO Communication Strategy 2020 - 2023, focusing on communication and cooperation of the SAO with the competent institutions and civil society organizations.

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 MoF are oriented towards a more rationalised, sustainable and cost-effective management of the public administration and public resources.

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. Also, it is expected that the planned establishment of the Public Finance School, which will be supported under the EU twinning project Strengthening budget planning, execution and internal control functions, will contribute to the improvement of knowledge and skills of the relevant staff.

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

The relevant financial resources are envisaged in the frameworks of the cost benefit analysis and regulatory impact assessment 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 2021 Action Plan Implementation).

In addition to regular budget funding, significant support during the preparation and implementation of the Programme was provided by the European Commission (IPA

projects, TAIEX, SIGMA). Support was also provided by the World Bank, IMF, OECD, as well as by various bilateral programs.

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

Improved Fiscal Framework

Articles for prescribing numerical fiscal rules and establishing and regulating the operation of the Fiscal Council are elaborated in the draft OBL. The draft OBL was finalised and adopted by the Government in January 2021, and subsequently was submitted to the Parliament for adoption.

A complete design model with Python programming language and SQL tool in the area of fiscal projections for tax and customs revenues has been developed within the TA under the IPA twinning project Improving Revenue Collection and Tax and Customs Policy. A complete DWH database compiled of data from CARNM, PRO and SSO has been developed. Tax revenue planning is done using the tax elasticity approach. The planning of tax revenues in this way is in accordance with the recommendations of the IMF and the World Bank, which regularly propose this approach at their seminars.

In the area of statistics, the SSO continues with the activities under the Component 1: Further alignment with the EU standards in the field of macro-economic statistics of the IPA project Improving the Production and Dissemination of Statistics, aimed to achieve increased data availability for better forecasting of GDP.

Revenue mobilization

In 2021, the activities related to harmonization of the tax and customs legislation continue, which are implemented with twinning support under the EU-IPA 2018 twinning project Improving Revenue Collection and Tax and Customs Policy.

The complete text of the new Customs Law (UCC) and all bylaws (implementing and delegating) have been prepared.

Revised 2021 Draft Annual Employment Plan of PRO, which envisages 80 new employments and 100 promotions, was adopted.

Procurement of the BMP tool (software and licenses) was unsuccessful and needs to be repeated.

In relation to the new integrated IT tax system, new project implemented by the World Bank has started in January 2021 “Supporting North Macedonia Public Revenue Office IT system Design”. Under the project, detailed requests for implementation of additional ITIS requirements and development of related system modules and interfaces that are expected to be financed with a loan from World Bank and IPA 2018 grant were prepared.

Contract for the purchase of IT equipment and maintenance contracts on equipment (hardware and system software) have been signed. Also, contracts for procurement of security certificates for the PRO systems and antivirus protection have been concluded.

Under the EU-IPA 2018 twinning project, Component 4 “Improved operational and administrative capacities of the Public Revenue Office for implementation of national legislation, IT services and procedures”, 15 activities on several topics related to the functioning and operation of the PRO were held, and due to the Covid-19 pandemic, they were conducted virtually.

Under the IPA 2018 National Programme, the Customs Administration procured equipment for customs controls under the project **„Increasing quality of customs controls in fighting fraud and illegal trafficking of goods“**, as well as equipment for the Disaster Recovery Center, aimed to ensure continuity of business processes in the Customs Administration and data storage through consolidation of ICT systems and establishment of a joint Data Center in case of crisis and natural disasters.

Planning and budgeting

After the adoption of the new Organic Budget Law by the Government of the Republic of North Macedonia in January, the draft Law was submitted to the Parliament for adoption. At the end of the first quarter of 2021, the text of the new OBL passed the first reading by the Parliamentary Commissions (Commission on Finance and Budget and the Legislative Commission). In the next period, the review of the new OBL by the Parliament is expected to continue.

In addition, in 2021, the MoF, in cooperation with the World Bank, the Government of the United Kingdom and the EU (under the IPA 2018 twinning project Strengthening the functions of budget planning, execution and internal control), started to work on preparing the implementing legislation of the new OBL - bylaws, guidelines, manuals, etc., aimed at operationalising the new OBL and further improving the PFM system.

Activities related to programme budgeting are implemented as part of the process of drafting the methodology and guidelines for programme budgeting.

Following the adoption of the PIM Action Plan by the Government in December 2020, the Ministry of Finance is undertaking activities to start implementing it.

In May 2021, the Minister of Finance has adopted two Decisions for establishing working groups for implementing the PIM Action Plan and for undertaking preparatory activities for establishing an PIM organizational unit within the Ministry of Finance. On MoF's request, the IMF has provided TA for capacity building in the area of PIM, which should start in July 2021.

In the area of statistics, the implementation of the activities aimed to develop capacities for compilation of EDP notification tables continued under the IPA project "Improving the Production and Dissemination of Statistics".

Budget execution

The implementation of the Integrated Financial Management Information System (IFMIS) is a top-priority project for the MoF within the PFM agenda. The ongoing multiple IFMIS-related activities are being steadily rolled out. The World Bank has carried out Pre-Identification mission on potential lending, whereas the process of updating the functional and technical requirements is in the final stage.

The Strategy for public debt management 2022 - 2024 with outlook up to 2026 was prepared by the MoF and adopted by the Government on the Government session held on 1st June 2021. In addition to this, 2020 Annual Report for public debt management was adopted by the Government on 22nd June 2021.

As regards public procurement, in this period a Law Amending the Law on Public Procurement was adopted and published in "Official Gazette of the Republic of North Macedonia" no. 87/21. In a direction to strengthening the capacities, Public Procurement Bureau continued with organizing trainings, as well as updating procurement brochures, rulebooks, and Frequently Asked Questions. In relation to Twinning project - Strengthening the functions for planning, execution and internal control of the budget, process of realization of the planned activities continued, including the preparation of an overall Strategy for development of the Public Procurement System. In relation to e-Marketplace and e-Catalogues and SAC processing system (EU support Project (FWC SIEA 2018- LOT 2: Infrastructure, sustainable growth and jobs, EuropeAid/138778/DH/SER/multi), during this period PPB and the contractor actively engaged to develop the concept of e-marketplace for small value procurement, including design and functions of the system.

The draft Public Private Partnership (PPP) Law was prepared and published on ENER for public consultation. In addition, a public debate with relevant stakeholders was held in April 2021. The initial text of the Law has been amended in accordance with

comments received and following completion of entire necessary accompanying documentation (eg. Report on RIA, EU correspondents tables), it will be submitted to the Government for adoption. In parallel, in cooperation with IT experts from the World Bank, the technical specifications for the Single Electronic PPP system and the modules needed to ensure implementation of the overall procedure for awarding PPP agreements were prepared.

An initial version of the draft Law on concessions for goods of common interest has been prepared by the Ministry of Economy. Inter-institutional working group is being established, which should proceed finalising the draft Law.

In the area of statistics, the activities related to establishing General Government Accounts in accordance with ESA 2010 and further strengthening statistical services in the area of IT, have continued under the IPA project Improving the Production and Dissemination of Statistics.

First modules of the IT system for creation of statistical data were deployed in the SSO and are under testing. Transparent Government Reporting

Ministry of Finance continued to implement activities in order to provide easy access to budgetary information's. Online tools allow access to information any time and provide information about state budget and public budget spending.

In February 2021, the Ministry of Finance started to publish on its website daily data for cumulative realization of revenues, expenditures, capital expenditures and government debt, through the new transparency tool: Fiscal counter .

Also, the Ministry of Finance participated in the preparation of the Information with the status of realization of economic measures for dealing with COVID-19 which was published on the website: www.koronavirus.gov.mk in April 2021.

Internal control

The draft PIFC Law, which was approved by the Government at the end-December 2020, was submitted to the Parliament of for adoption.

Within the twinning project "Strengthening the budget planning, execution and internal control functions " activities has started for establishing national certification of internal auditors, preparation of operating instructions in the area of financial management and control, preparation of Training Needs Analysis for employees in the financial affairs units, the internal audit units and the CHU, as well as a training

program. Draft Law on the Public Finance Academy has also been prepared and published on ENER in February 2021. .

The report on the progress in the implementation of the Strategy for PIFC 2019 - 2021 for the period July - December 2020 was adopted by the Committee for monitoring the implementation of the policy of internal financial control in the public sector in March 2021.

External Control and Parliamentary Oversight

SAO is implementing the 2021 Annual Work Program that was prepared based on the Strategic Audit Plan 2021 – 2023 and in accordance with the adopted Guidelines for Strategic and Annual Audit Planning and the Decision for setting audit strategic goals of the State Audit Office for the period 2021 - 2023.

2021 Annual Work Program contains 71 audits, out of which 59 regularity (financial and compliance) audits, 9 performance audits, 1 IT audit, 1 compliance audit and 1 thematic audit.

SAO is implementing the new Twinning Project "Improving external audit and parliamentary oversight" MK 18 IPA FI 03 20, with cooperation of SAI's of Croatia and Bulgaria as twinning partners.

Activities are being undertaken within the Twinning Project to enhance the legal framework relevant to state audit in order to ensure constitutional, financial and operational independence of SAO, improve the institutional and human resources capacity of SAO, improve efficiency and impact of external audit by further harmonization of legal framework and development of methodology tools, as well as by strengthening SAO capacity for effective external audit. In addition, parliamentary control over public funds and cooperation between SAO and the Assembly are also being improved.

4. Assessment of Implementation of the 2021 Action Plan

4.1. Priority 1: Improved Fiscal Framework

Measure 1: Formulation, adoption and implementation of fiscal rules

Articles for prescribing numerical fiscal rules and establishing and regulating the operation of the Fiscal Council are elaborated in the draft OBL. Draft OBL was adopted by the Government in January 2021 and after that was submitted to the Parliament. In

the first quarter of 2021 it has passed the first reading of the parliamentary commissions (Commission for Financing and Budget and Legal Commission), and in the next period the final adoption of the Law is expected by the Parliament.

Measure 2: Strengthening forecasting

A complete design model with Python programming language and SQL tool in the area of fiscal projections for tax and customs revenues has been developed within the TA with the IPA 2018 twinning project Improving Revenue Collection and Tax and Customs Policy. A complete DWH database compiled of data from CARNM, PRO and SSO has been developed. Tax revenue planning is done using the tax elasticity approach. The planning of tax revenues in this way is in accordance with the recommendations of the IMF and the World Bank, which regularly propose this approach at their seminars.

Following these recommendations with the help of the Twinning project "Improving revenue collection, tax and customs policy" within the programming language R we developed a model that automatically calculates the coefficients of elasticity and then revenue based on each tax separately. Currently, the Twinning project "Improving Revenue Collection, Tax and Customs Policy" is working on the development of several models that include state-of-the-art revenue design models including artificial intelligence or machine learning, which are yet to be presented.

The simulation of customs revenues is performed with the help of two data science tools (SQL Server which created the data warehouse and Power BI - for data visualization) which provided consistent and robust data that take into account several years of regular import and are not based on only one year and allow to notice the most important changes from the change of customs rates..

Data storage in the data warehouse and their visualization with BI tool is a concept widely used in working with databases and specifically recommended for use by the World Bank.

Measure 3: Increased data availability for better forecasting of GDP

This measure will be implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics within the project on Improving the Production and Dissemination of Statistics, financed under IPA 2017.

During the period from 05 May to 14 May 2021 one mission was carried out.

The following activities were implemented:

- ✓ The possible separation of GFCF by the type of assets needed by the classification existed in T0102Q was discussed. The main focus was put on the delineation of the total building assets between dwellings and non-residential buildings. Expert gave suggestion what kind of data should be used for the delineation. Use of the data from the Eurostat database for the European countries for the structures of the GFCF, construction, GVA was communicated and suggested to the SSO experts;
- ✓ The quality of data on annual and quarterly stocks was discussed. The necessity of reconciliation of changes in inventories Q to A data was defined. The importance of the procedure for harmonization of the quarterly with the annual data was discussed and a recommendation was given to improve the quality of the input data by introducing estimates for overcoming the extreme values. SSO presented practical example of such reconciliation which is complex and need lots of various data. Example of a pragmatic approach, which uses a moving average estimates from opening and closing stocks by type was presented by the expert. An aggregated level template for the forecast of the first quarter of 2021 data for inventories was presented. It was also prepared a prediction for the figure for the 2020 annual closing stock, which can be used for preliminary reconciliation procedure.

4.2. Priority 2: Revenue Mobilization

Measure 1: Improved revenue legislation framework, harmonized with the EU Acquis

This measure is implemented with twinning support under the EU-IPA 2018 twinning project Improving Revenue Collection and Tax and Customs Policy. In particular, Component 1 of the twinning project is related to harmonization of tax and customs legislation with EU acquis, standards and best practices.

In terms of legislation, complete text of the new Customs Law (UCC) and all bylaws (implementing and delegating) have been prepared.

In the period January – June 2021, under Component 1, 7 workshops were realized. Workshops were related to: gap analysis of national legislative provisions in the area of motor vehicles tax, profit tax, Public Revenue Office, Customs Administration and customs tariff compared to the latest EU legislation and best practices; and for drafting new Customs Code and the implementing bylaws.

Measure 2: Improved tax and customs services and procedures

Regarding the implementation of the project activities of the Modernization Program and the Strategic Plan of the PRO, the following progress was made:

The revised Draft Annual Employment Plan for 2021 envisages 80 new employments and 100 promotions.

Procurement of the BMP tool (software and licenses) was unsuccessful because there was no economic operator meeting the criteria. The procedure should be repeated in the next reporting period.

In January 2021, a project was initiated with the World Bank “Supporting North Macedonia Public Revenue Office IT system Design”. The purpose of the project is to assist the tax administration in developing additional system modernization requirements with advisory services and analysis. Additional ITIS features should include new ITIS modules for e-commerce and e-invoices, as well as data warehouse and business intelligence tools for risk management, compliance, and fact-based decision making.

Within the project, experts are engaged to assist the PRO in preparing detailed requests for implementation of additional ITIS requirements and development of related system modules and interfaces that are expected to be financed with a loan from World Bank and IPA 2018 grant, which relates to the activities in regards to the software for the new integrated IT tax system and technical support for quality control during software installation, establishment of a data warehouse, as well as defining user requirements (technical specification) for hardware and software for Disaster Recovery Center. In this regard, the experts delivered three final documents: Functional and technical requirements for data warehouse (DW), business intelligence (BI) platform, and compliance risk management sub-system, Fiscal e-invoice system (FEIS) and e-commerce fiscal invoicing: basic concept & initial suggestion for technical specification, Overview of the existing IT systems and current IT developments at Public Revenue Office.

For the purposes of effecting the ITIS project in order to be able to prepare the tender specification after consultations requested by the World Bank, IMF and PRO, EU-Twinning Project held a workshop for the PRO which established the principles, and guidelines and needs for creating tender rules by the WB.

Tax Diamond-WB and TADAT-IMF adjustment systems have been implemented in the PRO by the World Bank and the IMF.

With the help of these tools, the points where it is necessary to make improvements in the functioning of the PRO in order to improve the monitoring, records, collection and refund of tax revenues, as well as determining the rules of "Tax compliance" are determined identified.

Regarding the activities for establishing a new IT infrastructure after a competitive tendering procedure, contracts for procurement of IT equipment and contracts for maintenance of information equipment (hardware and system software) were concluded.

Regarding the activity for upgrading the existing IT sub-systems, there are no changes in the reporting period.

Regarding the increase of reliability of systems for PRO after a competitive tendering procedure contracts for security certificates of PRO's systems and anti-virus protection were concluded.

PRO is one of the beneficiaries of the new EU-IPA 2018 twinning project Improving Revenue Collection and Tax and Customs Policy, which started in January 2020. Within component 4 "Improved operational and administrative capacities of the Public Revenue Office for implementation of national legislation, IT services and procedures" from this twinning project, 15 activities related to the functioning and operation of the PRO were held.

They cover several topics related to the functioning and operation of the PRO: VAT refund, collection of taxes, exchange of data between tax administrations, modernization of the PRO, professional and ethical standards of employees (code of conduct), audit methods, e-commerce and BEPS (base erosion and profit shifting). Within the IPA twinning project in the part of component 4 in May 2021 an activity related to the Design of the Data Warehouse (DW) was held, which was attended by representatives from the Ministry of Finance, PRO and Customs Administration. The same activity was conducted by experts from the Austrian Ministry of Finance. All these activities in which 130 tax officials from the PRO participated were mainly held with Croatian colleagues. Due to health and economic crisis caused by the pandemic COVID-19, project activities were organized and conducted virtually.

- ✓ **The Customs Administration permanently prepares Regulations amending the Regulation the application of the Regulations of the Commission of the European Communities on the classification of certain goods in the Combined Nomenclature, which are published in the Official Gazette of the Republic of North Macedonia (4/21, 53/21, 135/21).**
- ✓ Several laws were changed in the reporting period:

- ✓ **Law amending the Customs Law** introducing new systematization of customs misdemeanours in 3 basic groups and enabling the Basic Courts are competent to conduct the misdemeanour procedure and to impose misdemeanour sanctions for severe customs misdemeanours.
- ✓ **Law amending the Law on Excises** was published stipulating precise deadlines for submission of excise declaration and payment of excise duty by persons who are not registered in the electronic Register of excise payers; new provisions concerning determination of a lower amount of guarantee and use of cash deposit to secure the excise duty debt, validity period of the bank guarantee, return or release of bank guarantee and cash deposit; introducing obligation to submit a guarantee for securing the excise debt that may occur for the bonds for electricity, natural gas, coal, coke, lignite and oil coke.
- ✓ **Agreement on the establishment of shared border crossing points between the Republic of North Macedonia and the Republic of Albania** was signed. The ultimate goal of joint controls is to have open but controlled and secure borders, through enhanced coordination and cooperation between all competent border authorities at national and international level.
- ✓ 18 trade companies have obtained approval for authorized economic operator (AEO), and 4 applications are in the process of approval. This program has been intensively promoted among the economic operators.
- ✓ **Systemic measures for prevention of corruption and crime** are being undertaken in cooperation with the Office of the Deputy Prime Minister in charge of fight against corruption and crime, sustainable development and human resources. Customs Administration organized working meetings at border customs offices with the aim to emphasize the role of the Customs Administration in preventing and detecting corruption and organized crime, and the measures of the adopted Anti-Corruption Plan as well as enhancing the institutional and administrative capacity for effective and efficient fight against corruption. As a result of the campaign of the Customs Administration, "STOP CORRUPTION" which is being implemented since April 2018, the number of received reports on corruptive activities in 2020 has increased, compared to the previous 3 years. The cooperation with the National Coordination Center for Border Management, SCPC, MoI, Food and Veterinary Agency, Sanitary Inspectorate, Ministry of Transport and Communications, Ministry of Foreign Affairs and others is also strengthened.
- ✓ In June 2021, during the Western Balkans Summit held in Tirana, the Prime Ministers of the Republic of North Macedonia and Albania signed the **Agreement on the establishment of shared border crossing points between the Republic of North Macedonia and the Republic of Albania**. With the establishment of the new

manner of operation through the joint border control, the pan European Corridor 8 (east-west), which is the fourth busiest border crossing will be more attractive and more efficient for export, import and transit of goods. At the same time, closer co-operation between the administrations of the two countries will result in more successful detection of illegal cross-border activities, thus increasing security. The ultimate goal of joint controls is to have open but controlled and secure borders, through enhanced coordination and cooperation between all competent border authorities at national and international level.

- ✓ Under IPA 2 Project- **Increasing quality of customs controls in fighting fraud and illegal trafficking of goods**, which is part of the Public Financial Management Reform Programme, equipment was procured for customs controls, as well as equipment Procurement of equipment to ensure continuity of business processes in the Customs Administration and data storage through consolidation of ICT systems and establishment of a joint Data Center in case of crisis and natural disasters ("Disaster Recovery Center").
- ✓ Within the USAID Regional Economic Development, Governance and Enterprise Growth (EDGE) Project, after signing the relevant Contracts with external suppliers in May 2021, procurement of control equipment for the border crossing Kjafasan-Qafthane is underway.
- ✓ Continuous maintenance of IT systems financed by EU funds (NCTS and ITE) is provided. A new contract for upgrade of the CDEPS system was signed in June 2021.
- ✓ The introduction of Blueprints for the introduction of **new SINGLE System** is in its final stage. This project will provide greater facilitation for the economic operators and will strengthen the capacity of license – issuing institutions and will replace the existing EXIM system.

4.3. Priority 3: Planning and Budgeting

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

Measure 2: Improving the medium – term budget planning

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 the programme and program

indicators which are 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 programme and sub-programme 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 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 measures with activities and sub activities under Priority 3, which are planned in the 2021 Action plan are closely interlinked with preparation of the new Organic Budget law and establishment of the new Integrated Financial Management Information System (IFMIS).

The OBL is the framework legislation that defines public financial management system in Republic of 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 report for budget execution, management of the budget allocations and preparation of a Medium-term Fiscal Strategy.

The new OBL will be 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 mechanisms 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 new initiatives; and

- iv) Improvement of transparency (submission of data for public enterprises, LSGUs)
- v) Establishment of an integrated information system for public financial management.

The new law should be in line with the improvements planned in the public finance management system, in order to provide a framework for sound, predictable and sustainable fiscal policy and increased budget discipline and accountability.

After the adoption of the new Organic Budget Law in the first quarter of 2021 by the Government of the Republic of North Macedonia, it was submitted to the Parliament of the Republic of North Macedonia. At the end of the first quarter of 2021, the text of the new OBL passed the first reading through the parliamentary commissions (Commission on Finance and Budget and the Legislative Commission). In the next period, the review of the new OBL by the Parliament is expected to continue.

In the past period, the Ministry of Finance, in cooperation with experts from international institutions, has paid great attention to the development of a modern concept for public financial management designed through the new Organic Budget Law. The Budget document is one of the most important instruments of economic policy. Therefore, the OBL, which defines the procedures for preparation and adoption of this document, is of equal importance. Improving the management of public finances and strengthening the medium-term budgeting for the next 5 years is one of the key priorities of the Government of the Republic of North Macedonia, as part of the process of accession to the European Union.

In the process of preparing the Budget document, through the web-based E-circular system, the MoF instructed the budget users to prepare their basic scenarios (the directions were submitted in a circular letter). After the MoF establishes IFMIS and after the adoption of the new OBL, this procedure will become a standard procedure in accordance with the new Law.

The Government adopted the medium-term Fiscal Strategy for the period 2022-2024 (with prospects until 2026) on 01.06.2021. Key elements of medium-term fiscal policy are the redesign of budget policy and fiscal consolidation, which are aimed at supporting macroeconomic stability, accelerating economic growth, and thus strengthening the growth potential of the domestic economy.

The projected revenues of the General Government Budget, as a% of share in GDP, are planned at a level of 32.2% in the next five years. As a result of the continuity in the implementation of disciplined budget policy, the total expenditures of the consolidated budget in the period 2022-2026 are planned to decrease from 37.8% in 2022 to 36% in 2026. Consequently and in line with gradual fiscal consolidation, the general

government budget deficit will decrease from 4.3% of GDP in 2022 to 2.2% of GDP in 2026.

Key elements of the medium-term fiscal policy are the redesign and improved structure of public finances, through increased share of capital expenditures, as well as phased fiscal consolidation, by reducing the budget deficit as a percentage share in GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026. The primary budget deficit will also be continuously reduced from 3.0% of GDP in 2022 to reaching the level of 1.2% in 2026. In order to strengthen fiscal discipline, the medium-term fiscal strategy sets limits on budget expenditures and limits on budget users.

In addition, in 2021, the MoF, in cooperation with the World Bank, the Government of the United Kingdom and the EU (under the IPA 2018 twinning project Strengthening budget planning, execution and internal control functions), have started to work on preparation of implementing legislation of the new OBL - bylaws, guidelines, manuals, etc. - aimed at operationalization of the new OBL and further improving the PFM system. The activities related to the program budgeting will be implemented as part of the process for preparation of the methodology and guidelines for program budgeting.

In December 2020, the Government adopted the Action Plan for Implementation of the Public Investment Management Assessment recommendations (PIM Action Plan), which covers the activities to be implemented in the period 2021 -2024. Currently, activities are being undertaken to start implementing the PIM Action Plan. In May 2021, the Minister of Finance has adopted two Decisions for establishing working groups: (1) Working Group for implementing the Action Plan for Public Investment Management, and (2) Working Group for undertaking preparatory activities for establishing an organizational unit to perform functions related to PIM within the Ministry of Finance. Also, the Ministry of Finance has envisaged in the new functional analysis to set up new organisational unit that will deal with tasks related to public investment management. Namely, in accordance with the IMF recommendations given in the report, new functions will emerge for the MoF in the field of PIM which are not currently performed (no expertise and staff), in the area of assessment and monitoring of public investments - infrastructure projects and fiscal risk assessment on infrastructure projects.

Moreover, MoF has requested the IMF to provide TA for capacity building in the area of PIM, and agreed to start the first technical mission in mid - July 2021, aimed at defining the organizational set-up, competence, tasks and working processes of the new organizational unit for public investment management in the MoF in order to amend the acts for systematization and organization of the MoF.

Measure 5: Developed capacities for compilation of EDP notification tables

This measure will be implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics within the project on Improving the Production and Dissemination of Statistics, financed under IPA 2017.

The following activities were implemented:

- ✓ Inventory of data sources and methods used for the compilation of non-financial accounts for general government and EDP statistics was updated;
- ✓ Experimental calculation based on the existing information for compilation of Questionnaires related to EDP tables 1.1, 1.2 3 and 5
- ✓ Work on Memorandum for cooperation between SSO, Ministry of Finance and National Bank - deadlines for submitting of available data among the institutions.
- ✓ Work on consistency between transmission table 25, 2 and the EDP notification tables.

4.4. Priority 4: Budget Execution

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

The World Bank has carried out Pre-Identification mission on potential lending for IFMIS project from January 25 to February 05, 2021. The goal was to undertake an in-depth analysis of the PFM sector in order to identify the constraints, opportunities, potential for future development in this area and the role of the bank in this process.

Furthermore, in this reporting period the working group coupled with experts from World Bank has actively worked on updating the document - IFMIS Functional and Technical Requirements, which will set the basis for the upcoming tendering process.

Measure 3: Strengthening debt management

Latest amendments of the Law on Public Debt (Official Gazette of the Republic of North Macedonia No. 98 of 21.05.2019) envisage the development of a public debt management strategy as a separate document. The latest Strategy for public debt management 2022 - 2024 with outlook up to 2026 was prepared by MoF and adopted by the Government on the Government session held on 1st of June 2021. In addition to this, the 2020 Annual

Report for public debt management was adopted by the Government on 22nd of June 2021. Due to the crisis with the pandemic, the planned activities for the sustainability of the public debt have been postponed and they are planned to be realized by the end of 2021. The Department within MoF responsible for debt management lacks qualified staff. During the first six months of 2021, one person is employed in the field of public debt management.

Measure 4: Strengthening public procurement system

In May 2021 a Law Amending the Law on Public Procurement was adopted and published in "Official Gazette of the Republic of North Macedonia" no. 87/21.

In this period Public Procurement Bureau continued the process of updating procurement brochures and rulebooks, as well as Frequently Asked Questions.

In a direction of strengthening the capacities of the contracting authorities and procurement officials, PPB continued with organizing trainings, which due to the COVID-19 crises, were organised as online trainings.

In the period January–June 2021, PPB organized 9 regular trainings for education, which were attended by 190 participants and 3 trainings for recertification, which were attended by 53 participants.

Additionally, PPB conducted training: Public Procurement - preparation of tender documentation and technical specifications, which was in organization of the Academy of Judges and Public Prosecutors - Pavel Shatev.

As the PPB is a beneficiary institution in the twinning project Strengthening the functions for planning, execution and internal control of the budget, in this period, most of the planned activities were in process of realization.

In this direction, an Analysis of public procurement certification system of Republic of North Macedonia is in final phase of preparation. As a result, the new possibilities and ways for redesigning the educational training programme and developing additional dedicated trainings are in consideration. The main objective remains improvement of the knowledge and skills of officials engaged in public procurements and subsequently improvement of the implementation of public procurement law.

Analysis of the institutional framework of the public procurement system of the Republic of North Macedonia and Assessment report on existing public procurement tools and user needs in North Macedonia, are also in final phase of preparation.

It is expected further development of the methodological guidance and tools with a view to identified gaps in the existing ones and user needs.

In this period, preparation of an overall Strategy for development of the Public Procurement System for the period 2022-2026 has started. In this direction, PPB initiated establishing of working group with members of the following institutions: Public Procurement Bureau, State Commission for Public Procurement Appeals, Commission for Protection of Competition, State Audit Office, State Commission for Prevention of Corruption, Ministry of Economy, Ministry of Finance, Ministry of Justice and Secretariat for European Affairs. The working group held several meetings and final concept of the Strategy was agreed. The activities for drafting the Strategy will continue and it is expected to be completed by the end of 2021.

In relation to e-Marketplace and e-Catalogues and SAC processing system (EU support Project (FWC SIEA 2018- LOT 2: Infrastructure, sustainable growth and jobs, EuropeAid/138778/DH/SER/multi), during the period January-June 2021, PPB and the contractor engaged actively to develop the concept of e-marketplace for small value procurement, including design and functions of the system. Development is ongoing and we expect that the e-marketplace will be ready to launch as pilot project for a number of items in September/October 2021.

The IPA Project for SAC appeals processing system for improvement of the electronic archive, the system of legal protection of public procurement, the complete electronic system for interoperability, and the development of the new web page are in the final stage and are already developed, and this process will continue in the following period until their completion.

Measure 5: Effective PPP and concessions system

In order to establish an effective system for public-private partnership and concessions and legislation in accordance with European legislation, in cooperation and with the technical assistance of the World Bank and the EU Twinning Project, a new Law on Public-Private Partnership is being drafted. Apart from assisting in the preparation of a new law, the project also includes preparation of bylaws, manuals, trainings, as well as the preparation of a technical specification for the establishment of a Unified Electronic PPP system. Correspondence tables and the text of the draft law have been sent to Brussels for comment and have been harmonized following the comments received from the EC and SIGMA. The text of the law has been published on ENER, opinions have been received from the CSO sector and other stakeholders, a public debate has been held in April 2021 and harmonization of the text with the comments and remarks received is underway. The new draft PPP Law is expected to enter the governmental procedure for adoption in the next months.

In the forthcoming period, activities related to preparation of the bylaws for full harmonization with the EU legislation will continue.

In parallel, meetings were held with IT experts from the World Bank on the Single Electronic PPP system. The technical specifications for the modules needed to ensure implementation of the overall procedure for awarding agreements related to the establishment of a public-private partnership from the announcement to the conclusion of the agreement, which will generate a register of concluded agreements were prepared.

Measure 6: General Government Accounts established in accordance with ESA 2010 and made available for policy makers

This measure is implemented as part of the Component 1: Further alignment with the EU standards in the field of macro-economic statistics, within the IPA 2017 project on Improving the Production and Dissemination of Statistics.

During the period from 05-14 May 2021 one mission was carried out.

The following activities were implemented:

- ✓ Analysis of quality of the data sources for table 25 information received from Ministry of finance and Central Register: types, valuation, timeliness, completeness and consistency with NA requirements according to ESA 2010 requirements. During the mission all data received from the Ministry of Finance were checked and analysed and also the adjustments and data for the extra budgetary units.
- ✓ Compilation method based on newly derived information, data analysis, discussion of experimental calculation based on existing information for Table 25.
- ✓ Analysis of the experimental calculation based on the existing information, table 25 - sources and timetable.
- ✓ Checking of consistency of taxes, current and capital transfers in Table 25, Table 2 and EDP notification tables

Measure 7: Strengthening statistical services

This measure is implemented as part of the Component 4: Further improved Information and Communication Technology (ICT) infrastructure, within the IPA 2017 project on Improving the Production and Dissemination of Statistics

As part of the activity Outsourced software development of IT system, maintenance and support, in the reporting period, the first modules of the IT system were deployed in SSO and are being tested by IT staff.

4.5. Priority 5: Transparent Government Reporting

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 Ministry of Finance continuously publishes the data on the website, as well as continuously updates the data on the web portals created to increase transparency.

In February 2021, the Ministry of Finance launched a new tool for transparency on the website of the Ministry of Finance: Fiscal counter (daily data for cumulative realization of revenues, expenditures, capital expenditures and government debt).

The Ministry of Finance participated in the preparation of the Information with the status of realization of economic measures for dealing with KOVID-19 which was published on the website: www.koronavirus.gov.mk in April 2021.

In April 2021, Ministry of Finance announced Tax Compliance Calendar on its website, a new tool on transparency and increased certainty of the business climate in the country. All envisaged changes in the tax regulations, to be undertaken by the end of the year, are contained in the Calendar. The goal is to inform the business community, as well as the general public, for they to be able to plan their activities more efficiently and more effectively throughout the year.

4.6. Priority 6: Internal Control

At the beginning of January 2021, the draft PIFC law was submitted to the Parliament of the RN Macedonia for its adoption in two phases, of which first phase is completed.

Within the twinning project "Strengthening the budget planning, execution and internal control functions" the activities for establishing national certification of internal auditors has started.

For this purpose, a Concept Note on the model of the National Certification Program for Internal Auditors was prepared. Based on it, a Draft Rulebook for conducting training and exam and a program for obtaining a certificate for certified internal

auditor have been prepared. This Rulebook will be adopted by the Minister of Finance after the adoption of the PIFC Law.

Within the twinning project, a Training Needs Analysis was prepared for the employees in the Financial Affairs Units, the Internal Audit Units and the CHU, as well as a Training Program. Also, a Draft Guidelines for preparation of internal acts on the manner of planning, preparation and execution of the budget / financial plan, accounting and financial reporting has been prepared, as part of the new manual for FMC and Draft - Guidelines for preparation of internal procurement acts and concluding contracts.

A Draft Law on the Academy of Public Finance has been prepared. A Procedure for collecting opinions from the competent institutions is underway, after which the law will be submitted to the Government of RN Macedonia for adoption.

4.7. Priority 7: External Control and Parliamentary Oversight

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

SAO capacities for conducting performance audits are constantly upgraded. The 2021 Annual Work Program contains 9 performance audits. The areas covered by the performance audits should provide active contribution of the SAO by giving recommendations to competent authorities on the manner of their conduct and using the public funds, health and social issues, natural resources and environmental protection.

To meet the challenges faced due to the COVID-19 pandemic, 2021 SAO Work Program contains 4 performance audits on government economic measures, government borrowing and public debt management, employment support for the professions that were most affected by the consequences of the pandemic, as well as measures and policies for support of the tourism sector.

SAO has submitted the 2020 Annual Report on performed audits and to the Assembly of Republic of North Macedonia within the legally prescribed deadline until end of June 2021 and also made available on SAO website (www.dzr.mk) in three languages (MK, ALB and EN).

In June 2021, the State Audit Office and the United Nations Body for Gender Equality and the Empowerment of Women - UN Women signed a Memorandum of

Understanding and Cooperation, in order for both parties to cooperate in promoting the implementation of gender equality obligations in accordance with national laws and policies as well as international commitments and promoting gender responsive public funds management and accountability through the systematic implementation of gender responsive budgeting. In order to meet the set goals, a series of workshops have been attended by all SAO employees. SAO participants that attended the training on gender responsive budgeting and mainstreaming gender in audit work organized in Struga, received certificates for their attendance. SAO is one of the institutions in which there is a high degree of gender balance, both in the management of the institution and among the certified state auditors.

In order to enhance the legal framework relevant to state audit, activities has been taken under the Twinning Project "Improving external audit and parliamentary oversight" related to ensuring constitutional, financial and operational independence of SAO and improving the institutional and human resources capacity of SAO:

Methodology acts for improved performance audit, IT audit, follow-up of audit recommendations, based on the recommendations of the previous IPA 2013 twinning project, are under preparation.

Under the Twinning Project, activities for preparing analysis report with proposals on improvement of the SAO organizational structure and human resources capacity have started.

It the reporting period, SAO representatives participated in several international events for professional development and exchange of experience to improve the audit impact.

Measure 2: Improved scrutiny over the budget by the Parliament

As part of the activities arising from the Twinning Project "Improving External Audit and Parliamentary Oversight", high level delegations of the SAO of Republic of North Macedonia and the SAO of Republic of Croatia participated on a meeting with the President of the Assembly of the Republic of North Macedonia Mr. Talat Xhaferi to present a draft Memorandum of Understanding between the Assembly and the SAO, emphasizing the need to strengthen cooperation between the two institutions, especially for reviewing and acting on the submitted audit reports.

Analysis report with recommendations for improving the SAO interaction with relevant stakeholders was produced within the Twinning Project activities, aiming to establish good cooperation among stakeholders to increase mutual efficiency and

benefits that ultimately lead to strengthening public confidence in institutions and more efficient use of public resources.

Action Plan on how to improve cooperation between the Assembly and SAO for reviewing audit reports in line with the strategic documents of both institutions is under preparation and is expected to be finalized in 2022.

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.

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*

In addition, the 2021 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 a 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 SWG for PFM has finalised the proposal of indicators to be included in the PAF system.

Strong political commitment as regards the fulfilment of the reform goals set in the 2018 - 2021 PFM Reform Programme is ensured through the PFM Council.

In April 2021 the PFM Council has conducted one consultation following a written procedure on the draft Monitoring Report on Implementation of the 2020 Action Plan for PFM Reform Programme for the period January–December 2020 and draft 2021 action Plan for Implementation the PFM Reform Programme.

The SWG for PFM is established with the Decision from the Minister of Finance and comprises of representatives from all relevant PFM and other related institutions (MoF, 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 also 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.

The IPA and NPAA Unit within the MoF represent the Coordination Unit, acting as a technical secretariat to support functioning of the PFM Working Group and PFM Council. In general, its tasks 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.

Meetings of the PFM SWG are held regularly 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 (civil society, business sector, academia, EC and other donors, IFI's and other international partner's active in the sector).

The PFM policy dialogue was held on 19 th March 2021, which was attended by members and observers of the SWG for PFM.

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

Annexes

Annex 1: Performance Indicators Matrix on the 2021 Action Plan for PFM Reform Programme

Annex 2: Risk assessment of the 2021 Action Plan for PFM Reform Programme