REPUBLIC OF NORTH MACEDONIA

MINISTRY OF FINANCE

DRAFT
Public Financial Management Reform Programme

„SMART PUBLIC FINANCES“

2022 – 2025

PREFACE

Public financial management is a challenge in particular in times of turbulent economic environment imposed by the COVID-19 pandemic which emerged in 2020, causing not only a health, but also a socio-economic crisis, derailing almost all economies from their pre-crisis growth trajectory. There is still great deal of uncertainty worldwide related to the duration and the intensity of this non-economic shock. To mitigate the economic shock triggered by COVID-19 pandemic, the Government responded in a promptly manner by adopting a number of sets of economic measures through targeted and timely support aimed at protecting the liquidity of companies, preserving jobs and ensuring social protection for the unemployed and the vulnerable households. Coordinated government response helped maintaining the economic flows and preventing even more considerable deterioration of the socio-economic parameters. International development partners contributed significantly to making policies with concrete proposals and ensured financial resources for the measures related to coping with the crisis.

Undertaken economic measures have caused for government expenditures to increase due to the expansionary fiscal policy, postponing the medium-term framework for the projected fiscal targets, with budget deficits and public debt increase. All this highlights the importance of public finance sustainability, strongly urging the need to balance the short-term stabilisation objectives and the need for long-term fiscal sustainability by rationalizing public expenditures in the medium term, as well as measuring the results from expenditure execution to the end of increasing spending efficiency and reaching fiscal sustainability in the medium term.

Further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural reforms, but also as a process which improves the quality of the public administration and ensures an attractive and desired environment for the investors.

The Programme is based on the SMART public finance concept, as one of the priorities of the Government. SMART finances will be a public financial management system based on clear strategy, which will be maintainable, accountable, reform-oriented and transparent. Under this system of SMART finances, public finance reforms will be implemented in terms of longer-term and better quality planning of the budget programmes and the budgets, it will be continuous, i.e. maintainable, and will be continuously aimed at improving the transparency. From the point of view of economic philosophy or political economy, this will mean aiming at more just model of public finances from the point of view of revenues, expenditures and the manner of financing, i.e. in other words, how the funds are collected in the Budget and how citizens' money is spent. The focus is put on re-orienting the traditional budgeting to performance-based budgeting and introducing multi-annual budget framework. Key indicators for SMART system efficiency are defined so as to assess the achievement of the goals and the results from the implementation.

One of the main pillars of this system has to be transparency and accountability of public finances. In recent years, transparency has been the "key word" in the politics, but its real value for public finances is that it is the highest level of fiscal control. You provide information to the public in a simple and understandable manner – the public judges and decides whether it is a right or justified or legal decision.

Dr. Fatmir Besimi, Minister of Finance

ACRONYMS AND ABBREVIATIONS

AEO	Authorized Economic Operator
CRM	Compliance Risk Management
CHU	Central Harmonisation Unit
CA	Customs Administration
ENER	Electronic National Register of Regulation
ERP	Economic Reform Programme
ESPP	Electronic System for Public Procurement
GDP	Gross Domsetic Product
IMF	International Monetary Found
IFMIS	Integrated Financial Menagement Information System
ITIS	Integrated Tax Information System
ICT	Information and Communication Technology
INTOSAI	International Organisation of Supreme Audit Institution
MoF	Ministry of Finance
ME	Ministry of Economy
MASP	Multiannual Strategic Plan
OECD	Organisation for Economic Cooperation and Development
OBL	Organic Budget Law
PFM	Public Financial Menagement
PEFA	Public Expenditure and Financial Accounntability
PRO	Public Revenue Office
PPB	Public Procurement Bureau
PPP	Public Private Partnerships
PIM	Public Investement Menagement
PIFC	Public Internal Financial Control
PIMA	Public Investment Menagement Assessment
PAR	Public Administration Reform
SIGMA	Support Expenditure and Financial Accounntability
SWG	Sector Working Group
SAC	State Appeals Commission
SAO	State Audit Office

TADAT	Tax Administration Diagnostic Assessment Tool
UESPPP	Unified Electronic Public Private Partnership System
VAT	Value Added Tax
WB	World Bank

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Introduction

Public finance reforms aimed at improved fiscal framework, strengthened process of public finance planning, execution and reporting, increase revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, are identified as one of the key goals of the Government, which is to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens.

Public Financial Management Reform Programme 2022-2025 (hereinafter PFM Reform Programme) is a strategic document for development of the public financial management system, pursuing the already commenced reforms in the previous four-year period. The first PFM Reform Programme 2018-2021 was adopted at the end of 2017, introducing a first-ever comprehensive, consistent and credible framework on improving efficiency and effectiveness of public spending, fiscal discipline, debt sustainability, and efficient, transparent and modern public financial management, set as key objectives of the Government. When preparing the Programme, civil society, donor community and other relevant stakeholders were included in the process. This concept of inclusiveness and open dialogue about public finance policies with all stakeholders will be also applied, as a good practice, for the respective 2022-2025 Programme.

The new PFM Reform Programme highlights the significance of the previous one and the need for reforms in this area to continue. The Programme is based on thorough analysis of the circumstances through internal analyses by the relevant national institutions, as well as PEFA mission findings and assessments, which took place in the period April-May 2021, recommendations given by experts from both the IMF - Fiscal Affairs Department and the World Bank on prioritisation of future reforms, assessment of OECD - SIGMA on the basis of the Principles of Public Administration, which took place in March 2021, as well as other specific external diagnostic assessments.

Preparation and implementation of the new PFM Reform Programme 2022-2025 is based on a sectoral dialogue, introduced with the previous PFM Reform Programme, on the policies with all stakeholders. The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public financial management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Political and institutional commitment to attaining the reform goals under the new Public Financial Management Reform Programme 2022-2025 is demonstrated through the structures of the monitoring and reporting system as regards the set results, indicators and targets, previously set under the PFM Reform Programme 2018-2021 (PFM Council comprising the top managements of the key institutions in the public financial management system, PFM Sector Working Group and Priority Coordinators and Measure Leaders are established and functioning). These working bodies also ensure the necessary coordination among certain strategies and policies in the field of PFM, as well as with the other related national strategies, such as the Public Administration Reform Strategy.

PFM Reform Programme 2022-2025 has been prepared by the PFM Sector Working Group, comprising representatives from the following institutions: Ministry of Finance, Public Revenue Office, Customs Administration of North Macedonia, Public Procurement Bureau, State Appeals Commission, State Audit Office and Ministry of Economy.

Chapter I: Background of the PFM Reform Programme

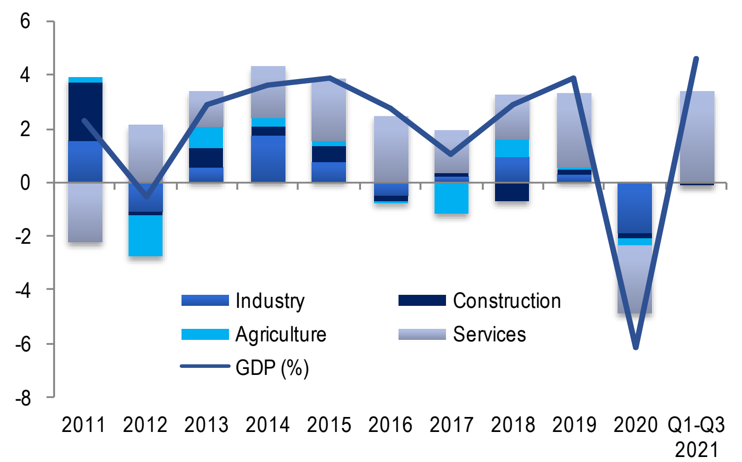
The economic context

New investments, new jobs and a better living standard of citizens are the key socio-economic goals of the Government, which are supported by a competitive and an integrated economy as noted in the Europe 2020 – Strategy for smart, sustainable and inclusive growth.

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

In 2020, the economic activity recorded a decline by 6.1%. The substantial worsening of the global economic environment and the fall of external demand caused by the health crisis affected the activity by domestic exporting companies and the industrial production, as well as the inflow of private transfers from abroad, whereas the restrictive measures to contain the spread of the COVID-19 pandemic across the country impacted some of the service activities, such as trade, transport, hospitality industry and tourism. As a result, the domestic economy, similarly to the global economy, faced one of the deepest recessions so far.

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



Source: State Statistical Office and calculations by Ministry of Finance

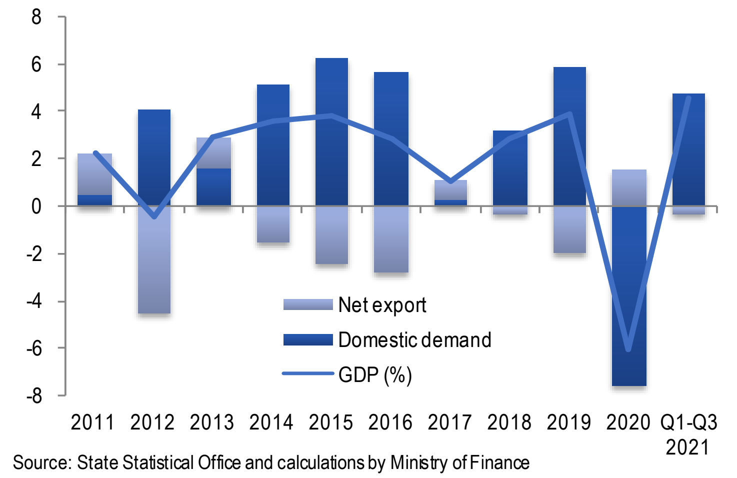
Fiscal policy's response to the pandemic was quick and significant in supporting the companies and employees in the most severely affected industries, and vulnerable groups through six packages of economic measures worth a total of over 1 billion euros.

The fall of economic activity was substantially mitigated through fiscal policy's responsiveness by lessening the decline of income, private consumption and employment resulting from the pandemic, as well as by boosting stronger growth of public consumption.

In 2021, despite the protracted pandemic effects, the domestic economy is recovering with solid dynamics, with the economic growth in the first three quarters being 4.6%. The economic growth in this period largely accounts for the activity in the services sector, which recorded a real growth of 5.4%, exclusively driven by the high growth of trade, transport and hospitality industry by 15.9%, which are services that were most severely affected by the pandemic. Analysed according to the expenditure side of GDP, the economic growth in the first three quarters of the year was a result of the increased domestic demand in conditions of recovered private consumption and risen gross investments. Consumption grew by 4.5% in real terms, mostly driven by the growth of private consumption by 4.8% amidst rising wages, increased remittances from abroad and the government measures to support the economy, whereas the public consumption increased by 3.3%. Gross investments recorded a real growth of 3.4% as a result of the high growth in the second quarter. Export of goods and services

Export of goods and services swiftly recovered and in the first three quarters of 2021 increased by 16.6% in real terms, which mainly reflects the recovery in the global production chains and the growth of external demand. Import of goods and services grew by 14.1% in real terms, driven mostly by the stronger import of intermediary goods.

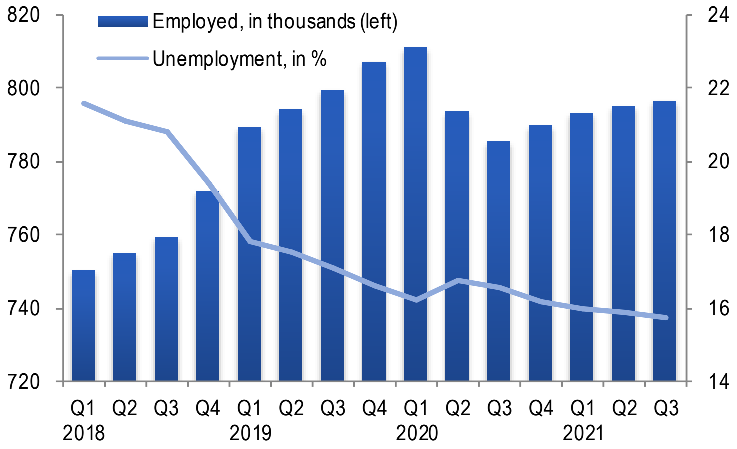
Chart 2. Expenditure structure of GDP (contribution to growth, p.p.)



Source: State Statistical Office and calculations by Ministry of Finance

The positive movements on the labour market continued in 2021, with the unemployment dropping down to the lowest level of 15.7% in the third quarter. The average gross wage in the period January – September 2021 increased by 5.8% compared to the same period in 2020. Achievements in the first half of the year are a real basis for the achievement of the projected GDP growth of 4.1% for 2021.

Chart 3. Number of employees and unemployment rate



Source: State Statistical Office

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

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

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

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

After the economic recovery in 2021, the economic growth in 2022 is expected to intensify and amount to 4.6% in conditions of rising investment, solid consumption growth and stabilising of the external demand.

Economic policies and measures included in the Plan for fiscal sustainability and support to economic growth, the Plan for public investment and the Plan for accelerated economic growth as a general framework are a firm basis for increasing the growth potential and achieving higher growth rates in the mid-term, i.e. doubling the economic growth. According to the baseline scenario, the average growth of the economic activity in the period 2022 – 2026 is expected to reach 5.4%, driven by domestic demand, while the net export is projected to have negative contribution to economic growth, which gradually will tighten in conditions of projected economic growth, as well as growth of the export and import activities.

The fiscal context

Budget implementation in 2021

In 2021, total revenues of the Budget of the Republic of North Macedonia[1] were collected in the amount of Denar 218.5 billion or approximately 98.2% of the 2021 Budget, i.e. they were higher by 15.3% compared to the collected ones in the last year. Denar 125.7 billion out of this amount was tax revenues, being higher by 17.6% compared to last year. All types of tax revenues experienced growth compared to the last year. Revenues on the basis of social contributions were collected in the amount of Denar 70.6 billion, being higher by 6.1% than last year.

In 2021, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 257.3 billion, or around 95.7% of the 2021 Budget, i.e. execution was higher by 5.7% in relation to the last year.

Within these frameworks, current expenditures amounted to Denar 233.9 billion or 97.9% of the projections, i.e. by 2.9% more compared to 2020.

In 2021, capital expenditures were executed in the amount of Denar 23.4 billion (78,4%), being higher by Denar 7.3 billion or 45.3% compared to the last year. Under the Annual Law on 2021 Budget Execution, new mechanism was put into place, being aimed at executing the capital expenditures, by which budget users are obliged to execute 15% of capital expenditures as of the first quarter inclusive, 40% of capital expenditures as of the second quarter inclusive and 65% of the

[1]Pursuant to the 2021 Modifications and Amendments to the Budget of the Republic of North Macedonia ("Official Gazette", no. 171/21)

capital expenditures as of the third quarter inclusive. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, for the account of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures.

During this period, the State Budget deficit amounted to Denar 38.8 billion or 5.4% compared to the GDP projected in 2021, while the primary budget deficit accounted for 4.1%.

On 31st December 2021, general government debt of the Republic of North Macedonia amounted to EUR 6,080.2 million, i.e. 51.9% of GDP, while public debt, on 31st December2021, amounted to EUR 7,135.3 million, i.e. 60.9% of GDP.

Policy strategy and medium-term budgetary outlook

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

2022-2026 Fiscal Policy reflects the commitment to fiscal sustainability, supporting the economy with investments in infrastructure projects, redesigning the public finance structure by increasing the share of capital expenditures, as well as strengthening the process of planning, executing and reporting as regards public finance, which is to contribute to maintaining macroeconomic stability and gradual fiscal consolidation.

Key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026.

Main priorities as regards the tax system are increased fairness in taxation, increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through many digital services, as well by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on a regular basis. In the period 2022-2026, the average share of total revenues of the Budget of the Republic of North Macedonia accounts for around 31.4% of GDP.

The Expenditure side of the Budget of the Republic of North Macedonia, in the next period, is fully created in terms of achieving the strategic priorities, accelerating the economic growth, and the EU integration process and the obligations deriving from the NATO membership and similar. Average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 34.4% of GDP in the period 2022-2026. According to the latest Revised Fiscal Strategy 2022-2026, capital investments are increased in the structure of total expenditures: 2022-14%, 2023-14.3%, 2024-15.8%, 2025-16.6% and 2026-17.3%.

Table 1. 2022-2026 Budget of the Republic of North Macedonia (Denar million)

	Final account 2020	2021*	2022*	2023*	2024*	2025*	2026*
Total revenues	**189,554**	**222,542**	**238,900**	**255,756**	**280,655**	**304,977**	**330,975**
Tax revenues and contributions	**173,464**	**193,068**	**210,829**	**227,668**	**252,547**	**276,169**	**301,757**
Tax revenues	106,900	123,873	136,458	148,126	167,448	185,124	204,350
Contributions	66,564	69,195	74,371	79,542	85,099	91,045	97,407
Non-tax revenues	**11,173**	**17,586**	**19,171**	**19,089**	**19,609**	**20,009**	**20,419**
Capital revenues	**1,846**	**3,187**	**3,330**	**3,330**	**3,730**	**4,030**	**4,030**
Donations	**3,071**	**8,701**	**5,570**	**5,669**	**4,769**	**4,769**	**4,769**
Total expenditures	**243,421**	**268,772**	**272,428**	**284,208**	**306,460**	**329,247**	**353,853**
Current Expenditures	**227,306**	**238,968**	**234,192**	**243,558**	**258,103**	**274,689**	**292,502**
Wages and Allowances	29,775	31,594	32,679	33,540	34,040	36,040	39,040
Goods and Services	15,423	21,965	20,656	21,517	23,317	25,817	28,817
Transfers to LGUs	21,373	21,329	22,321	23,423	25,071	27,140	30,151
Subcidies and transfers	34,905	32,075	23,967	25,319	31,319	34,675	38,175
Social Transfers	117,799	122,627	124,497	129,385	134,247	139,809	145,577
Interest payments	8,031	9,378	10,071	10,374	10,109	11,208	10,742
Domestic	2,742	2,949	3,603	3,904	4,151	4,471	4,782
Foreign	5,289	6,429	6,468	6,470	5,958	6,737	5,960
Capital expenditures	**16,115**	**29,804**	**38,236**	**40,650**	**48,357**	**54,558**	**61,351**
BUDGET BALANCE	**-53,867**	**-46,230**	**-33,529**	**-28,452**	**-25,805**	**-24,270**	**-22,878**
Primary budget balance	**-45,836**	**-36,852**	**-23,458**	**-18,078**	**-15,696**	**-13,062**	**-12,136**
Total revenue,% of GDP **	**28.5**	**31.5**	**31.0**	**31.1**	**31.4**	**31.6**	**31.8**
Total expenditures,% of GDP **	**36.7**	**38.0**	**35.2**	**34.6**	**34.3**	**34.1**	**34.0**
Budget balance,% of GDP **	**-8.1**	**-6.5**	**-4.3**	**-3.5**	**-2.9**	**-2.5**	**-2.2**
Primary budget balance,% of GDP	**-6.9**	**-5.2**	**-3.0**	**-2.2**	**-1.8**	**-1.4**	**-1.2**

Source: Ministry of Finance and projections by the Ministry of Finance (*)

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

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

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

- increasing the efficiency of the public administration operations by optimising and rationalising the working posts,
- more efficient use of operating resources by improving the planning and the execution of operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards;
- better quality services at the decentralised competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds;
- ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers; and
- reducing poverty by properly targeting the use of social assistance and grater participation on the labour market.

- Current expenditures for the coming period are intended for regular payment of wages to employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-sized enterprises, as well as subsidising of innovation activities.

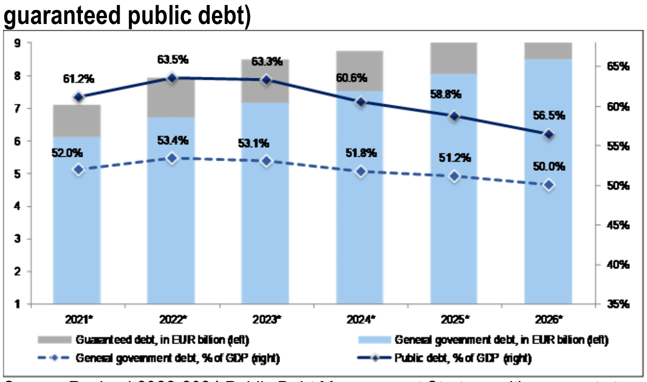
As for policy aimed at improving the capital expenditure structure and execution, the main objective is increased growth potential of the national economy, boosted competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures.

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

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

Medium-term projections presented in the 2022-2024 Revised Public Debt Management Strategy (with prospects until 2026), show that public debt will exceed the maximum threshold of 60% in the period 2022-2024, however, as a result of the fiscal consolidation measures, it is expected to stabilise in 2024 and to return to the stipulated limit below 60% of GDP in 2025 and 2026.

Chart 4. Forecast of total public debt (government and guaranteed public debt)



Source: Revised 2022-2024 Public Debt Management Strategy with prospects to 2026

Limits on the general government debt are the following:

- in the period 2022 - 2026, the minimum threshold of euro-denominated debt in the debt portfolio denominated in foreign currency should be 85%;
- in the period 2022 - 2026, limit on the interest rate structure of general government debt, i.e. fixed interest rate debt should account for at least 60% of the total debt portfolio;
- in order to protect the central government debt portfolio against the re-financing risk, the minimum threshold of "average time to maturity“ indicator in 2022 should be 4 years;
- in order to protect the central government debt portfolio against the interest rate risk, the minimum threshold of "average time to re-fixing” indicator in 2022 should be 3 years;
- the limit for maximum net borrowing on the basis of general government debt is set to amount to up to EUR 750 million in 2022;

- the limit for maximum net borrowing on the basis of guaranteed debt is set to amount to up to EUR 250 million in 2022.

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

Strategic framework of the PFM Reform Programme 2022-2025

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

- Fiscal Strategy/revised Fiscal Strategy of the Republic of North Macedonia 2022-2024 with prospects until 2026;
- Public Debt Management Strategy 2022-2024 (with prospects until 2026);
- Economic Reform Program 2022-2024;
- IPA III Strategic Response in the period 2021-2027.

PFM sub-systems' strategies:

- Strategy for Strengthening Public Procurement System in the Republic of North Macedonia 2022-2026;
- Strategic Plan of the Customs Administration 2021-2023;
- Customs Administration's Strategy for ICT Development 2021-2025;
- PRO Strategic Plan 2022-2024;
- SAO Development Strategy 2018–2022.

Implementation of the Public Financial Management Reform Programme 2018 - 2021

Over the last four years, Ministry of Finance and other national institutions implemented a very ambitious agenda for PFM reforms, as part of the Public Financial Management Reform Program 2018-2021. Efforts were geared towards strengthening the legislation in several main areas: planning and budgeting, public procurement, public internal financial control and public debt management.

Four Action Plans on Implementation of PFM Program for 2018, 2019, 2020 and 2021 were adopted and realized. Annual/semi-annual reports were prepared for their realization, being discussed with the Sector Working Group for PFM, which were afterwards approved by the PFM Council and considered and adopted by the Government. They are published on the website of the Ministry of Finance (in Macedonian and English).

National institutions implemented the following significant activities:

- MoF submitted the new draft Organic Budget Law to the Government at the end of December 2020, being adopted by the Government on 19th January 2021. Afterwards, the draft Organic Budget Law was submitted to the Parliament, for adoption. At the end of March 2021, the first reading of the new Law was completed by the parliamentary commissions, with the second reading thereof being in progress. MoF starts to prepare the relevant legislation so as to be implemented, with support from the ongoing Twinning Project "Strengthening the Functions of Budget Planning, Execution and Internal Control", as well as with other donor's assistance.

- New draft Law on Public Financial Control System was adopted by the Government on 28th December 2020. At the beginning of January 2021, the draft Law was submitted to the Parliament for its adoption under two readings, the first one being already completed.
- PIFC Policy Paper 2019 -2021 with the respective Action Plan, was adopted in March 2019.
- New Law on Public Procurement was adopted in January 2019, which entered into force in April 2019. All by-laws pertaining to the implementation of the new Law, were adopted. Public Procurement Bureau prepared and announced, on its website, updated brochures and guidelines, covering the Law on Public Procurement, as well as the Frequently Asked Questions related to its implementation.
- Amendments to the Law on Financial Inspection in the Public Sector were adopted in September 2018, thus simplifying the manner and the conditions for staffing of the Department for Financial Inspection in the Public Sector.
- New Law on Public Procurement in the Field of Defence and Security, was adopted in August 2019. In October 2020, the bylaw arising from the new Law on Public Procurement in the Field Of Defense and Security, was also adopted.
- Strategy for Development of the Public Procurement System in the Republic of North Macedonia was prepared
- The Draft Law on Public Private Partnership (PPP) was prepared and should be submitted in governmental procedure.
- Initial version of the draft Law on Concession for Goods of General Interest was prepared by the Ministry of Economy.
- Fiscal Strategy 2022 - 2024 with prospects until 2026 was adopted by the Government on 1st June 2021.
- Amendments to the Law on Public Debt as of May 2019, stipulate development of Public Debt Management Strategy, as a separate document. Public Debt Management Strategy 2022 - 2024 with prospects until 2026 was prepared by MoF and adopted by the Government at the Government's session held on 1st June 2021, followed by the revised Public Debt Management Strategy, as adopted by the Government on 4th December 2021. In addition, the 2020 Annual Public Debt Management Report was adopted by the Government on 22nd June 2021.
- Tax System Reform Strategy was officially adopted by the Government at the end of December 2020, upon two public consultations with the relevant stakeholders in February and December 2020. 2021 Action Plan on Implementation of the Tax System Reform Strategy was adopted in the second half of March 2021. This Strategy is implemented as part of the IPA 2018 Twinning Project "Improving Revenue Collection and Tax and Customs Policy".
- Implementation of the Integrated Financial Management Information System (IFMIS) is the top priority for MoF according to the PFM agenda. IFMIS is regulated under the new Organic Budget Law, being the basis for its implementation. Most of the ongoing activities related to IFMIS are being developed.

- In December 2020, the Government adopted the Action Plan on Implementation of the Recommendations for Public Investment Management Assessment (Action Plan on PIM), covering the activities, which should be implemented in the period 2021-2024.

Lessons Learned

General lessons learned pertaining to the implementation of PFM Reform Programme 2018-2021 as a whole:

- Coordination in the preparation of annual/semi-annual reports between the members of the Sector Working Group and the stakeholders for each priority was not fully efficient: although good progress was achieved, efficiency and effectiveness were not achieved to their fullest. Monitoring and reporting on achievements and challenges in the course of Programme implementation was limited, focusing on the progress achieved at certain measures, rather than the priority as a whole. Moreover, sometimes it was difficult to precisely determine the level of timely or delayed completion of the activities due to aggravated working conditions caused by COVID-19 pandemic. What is important is that most of the priorities are to a large extent on the right path as regards the implementation of the ongoing activities.
- Focusing on results, rather than activities - assessment of the progress in the reforms in terms of achieving the priority goals grew difficult, since the indicators and the annual targets were formulated at activity level, rather than on results. Indicators at level of results should reflect the progress achieved as a result of reforms implemented.
- Need for a more realistic planning - from today's perspective, it can be concluded that the process of planning the deadlines for implementation of part of the activities were too ambitious, with the deadlines not being sufficiently well projected. Hence, it is concluded that the reform plan is to be ambitious, but realistic and attainable at the same time in terms of allocated financial resources, i.e. sufficient resources from the state budget, as well as from donor funds. Strengthened monitoring over the implementation and improved reporting on the status of implementation of the planned activities is an important segment for the purpose of their better implementation.
- Calculation of the costs related to implementation of the activities was detailed, including the estimated costs for the ongoing operations of the administration, making the monitoring of the use of funds under the Programme more difficult. Moreover, monitoring the use of funds from external sources of financing (technical assistance and donor funds) was also made difficult due to lack of information from the donors.
- Human resource management is a huge challenge. Hiring and retaining qualified personnel is a problem in particular for IT and other key sectors, such as, public debt management, PPPs, tax projections, budget planning, which could adversely affect the implementation of both the projects and the reforms. Despite the built capacities and carried out training, large fluctuation in personnel adversely reflects on the sustainability/viability of the achieved results. In the course of implementation of the activities related to strengthening the administrative capacities of the public administration, certain difficulties occurred related to the measures for fiscal consolidation and control over the employment in the public administration system, mostly induced by COVID-19 pandemic. Systemic solution is to be adopted related to retaining the public administration staff. It is partially done with the adoption of a decree on right to wage allowance for the employees at the central-level budget users.
- It is indispensable to ensure programming flexibility and adjustability so as to improve the results. Preparation of annual action plans has provided therefore, however, it is important for the underlying Programme to focus on determining the goals and the results, rather than

the activities and the outputs, so as for the public to recognise it as prioritizing and sequencing, rather than as modifying the Programme.

- “Small steps lead to big results”. Considering the nature of the PFM sector, reforms are a slow process and small achievements should be valued and appropriately presented.
- Need for integrated instead of fragmented approach is of essence for reform planning and implementing. Cooperation and information sharing are to be encouraged among the relevant institutions included in the PFM reform to the end of harmonizing, as well as consistency of, the reform activities in different areas and maximizing the value added.
- Consolidation and harmonisation of different IT systems is of considerable importance in order to avoid duplication and achieve economies of scale.
- Strengthening the process of coordination of donors and providers of technical assistance to the end of avoiding overlapping of donor interventions. This is partially overcome by organizing high-level PFM policy dialogues, with all stakeholders, among which the donors as well, included. Information on ongoing donor assistance for the implementation of reform activities were presented and exchanged during such dialogues.

Specific lessons learned on implementation of PFM Reform Programme 2018-2021, in particular the following:

- Delays in implementing some key reform activities under the Programme as a result of delays in preparation and adoption of the necessary new legislative, for instance, Organic Budget Law and PIFC Law, the adoption of which was basis for realisation of other reform processes, such as IFMIS implementation.
- Integrated monitoring of revenues and expenditures from their projecting through their performance and execution, which will have effects on improvement of the budgeting and execution is related to introduction of IFMIS, which appeared as a quite ambitious plan, especially as a result of the technical complexity of the project and the project scope itself. Introduction and functioning of IFMIS is conditioned by the fulfilment of several pre-conditions, such as: adoption of the new Organic Budget Law, establishment of project team/IFMIS Unit within the organisational structure of the Ministry of Finance, designing bylaws regulating the implementation of specific requirements for advancing the working processes within the field of public finance to be included in the new Budget Law, designing standard budget classification/chart of accounts, etc.
- What is of crucial importance for conducting prudent fiscal policy is prudent public debt management, i.e. monitoring the public debt stock, monitoring the risks which the debt portfolio is susceptible to, as well as improving public debt transparency. In addition, quantifying and improving the contingent liabilities management were a challenge in the past period. To that end, framework for issuance of guarantees has been strengthened by adopting a Rulebook pursuant to which the Ministry of Finance, prior to giving consent for sovereign guarantee issuance, assesses the creditworthiness of the public debt issuer. COVID-19 induced crisis also reflected on the public debt amount, increasing the public debt stock by around 10 p.p.. In the coming period, more attention is to be paid on the budget consolidation measures, which will respectively reflect on gradual reduction of the public debt stock in the medium term. Moreover, the pandemic has taught us that processes need greater digitalisation, hence, activities have been commenced for digital payment of liabilities to foreign creditors.

Chapter II. Pillars, Priorities, Measures and Outcomes

PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework

PILLAR II - Revenue Mobilisation

PILLAR III: Planning and Budget

PILLAR IV - Public procurement

PILLAR V - Integrated Public Finances

PILLAR VI - Public Internal Financial Control

PILLAR VII - External Control and Parliamentary Oversight

PILLAR VIII - PFM at Local Level

PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework

Solid revenue forecasting, coupled with analysis of the tax system potential and the impact of changes in tax policy and tax expenditures, should be key to making informed decisions in tax reform strategies.

Develop tax policy tools to assess tax systems and their economic impact. Better tax revenue data, tools that assess the effective tax burdens on labour and capital, implementation of micro-simulation models, and more systematic tax expenditure reporting are key priority for revenue forecasting and reporting

Emphasis needs to be put on both increasing the analytical capacity for revenue forecasting and conducting additional key analytical inputs for revenue policy-making and tax administration monitoring.

In the area of economic analysis and macroeconomic forecasting, priorities are focused on increased capacity for economic analyses, improved skills, and introduction of new toolkit for macroeconomic forecasting.

Introduction of comprehensive fiscal risk assessment is necessary to provide information on potential threats to the country's fiscal position and provide integrated approach to managing these risks. Fiscal risk analysis will contribute to a better understanding of the public finance position, thus providing support for prudent fiscal policies, as well as strengthening risk management accountability.

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

Increased capacity for economic analyses, improved skills and introduction of new toolkit for macroeconomic forecasting.

Introduction of comprehensive fiscal risk assessment to provide both information on potential threats to the country's fiscal position and an integrated approach to managing these risks. Fiscal risk analysis will contribute to a better understanding of the public finance position, thus providing support for prudent fiscal policies, as well as strengthening risk management accountability.

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

Priority 1: Revenue forecasting and reporting

Objective

Revenue forecasting and reporting are improved to ensure a predictable and stable revenue framework over the medium term so as to better plan expenditures for the development needs of the country

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

Activity 1: Reviewing availability of data needed for revenue analysis and preparation of Action Plan for submission of the required data;

Activity 2: Preparing reports in line with EU best practices;

Measure 2: Enhancing tax and customs modelling capacity

Activity 1: Trainings in open-source programing languages (Python and R);

Activity 2: Implementation of models developed in the Twinning Project "Improving Revenue Collection and Tax and Customs Policy".

Outcome

The variance in revenue composition between planned and actual figures is reduced, indicating in particular improved forecasting of income and profit tax, VAT and excise and social security contributions.

Outcome indicator

Variance in revenue composition between planned and actual figures (as used in PEFA).

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

Measure objective

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

Reference to the external assessments findings:

IMF	**Fiscal Transparency Evaluation (2018)** Government does not publish estimates of the revenue loss from tax expenditures. There is no legislative requirement to report revenues foregone from tax expenditures. However, when proposing legislative or regularly amendments, budget users are required to provide estimates of their fiscal implications to the Government. Estimates of individual tax expenditures may also be prepared, on an ex ante and ex post basis, setting out the fiscal implications of different measures, but these are generally not published. Activities envisaged under the PFM Reform Program related to strengthening the forecasting analysis and capacity, will also provide for the development of a more comprehensive reporting on tax expenditures. Based on these findings, the evaluation provides several recommendations to enhance fiscal transparency in North Macedonia. Specifically, it recommends that the authorities publish regular

	information on estimates of revenues forgone from tax expenditures
WB	**Public Finance Review (2018)** Although not currently considered by the Government, North Macedonia could increase VAT revenue collection by expanding the base (moving towards a single-rate VAT) and improving compliance. The VAT revenue ratio or C-efficiency ratio for North Macedonia hovers at around 0.6, being low compared to Western Balkans peers. This indicates a loss in revenue through policy measures such as exemptions and reduced rates, as well as loss in revenue due to tax avoidance and evasion. Around 36 percent of the consumption basket is taxed at the standard 18% VAT rate. The remainder is taxed at a reduced 5% rate or input taxed (exempt without the right to deduct the VAT that has been paid on purchases). Applying a mix of standard and reduced rates creates opportunities for abuse, as sellers can classify goods and services as qualifying for the reduced rate when they should be subject to the standard rate. On the other hand, a broad-based VAT improves economic efficiency and administrative efficiency
IMF	**Article IV Consultation with the Republic of North Macedonia: IMF 2019/2020** Key Policy Recommendations Fiscal Policies. To increase the fiscal policy space and allow higher capital spending to meet infrastructure needs, staff recommends gradually reducing current spending and strengthening the revenue base. On the expenditure side, this should include full implementation of the pension reform and rationalizing of the agricultural subsidies. On the revenue side, additional resources can be mobilized through higher tax efficiency, in particular for VAT.

Context/Background

Estimating tax expenditures and publishing them on a regular annual basis is a practice in the European countries. In fact, according to the Directive on Requirements for Budgetary Frameworks (2011/85/EU), Member States have an obligation to provide reports on tax expenditures and their impact on revenue. Unlike in the European Union, in the Republic of North Macedonia, there was no legal obligation to date to regularly publish tax expenditures; however, under the new Organic Budget Law, this obligation is being introduced, whereby Ministry of Finance will be required to prepare a report on the impact of tax expenditures on revenues. This Report will be submitted to the Parliament of the Republic of North Macedonia on annual basis, as an accompanying document to the Annual Budget Execution Report, which shows the execution of the National Budget for the previous budget year. The publication of tax expenditures is also part of the Fiscal Transparency Action Plan, adopted by the Ministry of Finance in order to meet the obligations arising from the IMF Fiscal Transparency Report, which recommended the regular annual publication of tax expenditures reports. This type of report was already prepared with strong support of the Twinning Project "Improving Revenue Collection and Tax And Customs Policy". However, this good practice should continue with the preparation of other type of reports in accordance with the European best practices.

In the EU, for example, reports such as VAT-GAP are made on annual basis, or other types of reports, being of great importance for the revenue planning, such as Tax Revenue elasticity etc.

Activity 1: Reviewing availability of data needed for revenue analysis and preparation of Action Plan for submission of the required data

Having data is crucial for doing good analysis and producing reports. Reviewing of availability of data needed for improved tax reporting is a Ministry of Finance priority. Harmonization and better analysis of the data submitted by different institutions and with different frequency, require the adoption of an Action Plan for submission of the required data to the Ministry of Finance. Initial activities for the implementation of this activity have already started within the Twinning Project *Improving Revenue Collection and Tax and Customs Policy*.

This activity includes:

- Review of current situation regarding micro-data availability with PRO, CA, SSO and other relevant institutions;
- Adoption of the Action Plan for submission of the required data to the Ministry of Finance.

Activity 2: Preparing reports in line with EU best practices

Tax Expenditure Report was already published in 2021 in accordance with Fiscal Transparency Action Plan. However, this good practice should continue with the sophistication of data analysis of fiscal and revenue reporting indicators on a regular annual basis, which are subject to regular observation (C-efficiency, inequality, impact assessment of the MFN tariff rates with the EU Common External Tariff) by IMF, WB, EC and other development partners.

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

- Tax expenditures ;
- VAT-GAP Report;
- C-efficiency;
- Tax buoyancy and tax elasticity;
- Income inequality report based on micro-data from PRO;
- Report about Cost-of-collection ratio;
- Report for effective marginal tax rates (EMTRs) and effective average tax rates (EATRs);
- Impact assessment of the alignment of the Customs tariff MFN rates with the EU Common External Tariff; and
- Other relevant indicators for tax and customs policy.

Implementation

Completed in year:	2025
Deliverables:	- Prepared Tax Expenditures Report; - Prepared VAT-GAP Report; - Prepared C-efficiency Report; - Prepared Tax buoyancy and tax elasticity; - Prepared Income inequality report; - Prepared Cost-of-collection ratio Report; - Prepared Report for EMTRs and EATRs; - Prepared Impact assessment of the alignment of the Customs tariff MFN rates with the EU Common External Tariff;
Costs implications:	EUR 165,000
Responsible entity:	Ministry of Finance
Risk:	- Lack of awareness and commitment from high-level officials; - Lack of data availability; - Internal resistance to modernization processes; - Excessive staff turnover.

Measure 2: Enhancing tax and customs modelling capacity

Measure objective

Enhancing tax and customs modelling capacity in Ministry of Finance in line with latest data-science techniques.

Reference to the external assessments findings:

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

	is noted that all changes or reforms that are foreseen in the upcoming period, are incorporated in the fiscal projections of revenues and expenditures according to the economic classification that cover the budget year and the next two fiscal years. ERP includes detailed overview of structural reforms and the planned funding broken down by categories, which suggests the possible impact on the budget. Since there are brief explanations of the proposed changes in revenues and expenditures, but they do not cover the next two fiscal years, and are not all quantified, the score is D.

Context / Background

Under the Twinning Project "Improving Revenue Collection and Tax and Customs Policy"several models were developed in the open-source programing language (R and Python). These models are based on machine learning approach. The main feature of this approach is that machine-learning algorithms are trained rather than explicitly programed, so they can learn complex patterns automatically based on provided data (e.g. change in taxpayer behaviour, etc.) In addition, sophisticated models were developed with the World Bank for VAT-GAP estimation and PIT micro-simulations (in Python), which are not yet fully implemented. World Bank, under their Report "Tax Diamond (2020)" give recommendations for enhancing tax forecasting capability especially for tax modelling. Implementation of this recommendation could result in the establishment of a small tax analysis/tax intelligence unit that would conduct tax compliance gap estimates, revenue forecasting, cost-benefit analysis of targeted tax incentives/exemptions, periodic analysis of the cost of collection of tax administration, and cost of compliance costs, tax evasion/tax avoidance trends, and in general analysis of tax administration.

Activity 1: Trainings in open-source programing languages (Python and R)

Take into account that the models, which are already prepared with the twinning project are not yet implemented, additional training needs to be provided:

- Trainings for open-source programing languages (Python and R), T-SQL, Power Bi, R Markdown, Shiny, etc.

- Trainings for implementation of developed models.

Activity 2: Implementation of models developed in the Twinning Project "Improving Revenue Collection and Tax and Customs Policy"

After completing the training-related activities, next step is the implementation and full use of the models. Analysis based on robust data estimation will support the reform in tax policy. The elements to be implemented are:

- Establishing data warehouse with customs data;
- Micro-simulation models for estimation effects from direct taxation (with behaviour component);
- Revenue forecasting models based on tax buoyancy and elasticity;
- VAT-GAP model;
- Nowcasting revenue models bases on high frequency data;
- Models for estimation of elasticity of excise goods;
- Establishing the Tax Intelligence Unit;
- Tools for monitoring revenues(Power BI, RMarkdown and Shiny); and

- Any other activity related with implementation of models.

Implementation

Completed in year:	2025
Deliverables:	-Training for Python, R, T-SQL, Power Bi, RMarkdown, Shiny provided ; - Implemented Micro-simulation models for estimation effects from direct taxation (with behaviour component); - Implemented Revenue forecasting models based on tax buoyancy and elasticity; - Implemented VAT-GAP model; -Implemented Nowcasting revenue models bases on high frequency data; - Implemented Models for estimation of elasticity of excise goods; - Established Tax Intelligence Unit, and - Implemented tools for monitoring revenues.
Costs implications:	165,000 EUR
Responsible entity:	MoF and PRO
Risk:	- Due to the complexity of the model, it is not fully operational; - Lack of data availability ; - Internal resistance to modernization processes;

Priority 2: Economic analysis and Macroeconomic forecasting

Objective

Objective is to increase the capacity and the scope of economic analyses, improve the skills, and to introduce additional toolkit for macroeconomic forecasting.

Within this priority, a comprehensive fiscal risk assessment is envisaged, in order to provide information on potential threats to the country's fiscal position and to provide an integrated approach to managing these risks. Fiscal risk analysis will contribute to a better understanding of the public finance position, thus providing support for prudent fiscal policy, as well as strengthening risk management accountability.

In addition, focus will be also placed on the activities related to the establishment of a Fiscal Council, which will improve the public finance sustainability by independently assessing the fiscal policy, the strategies and their implementation, as well as evaluating the basic macroeconomic and budget projections used in the preparation of strategic documents related to public finances.

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

Measure 1:	**Capacity building for economic analyses**
Activity 1:	Increasing the scope of economic analyses;
Activity 2:	Economic policy impact assessment;
Measure 2:	**Developing new macroeconomic models**
Activity 1:	Developing macroeconomic forecasting tools;
Measure 3:	**Fiscal risks**
Activity 1:	Strengthening the capacity for fiscal risk assessment;
Activity 2:	Preparing consolidated Fiscal Risk Statement, as part of the draft Budget;
Measure 4:	**Establishing Fiscal Council**
Activity 1:	Legal framework – preparation of bylaws for establishment and operationalization of Fiscal Council;
Activity 2:	Building administrative capacity.

Outcomes

1) Impact assessment of certain economic policies, reforms or measures and carrying out of additional economic analyses.
2) Improved quality and coverage of projections for macroeconomic indicators.
3) Increased scope of fiscal risk analysis (for all types of fiscal risks determined in line with the good international practices).
4) Independent, objective and professional opinions on issues related to fiscal policy.

Outcome Indicators

1) Impact assessment and economic analyses published in the Ministry of Finance's reports.
2) New macroeconomic models used during the preparation of the budget documents and Economic Reform Program.
3) Comprehensive reporting (Fiscal Risks Statement) on: liabilities of central and local governments; risks associated with PPP; summary of risks identified by the biggest public enterprises; comparison of macro-fiscal forecast scenarios.
4) Established operational Fiscal Council and a body for expert administrative and technical support.

Measure 1: Capacity building for economic analyses

Measure objective

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

Reference to the external assessments findings:

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

Context/Background

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

Activity 1: Increasing the scope of economic analyses

Relevant institutions prepare analyses of the trends, covering certain areas of the domestic economy through trainings of MoF staff. These areas cover the labor market, the informal economy, the assessment of the productivity and the competitiveness of the economy, etc. As a result of the trainings, the staff should be abele to prepare these analyses on regular basis in the period to come.

Activity 2: Economic policy impact assessment

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

Completed in year:	2025
Deliverables:	- Additional economic analyses; - Conducted impact assessment; - Carried out trainings;
Cost implications:	EUR 100,000
Responsible entity:	Ministry of Finance - Macroeconomic Policy Department
Risk:	- Externalities, as in the case with the COVID-19 -induced pandemic, disrupting the economic forecasting; - Political pressure over optimistic growth forecasts;

Measure 2: Developing new macroeconomic models

Measure objective

Strengthening the capacity of the Ministry of Finance for macroeconomic forecasting and analyses.

Reference to the external assessments findings:

EU:	The macroeconomic framework is coherent and consistent, while somewhat optimistic. The ERP's sensitivity analysis would have benefited from a more comprehensive impact assessment. More efforts are needed to quantify the impact of each measure and make the ERP the most relevant policy document to guide economic reforms (Commission's Assessment on 2021-2023 Economic Reform Program of North Macedonia).

Context/Background

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

Activity 1: Developing macroeconomic forecasting tools

Under this activity, new tools are envisaged to be developed, including a CGE model for the purpose of macroeconomic forecasting and policy analysis. Trainings will also be carried out, by which the staff will be able to properly use and update these macroeconomic forecasting tools.

Implementation

Completed in year:	2025

Deliverables:	- Developed macroeconomic forecasting tools; - Built CGE model built; - Carried out trainings;
Cost implications:	EUR 200,000
Responsible entity:	Ministry of Finance – Macroeconomic Policy Department
Risk:	Shortage of funds; Change of staff;

Measure 3: Fiscal risks

Measure objective

Fiscal risk assessment aims to provide information on potential threats to the country's fiscal position and to provide an integrated approach to managing these risks This enables the assessment of the cumulative risk exposure of the institutions, as well as the identification of systemic relationships and interactions between the risks, i.e. whether the risks arising from different sources are neutralized or reinforced by each other. The purpose of the measure is to improve the preparation of the draft State Budget by creating a special Fiscal Risk Statement, which will be part of the Annexes, and that together with the Budget are submitted to the Parliament.

Reference to the external assessments findings

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

Context/Background

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

Activity 1: Strengthening the capacity for fiscal risk assessment

Under this activity, activities for strengthening the fiscal risk assessment capacities will be implemented, these being the following: Identification of existing fiscal risk analyses by areas and competent institutions, as well as identification of those areas for which such analyses need to be prepared in future; trainings for employees to improve the existing fiscal risk analyses (macroeconomic and public deb risks) and preparation of new analyses (risks arising from the State Budget arrears, PEs, LGUS, PPP, etc.).

Activity 2: Preparing consolidated Fiscal Risk Statement, as part of the draft Budget

Preparation of a procedure for preparation of a Fiscal Risk Statement, thus reporting on the overall fiscal risks in a consolidated manner. It is envisaged for the draft Fiscal Risk Statement to be part of the draft Budget, being submitted to the Parliament.

Implementation

Completed in year:	2025
Deliverables:	- Improving the existing and preparing additional analyzes related to fiscal risks - Submission of Fiscal Risk Statement as part of the Annexes, which are submitted, with the draft Budget, to the Parliament
Cost implications:	EUR 65,000
Responsible entity:	Ministry of Finance
Risk:	Certain institutions and sectors may not be able to provide data and analyses relevant for the preparation of the Fiscal Risk Statement.

Measure 4: Establishing Fiscal Council

Measure objective

Establishment of the Fiscal Council in order to improve the public finance sustainability by assessing the fiscal policy and the strategies of the country and their implementation, as well as evaluation of the basic macroeconomic and budget projections used in the preparation of strategic documents related to public finances. Assessment of the fiscal policy credibility in terms of compliance with the set fiscal rules will provide for strengthening the transparency and the accountability in conducting fiscal policy.

Reference to the external assessments findings

SIGMA:	Ministry of Finance should, in line with the new draft Organic Budget Law, establish a Fiscal Council with a proper mandate and sufficient resources to monitor compliance with the fiscal rules and provide advice on fiscal policy.
EU:	EC North Macedonia Report 2021: As the recommendations of the 2020 Report were partly implemented and in order to improve the functioning of the market economy, North Macedonia should in particular: Adopt the Organic Budget Law with adequate provision for fiscal rules in line with Commission comments and take the necessary legislative steps for the establishment of the Fiscal Council;

Context/Background

The new Organic Budget Law envisages the establishment of an independent body, Fiscal Council composed of three members proposed by the Macedonian Academy of Sciences and Arts, the State Audit Office and the National Bank, which will be elected by the Parliament. Members should be experts in the field of public finances, macroeconomics or economics. Fiscal Council will independently, objectively and professionally prepare opinions and analyses on the macroeconomic and fiscal assumptions used in the preparation of the Budget and the Fiscal Strategy, as well as other documents relevant for the fiscal policy. Fiscal Council will monitor the compliance with the fiscal rules, as well as the risks of non-compliance, the occurrence of mitigating circumstances that lead to temporary deviation from the fiscal rules and the implementation of remedial measures stipulated in this Law.

Activity 1: Legal framework – preparation of bylaws for establishment and operationalization of Fiscal Council

Within this activity, activities will be implemented for the purpose of preparing bylaws and other acts arising from the provisions referred to in the Organic Budget Law. Thus, in cooperation with the international financial institutions (IMF, World Bank and EC), the best practices from the EU countries and the region in terms of the regulations related to the operations of the Fiscal Council will be analysed, in order to prepare bylaws, by which the Fiscal Council will be established and fully operational, as well as the body for expert and administrative and technical support of the Fiscal Council operations.

Activity 2: Building administrative capacity

Upon the entry into force of the Organic Budget Law, in accordance with the legal procedures, it is necessary for the institution as per the Law, i.e. the Macedonian Academy of Sciences and Arts, the State Audit Office and the National Bank to start procedures for selecting a proposal for members of the Fiscal Council to the Parliament of the Republic of North Macedonia, as well as conducting procedures for selection of a team/people who will provide support for the full performance of the Fiscal Council functions.

Within this activity, with the support of international financial institutions (IMF, WB and EC), through the offer for technical assistance, trainings and workshops will be carried out, pertaining to the functions and the tasks the Fiscal Council should perform in accordance with the experience of the Fiscal Councils in the EU. Trainings will be carried out on continuous basis, aimed at strengthening the capacities of the Fiscal Council for preparation of analyses related to the implementation of the fiscal rules, the deviation therefrom and the determination of the form for reporting on the matters within their competence. Accordingly, trainings of the employees in the Ministry of Finance, pertaining to integration and implementation of the fiscal rules in the strategic documents, will be carried out, from the aspect of reporting on the fulfillment of the fiscal rules, the reasons for deviations from the set fiscal rules, as well as the remedial measures to be taken, i.e. to be included in the documents prepared by the Ministry of Finance for the purpose of adhering to the fiscal rules again.

Implementation

Completed in year:	- 2025
Deliverables:	- Elected members of the Fiscal Council; - Established body for expert and administrative and technical support of the Fiscal Council of the Fiscal Council; - Prepared Statute for establishment of the Fiscal Council; - Prepared Work Program of the Fiscal Council; - Rulebook on the Internal Organization, the Number and the Description

	of the Jobs of the body for expert and administrative and technical support of the Fiscal Council; - Capacity building of the Fiscal Council for preparation of analyses and opinions for implementation of fiscal rules and assessment of macroeconomic and fiscal projections and issues related to fiscal policy; - Strengthening the capacity of the staff of the Ministry of Finance to implement fiscal rules;
Cost implications:	EUR 355,000
Responsible entity:	Ministry of Finance, Fiscal Council, Parliament of the Republic of North Macedonia
Risk:	- Untimely implementation of the election procedures, as well as prolongation of the election of members of the Fiscal Council; - Difficulties in recruiting suitable staff, who will be able to participate in the operations of the Fiscal Council; - Lack of adequate capacity in the Ministry of Finance and the Fiscal Council to implement the activities for implementation of the fiscal rules as per the Law; - Inadequate and incomplete trainings of employees in MoF and the Fiscal Council.

Priority 3: Strengthening Debt Management

Objective

Improving medium- and long-term sustainability of Public Debt Management Strategy.

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

Measure 1: Reducing operational risks at public debt management

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

Activity 2: Strengthening public debt management capacities;

Activity 3: Reconciling the debt stock with the creditors;

Measure 2: Increasing public debt transparency

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

Activity 2: Incorporating debt data in the Budget document;

Measure 3: Introducing new debt instruments

Activity 1: Issuing new financing instruments.

Outcome

Strengthened public debt management.

Outcome indicators

1) Improved debt refinancing risk indicators;
2) Increased grade in SIGMA report.

Measure 1: Reducing operational risks at public debt management

Measure objective

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

Reference to findings from external assessments

PEFA 2021:	PEFA 2021 Assessment Report contains several indicators as regards public debt management on the basis of which the assessment is made. Following findings are listed in the latest Report: - The data is registered in the DMIS by the IFRDMD without delays. - Formal reconciliation with creditors is carried out quarterly or monthly, however, assessment findings explicitly suggests reconciliation practices could be more frequent. Total score for public debt management indicator is A, with the ratings for the dimensions within this indicators being the following: debt recording and reporting - B, approval of debt and guarantees - A and Public Debt Management Strategy - A. Respective activities are to be undertaken in the coming period on the basis of these ratings, all

	to the end of improving public debt management.
SIGMA:	Recent Report notes improvement in public debt management with the upgrading of the Public Debt Management Strategy to an independent document, separate from the Fiscal Strategy, providing data about the debt developments in the past several years, as well as targets for debt management in the medium term. It is also stated that Annual Report on Public Debt Management is published. Although the risk profile of the debt portfolio has improved, it is still high. Considering that total level of public debt has reached the maximum limit of 60% of GDP, measures to reduce the debt rate and the risk profile are called for. Within 2021 SIGMA assessment as regards public debt management, values for this indicator are as follows: 1. Existence of requirements and limitations for borrowing in the legal framework 3/3 2. Existence and minimum content of a public debt management strategy 4/4 3. Clarity of reporting on public debt 3/4 4. Risk mitigation in the stock of public debt 1/6 5. Difference between public sector debt outturn from target (%) 3/3 6. Public debt as a share of GDP (%) 2/2

Context/Background

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

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

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

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

For the purpose of reducing the operational risks, and by following the digitalization trends of foreign payment operations, it is necessary to introduce digitalized payments towards foreign creditors, by introducing electronic banking with NBRNM, through which repayments to foreign creditors are being made.

Activity 2: Strengthening public debt management capacities

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

Activity 3: Reconciling the debt stock with the creditors

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

Implementation

Completed in year:	2025
Deliverables:	- Increased number of external debt orders paid electronically; - Increased number of employees in the Department; - Prepared procedure for quarterly reconciliation of the debt with the foreign creditors;
Cost implications:	EUR 124,000
Responsible entity:	International Finance and Public Debt Management Department
Risk:	- Externalities which can cause a deterioration of the international standing of the Government's debt; - Insifficient human capacity to carry out the activity; - Outflow of educated staff.

Measure 2: Increasing public debt transparency

Measure objective

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

Reference to findings from external assessments:

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

Context/Background

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

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

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

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

Activity 2: Incorporating debt data in the Budget document

It is necessary, within the budget process, to supplement the Budget with debt data so as to present more detailed data on debt amount and structure at the end of the year for which the Budget is adopted.

Implementation

Completed in year:	2025
Deliverables:	- Compiling general government debt data in line with the Maastricht Criteria; - Compiling general government debt data in line with SDDS Plus;
Cost implications:	/
Responsible entity:	International Finance and Public Debt Management Department
Risk:	- Insufficient human capacity to carry out the activity; - Outflow of educated staff; - Political factors, as by amending government debt definition, general government debt stock will be increased.

Measure 3: Introducing new debt instruments

Measure objective

Expanding investors' database.

Reference to findings from external assessments:

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

Context/Background

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

Activity 1: Issuing new financing instruments

For the purpose of more efficient development of the financial markets, with the ultimate goal of advancing the government securities market, new financing instruments are envisaged to be introduced in the coming period. Under the modifications and amendments to the Law on Financing Local Government Units, structural bonds, stand-by loans, as well as issuance of municipal bonds, are envisaged as instruments to overcome the financial instability. Issuance of so-called "Development Bonds", which will be inflation-indexed bonds, will encourage the financing of development projects in the country, thus providing for revival of the financial markets in the Republic of North Macedonia. This type of financial instrument, to be inflation linked, will bear a certain coupon and will be initially intended for the individuals, with a possibility to be also available to the banks, the pension funds and other participants in the financial markets.

Moreover, introduction of these instruments is in line with the Denarization Strategy of the Republic of North Macedonia, with the investors being given a new possibility to manage their portfolio and risk protection.

Green bonds will be introduced for the purpose of supporting and encouraging projects aimed at promoting the environment protection, the ultimate goal of which is transition towards green economy and financing environment-friendly projects, thus improving the energy efficiency, preventing or reducing pollution, facilitating the waste management, supporting the agriculture, fishing and forestry, protecting aquatic and terrestrial ecosystems, providing clean transport and sustainable management of waters and cultivating environment-friendly technologies.

Project Bonds will be introduced for the purpose of attracting potential investors, who would finance more specific development projects. These type of bonds will offer alternative manner of financing infrastructure projects. Project bonds will offer the opportunity for investors to take part infrastructure projects such as construction of roads, sewage networks or irrigation systems, via listed, tradable securities that can offer risk-adjusted returns. An area especially benefiting from the project bonds is the energy sector.

Implementation

Completed in year:	2025
Deliverables:	Diversification of debt instruments
Cost implications:	/
Responsible entity:	International Finance and Public Debt Management Department
Risk:	- Outflow of educated staff; - Limited demand for the new instruments.

PILLAR II - Revenue Mobilisation

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

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

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

Priority 1: Tax and customs policy

Objective

Overall objective of this priority is to improve the stability, efficiency and quality of the overall revenue system in the country in order to ensure sustainable and sound public finance management.

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

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

Activity 1: Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation;

Activity 2: New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted on the basis of the EU legislation in force.

Outcome

Legislation in the area of taxation and customs harmonized with the Union acquis, standards and best practices.

Outcome indicators

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

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

Measure objective

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

Reference to the external assessments findings:

EU:	**EC Progress Report 2020** **Chapter 16: Taxation** As for indirect taxation, the Law on Value Added Tax (VAT) still contains certain exemptions which are not in line with the EU acquis. Regarding direct taxation, most of the reforms to personal taxation introduced in 2019 are now suspended. From 1st January 2020 and for the next 3 years, all types of personal income (with the sole exception of games of chance winnings) are again taxed at the rate of 10% rather than subject to progressive rates of 10-18% as foreseen previously. Interest on savings and capital gains on securities are once again exempt. **Chapter 29: Customs union** The customs legislation is highly aligned with the EU acquis. The 2019 customs tariff was adopted to correspond with the latest changes in the EU combined nomenclature. The Customs Administration intensively promoted the concept of authorised economic operators (AEO) and 15 companies were AEO-certified. The country signed an agreement with Serbia to mutually recognise AEO certificates. North Macedonia is a member of the Common Transit Convention, applying the EU rules on transit movements and has chaired the annual joint committee meeting. The country needs to finalise the procedure for ratifying the Protocol on Elimination of Illicit Trade in Tobacco Products.

Context/Background

In the forthcoming period, Ministry of Finance will, as regards tax and customs legislation, continue to analyse all relevant EU acts for the purpose of their transposition in the national legislation, aiming to achieve full harmonization and enable smooth implementation.

Activity 1: Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation

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

- Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation;

- Reports with written recommendations for improvement of the tax and customs legislation prepared.

Activity 2: New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted on the basis of the EU legislation in force

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

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

Implementation

Completed in year:	2025
Deliverables:	- Prepared gap analysis, written recommendations and new legal acts and/or amendments to the existing national tax legislation (Customs Law, Customs Tariffs, Customs Measures for Protection of Intellectual Property Rights, Personal income tax, Corporate income tax, Value Added Tax, Excise Duties, Taxation of Motor Vehicles, Property Taxes, Public Revenue Office, Tax Procedure); - Prepared laws and bylaws in accordance with gap-analysis;
Costs implications:	EUR 1,916,000
Responsible entity:	MoF
Risk:	- Lack of awareness and commitment from high-level officials; - Internal resistance to modernization processes; - Continuous outflow of staff.

Priority 2: Tax administration

Objective

Improve tax revenue services, including tax collection and compliance, and overall establishing a model for a professional service to taxpayers, recognizable for its best practices and quality standards.

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

Measure 1:	**Strengthen administrative capacity for better revenue collection and tax compliance**
Activity 1:	Strengthening the institutional capacity of the tax administration, especially in management of the overdue tax debt and the tax compliance
Measure 2:	**Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)**
Activity 1:	Implementation of the activities envisaged in the Strategic Plan of the PRO related to the completion of the Integrated Tax Information System

Outcome

1) Improved stability, efficiency and quality of the revenue collection system (IT system);
2) More effective and efficient management of the overdue tax debt.

Outcome indicator

1) Percentage of digitized tax services;
2) Improved rate of tax payment on time (VAT);
3) Improved age structure of the tax debt (VAT) - reduced share of the debt older than 12 months in the total tax debt.

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

Measure outcome

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

Reference to findings from external assessments:

PEFA 2021:	From May to July 2021, the PEFA (Public Expenditure and Financial Accountability) assessment team focused on preparing the PEFA report. Comprehensive and up-to-date information on revenue rights and obligations is available but revenue risk management, audits and investigations and level of tax arrears lag behind and register weak performance. With regard to accounting for revenue, timeliness of information and funds transfer related to revenue collections is adequate, while frequency of reconciling revenue accounts could be improved. The PEFA report underlines that revenue collecting agencies provide comprehensive and up-to-date information of revenue rights and obligations, including a redress process, so the score for the dimension is A.

SIGMA 2021:	SIGMA (Support for Improvement in Governance and Management) conducts regular monitoring of the region. The assessment period was from July 2017 to July 2021. The data collection period was February-May 2021. The SIGMA monitoring report notes that individual ministries are responsible for reengineering, improving and digitalising their services, resulting in a diverse degree of implementation of the new policies. While some bodies have made good progress (like the Public Revenue Office [PRO]), others lag behind. Also the Public Revenue Office, for instance, have complete annual training plans for their staff. The analysis of a sample of services shows that only declaring and paying personal income tax had a substantial improvement with the introduction in 2018 of the new e-Personal Tax system, including pre-filled tax returns elaborated by the PRO for all taxpayers.
IMF:	In the period from December 7, 2020 to February 5, 2021, an assessment of the tax administration of the Republic of North Macedonia was conducted using the Tax Administration Diagnostic Assessment Tool (TADAT). The TADAT performance appraisal report notes that although the Public Revenue Office (PRO) has developed some strong components within its overall tax management, there are several important functions that are either at an early stage of development. Most of the strengths of the PRO are in the area of taxpayer services: high level of electronic submission which leads to good and timely delivery; use of pre-filled tax returns, tax retention at the moment of payment and arrangements in the form of advance payments; extensive publication of data from its operations. The strengths of these strengths, however, are not fully realized due to the poor state of the information (IT) system, the limited implementation of compliance risk management (CRM) and the inadequate management of large taxpayers. Except as stated, the absence of an independent administrative review process, insufficient management of VAT returns and refunds, and insufficient consultation with taxpayers are issues that undermine the efficiency of tax administrations and the trust in the system by taxpayers. This assessment was made possible with the financial support of the European Union and the Swiss Secretariat for Economic Affairs (SECO).
WB:	The World Bank (WB) team performed an assessment of the tax administration of the PRO from June 15 to July 30, 2020. The assessment of the tax administration for the Public Revenue Office in North Macedonia gives the following recommendations, which can be improved: •Data integration and development of a new integrated IT system that supports all basic tax administrative functions • Change management process to ensure that the new system is developed, tested and introduced on time and within budget • Hardware / software upgrades • Filling vacancies in IT positions • Getting started by measuring the processing time of the basic processes • Use of new technologies (for example, extended use of big data, systems that respond to third-party data, use of artificial intelligence) • Improving the plan for business continuity
EU:	**EU Report for 2021** The country is moderately prepared in this area. Some progress was made in reducing the administrative burden for taxpayers and through the upgrading of e-tax services. The 2021- 2025 Tax System Reform strategy was adopted in December 2020. As not all recommendations of 2020 report were implemented, in the coming year, the country should in particular: further improve the capacity of the tax administration by efficiently implementing the tax system reform strategy; develop a new integrated IT tax system for the Public Revenue Office, improve its compliance risk management and further extend e-services for tax payers; Start preparation for putting in place a mechanism for the effective implementation of the automatic exchange of tax information with EU Member States in line with the OECD Global Standard.
Other:	**Development and re-engineering of business processes of the new tax integrated IT system -**

	IPA2 / EUIF The project "Development and re-engineering of business processes of the new tax integrated IT system" was completed on 31.01.2019 and modeled business processes (BPM2) were delivered which show the global scheme of business processes to be re-engineered and integrated into the new IT system ("TO-BE" system), technical specification for hardware and software for the new integrated IT system and quality control - technical support for implementation. **EU twinning project with Austria and Croatia** The twinning project "Improving Revenue Collection and Tax and Customs Policy" is implemented in the period 2020-2023 with the support of twinning partners from Austria and Croatia. Activities under Component 4: Operational and Administrative Capacities of the Public Revenue Office for Implementation of National Legislation, IT Services and Procedures Improved by the IPA Twinning Project "Improving Revenue Collection and Tax and Customs Policy", which relate to the capacities of the Directorate public revenues for the implementation of improved tax legislation; capacities in the areas of tax debt management, tax collection and tax assessment, detection of tax evasion using indirect methods for assessing the internal audit function of undeclared income in the systems of internal control, professional and ethical standards of employee behavior, human resource management, public procurement, international exchange of information and improved process of modernization of the tax administration; Quality assurance for the new IT system, implemented e-services and business processes and Designed warehouse for data (sub prepared plan for data integration and establishment of a data warehouse and a plan for utilization of data for different analysis.

Context/Background

The primary goal of the Public Revenue Office (PRO) is to ensure the realization of tax revenues, reduction of the loss of tax revenues (tax gap) and protection of the tax base, to ensure that each taxpayer timely reports and pays the exact amount of tax he owes in accordance by law, which guarantees the maintenance of trust in the tax system and in the tax administration.

In the past few years, the Public Revenue Office has been laying the foundations for effective tax debt management. We implement activities for early identification and rapid intervention to new debt, by proactively managing the communication with the debtors and applying the approach of indirect positive impact to improve the compliance with the payment of the debt. We use the data we have at our disposal as a knowledge base to build access to debtors. We are also working on determining the real value of the collectible debt and the compliance of the recorded debt with the actual situation. We identified the gaps in the regulation and proposed legal changes. At the same time, we are gradually updating the internal regulations for collection and management of overdue tax debt, in order to ensure unified handling and consistency of the PRO through unambiguous and precise regulation of internal methodologies and working procedures.

Under the new reform program, the Public Revenue Office will continue to strengthen the administrative capacities in several key areas of its operation. Particular attention will be paid to strengthening human resources, as well as in the area of more effective and efficient management of overdue tax debt and compliance risk management. This will be achieved by establishing management structures and implementing management strategies that will ensure that non-compliance with tax laws and other risks in tax operations are kept to a minimum. The Public Revenue Office will focus in particular on:

- targeted assistance and reduction of "administrative" pressure on low-risk debtors in order to prevent the growth of outstanding liabilities
- more effective securing of the payment and cashing of the debts of the riskier debtors in proportion to the degree of risk
- special focus on resolving cases of old (accumulated) debts

- getting acquainted with the main causes of the accumulated debts and creating appropriate actions of the PRO
- facilitation of the payment of tax debt for taxpayers
- establishing a systematic process of ongoing management of tax compliance risks.

Activity 1: Strengthening the institutional capacity of the tax administration, especially in management of the overdue tax debt and the tax compliance

The Strategic plan of the PRO provides general guidelines as priority goals, measures to be taken for their implementation and activities that will be the foundation for building a modern tax authority with a high reputation and integrity, leading to professionalism, efficiency, transparency and service orientation.

Among other things, it envisages activities related to human resource management, more effective and efficient management of overdue tax debt, as well as an established systematic process of ongoing management of compliance risks.

The Strategic plan of the PRO envisages the following activities in these areas:

More effective and efficient management of overdue tax debt
• Preventing the growth of unpaid tax liabilities
• More effective securing of payment and cashing of debts in proportion to the degree of risk of the debtor
• Resolving cases of old (accumulated) debts
• Appropriate reactions of the PRO to the main causes of non-compliance and accumulated unpaid tax debts
• Foundations for better tax debt management - improving the framework (law, procedures, internal organization, etc.)
• Simplification of tax debt payment - e-payment (tax order)

Compliance risk management
• Establishment of a permanent risk management capacity within the Compliance Management Unit
• Development of analytical skills within the unit as a prerequisite for risk management through appropriate training
• Preparation of a Plan for improving the compliance of the PRO

Within the annual Action Plans for implementation of the PFM program, additional activities for this measure can be defined, as a result of the revised Strategic Plan for the respective period.

Implementation

Completed in year:	2025
Deliverables:	- Adopted Guidelines for determining the tax guarantee and determining the tax guarantor who guarantees the payment of the tax debt; - Proposal for amendments to the Law on Tax Procedure - compliant with the Ministry of Finance and put into procedure for adoption; - Adopted internal act of the PRO - Framework of minimum and subsequent activities for securing the payment and cashing of the debt; - Adopted Plan for improvement of the compliance of the PRO.
Costs implications:	EUR 2,340,000

Responsible entity:	Public Revenue Office
Risk:	- Untimely implementation of all phases in the process of adopting legal changes; - Non-introduction to introduce compliance risk management; - Process of adopting legal changes is delayed; - Failure to introduce compliance risk management;

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

Measure objective

The purpose of this measure is to improve PRO business practices and making changes in line with the overall digital transformation. The administration of tax revenues and contributions, providing quality customer service will be improved, through the upgrade of the skills and knowledge of tax officials.

Reference to findings from external assessments:

PEFA 2021:	From May to July 2021, the PEFA (Public Expenditure and Financial Accountability) assessment team focused on preparing the PEFA report. Comprehensive and up-to-date information on revenue rights and obligations is available but revenue risk management, audits and investigations and level of tax arrears lag behind and register weak performance. With regard to accounting for revenue, timeliness of information and funds transfer related to revenue collections is adequate, while frequency of reconciling revenue accounts could be improved. The PEFA report underlines that revenue collecting agencies provide comprehensive and up-to-date information of revenue rights and obligations, including a redress process, so the score for the dimension is A.
SIGMA 2021:	SIGMA (Support for Improvement in Governance and Management) conducts regular monitoring of the region. The assessment period was from July 2017 to July 2021. The data collection period was February-May 2021. The SIGMA monitoring report notes that individual ministries are responsible for reengineering, improving and digitalising their services, resulting in a diverse degree of implementation of the new policies. While some bodies have made good progress (like the Public Revenue Office [PRO]), others lag behind. Also the Public Revenue Office, for instance, have complete annual training plans for their staff. The analysis of a sample of services shows that only declaring and paying personal income tax had a substantial improvement with the introduction in 2018 of the new e-Personal Tax system, including pre-filled tax returns elaborated by the PRO for all taxpayers.
IMF:	In the period from December 7, 2020 to February 5, 2021, an assessment of the tax administration of the Republic of North Macedonia was conducted using the Tax Administration Diagnostic Assessment Tool (TADAT). The TADAT performance appraisal report notes that although the Public Revenue Office (PRO) has developed some strong components within its overall tax management, there are several important functions that are either at an early stage of development. Most of the strengths of the PRO are in the area of taxpayer services: high level of electronic submission which leads to good and timely delivery; use of pre-filled tax returns, tax retention at the moment of payment and arrangements in the form of advance payments; extensive publication of data from its operations. The strengths of these strengths, however, are not fully realized due to the poor state of the information (IT) system, the limited implementation of compliance risk management (CRM) and the inadequate management of large taxpayers. Except as stated, the absence of an independent administrative review process, insufficient management of VAT returns and refunds, and insufficient consultation with taxpayers are issues that undermine the efficiency of tax administrations and the trust in the system by taxpayers. This assessment was made possible with the financial support of the European Union and the Swiss Secretariat for Economic Affairs (SECO).
WB:	The World Bank (WB) team performed an assessment of the tax administration of the PRO from

	June 15 to July 30, 2020. The assessment of the tax administration for the Public Revenue Office in North Macedonia gives the following recommendations, which can be improved: •Data integration and development of a new integrated IT system that supports all basic tax administrative functions • Change management process to ensure that the new system is developed, tested and introduced on time and within budget • Hardware / software upgrades • Filling vacancies in IT positions • Getting started by measuring the processing time of the basic processes • Use of new technologies (for example, extended use of big data, systems that respond to third-party data, use of artificial intelligence) • Improving the plan for business continuity
EU:	EU Report for 2021 The country is moderately prepared in this area. Some progress was made in reducing the administrative burden for taxpayers and through the upgrading of e-tax services. The 2021- 2025 Tax System Reform strategy was adopted in December 2020. As not all recommendations of 2020 report were implemented, in the coming year, the country should in particular: • further improve the capacity of the tax administration by efficiently implementing the tax system reform strategy; • develop a new integrated IT tax system for the Public Revenue Office, improve its compliance risk management and further extend e-services for tax payers; • Start preparation for putting in place a mechanism for the effective implementation of the automatic exchange of tax information with EU Member States in line with the OECD Global Standard.
Other:	Development and re-engineering of business processes of the new tax integrated IT system - IPA2 / EUIF The project "Development and re-engineering of business processes of the new tax integrated IT system" was completed on 31.01.2019 and modeled business processes (BPM2) were delivered which show the global scheme of business processes to be re-engineered and integrated into the new IT system ("TO-BE" system), technical specification for hardware and software for the new integrated IT system and quality control - technical support for implementation. EU twinning project with Austria and Croatia The twinning project "Improving Revenue Collection and Tax and Customs Policy" is implemented in the period 2020-2023 with the support of twinning partners from Austria and Croatia. Activities under Component 4: Operational and Administrative Capacities of the Public Revenue Office for Implementation of National Legislation, IT Services and Procedures Improved by the IPA Twinning Project "Improving Revenue Collection and Tax and Customs Policy", which relate to the capacities of the Directorate public revenues for the implementation of improved tax legislation; capacities in the areas of tax debt management, tax collection and tax assessment, detection of tax evasion using indirect methods for assessing the internal audit function of undeclared income in the systems of internal control, professional and ethical standards of employee behavior, human resource management, public procurement, international exchange of information and improved process of modernization of the tax administration; Quality assurance for the new IT system, implemented e-services and business processes and Designed warehouse for data (sub prepared plan for data integration and establishment of a data warehouse and a plan for utilization of data for different analysis.

Context / Background

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

The use of information technology has always been an integral part of the effective functioning of the modern tax administration. Historically, the use of such technology has been limited to the automation of taxpayer registration functions, the automation of filing and processing of tax returns, and the management of taxpayer accounts. Its use has now been extended to almost all functions of the tax administration. Tax management information systems have also evolved from the former "basic tax system", which consisted mainly of a taxpayer register, a tax return database and taxpayer accounts, to today's modern integrated "Information Systems for Tax Administration". This has led to a tax administration that provides a holistic view of the taxpayer through all aspects of tax administration.

Nevertheless, inherited systems, which have been used, are limited in their functionality and have not evolved to meet the changing needs of the tax administration. The key weakness of the PRO information system is the lack of real-time information and a reliable and clear picture of the taxpayer compliance status. In addition, there are several ongoing reforms and initiatives that intend to promote voluntary taxation, improve the effectiveness of taxpayer services, and to modernize the business environment. These initiatives require the strengthening of IT systems and the development of appropriate functionalities in order to make effective use of these reform initiatives.

The new Tax Information System (ITIS) aims to improve the operational efficiency of tax administration functions, as well as increase revenue by strengthening compliance monitoring and improving taxpayer services.

The Study on the IT system of the PRO from 2014 found that the existing IT system of the PRO is outdated, fragmented, incomplete and inflexible in dealing with legal changes. As a first step towards the introduction of a new integrated information system in the PRO from November 1, 2017 to January 31, 2019, the IPA 2 Project "Development and reengineering of business processes for the new tax integrated IT system" was implemented. Based on the defined work processes in this project, a future model of integrated tax IT system of the PRO was proposed, which will provide optimal processes for collection, reporting, analysis and risk management in accordance with tax legislation.

Several logical units are defined: registration, management of filing and receipt of tax returns, assessment, enforcement, payments, refunds, accounting, auditing, legal affairs, international cooperation, compliance management, service management and data exchange with external systems. Each of the logic units consists of several processes that support the required functionality.

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

The activities / sub-activities related to the establishment of the new integrated tax information system (ITIS), which were originally planed in the PFM Program 2018-2021 are carried forward to the new PFM Reform Program 2022-2025.

Activity 1: Implementation of the activities envisaged in the Strategic Plan of the PRO in relation to the completion of the Integrated Tax Information System

The Strategic plan of the PRO envisages strengthening the administrative capacity of the tax administration by improving business practices and making changes in accordance with the overall digital budget transformation, in order to improve the administration of tax revenues and contributions, providing quality services to customers, improving the skills and knowledge of tax officials.

The modernization of the information system should enable the improvement of business processes and the work of the administration as a whole. The new IT system will enable optimization of the processes of the tax procedure, analysis, reports and risk management taking into account the legal regulations. This will be accomplished by

developing and restructuring the work processes for the new tax integrated IT system, consolidating the databases from the existing IT systems / subsystems in a single database with the introduction of ESB for data Warehouse,

development and introduction of a risk assessment system, ensuring smooth operation and long-term stability of the system in case of crisis

Disaster Recovery Centre, as well as connecting with other institutions in the Republic of North Macedonia and with the EU institutions.

The following activities are also envisaged, which are an integral part of the PRO Strategic Plan:

Completion of the remaining modules from ITIS

- Procurement of software for conducting a tax procedure per case
- Establishing a Data warehouse and business intelligence tools - Data Warehouse and BI
- New Integrated Tax Information System modules: for e-commerce and e-invoice
- Establishment of a new ICT infrastructure

Ensuring IS security and smooth operation of ITIS

- Establishment of a Disaster Recovery Centre
- Increasing the security of PRO systems
- Development and restructuring of the IT subsystems of the PRO

Within the annual Action Plans for implementation of the PFM program, additional activities for this measure will be defined, based on the monitoring process of the PRO Strategic Plan.

Implementation

Completed in year:	2025
Deliverables:	– New SOFTWARE – New HARDWARE
Costs implications:	EUR 8,500,000
Responsible entity:	Public Revenue Office
Risk:	- Insufficient commitment of senior management; - Lack of finances; - Lack of capacity and commitment of PRO employees, especially IT staff; - Major changes in legal provisions;

Priority 3: Customs

Objective

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

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

Measure 1:	**Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime**
Activity 1:	Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade
Measure 2:	**Modernization of customs services and their digitalization**
Activity 1:	Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware.

Outcomes

1) Availability of innovative equipment and training of staff for detection and control in order to: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search;
2) Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and staffing with appropriate hardware for those systems.

Outcome indicators

1) Percentage of physical controls that resulted in the detection of irregularities in relation to the total number of performed physical controls using the new equipment;
2) Implemented at least two (2) new IT systems / modules from the EU Multiannual Strategic Plan (MASP) at national level on appropriate hardware (ICS2 and e-commerce).

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

Measure objective

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

Reference to findings from external assessments:

EU:	**EU Report for 2021** North Macedonia has a **good level of preparation** in the part of the Customs Union. Good progress has been made in the reporting period with continuous consolidation, application and upgrade of IT systems. The Concept of Authorized Economic Operator (AEO) was implemented and promoted. The electronic system for processing customs declarations and excise documents is fully functional and paperless. Green corridors have been established at the key border crossing with CEFTA countries, ensuring a smooth flow of goods with the onset of the COVID-19 crisis.
Others:	**"Improving revenue collection and tax and customs regulations" (Twinning - IPA2 - IPA 2018)** The project aims to increase efficiency in detecting and preventing customs fraud through more efficient and targeted controls, strengthening the capacity of customs controls, application of modern laboratory methods and tools, trade facilitation by improving risk analysis in accordance with EU standards as well as providing equipment for a customs laboratory. It is implemented through 4 components, and the Customs Administration participates in Component 1 - Harmonization of Legislation, and is the bearer of Component 3 - Improving the capacities of the CA. According to the security measures, the realization of the envisaged activities with the project takes place "online". Over 80 employees of the Customs Administration participated in these trainings. In Component 3, the activities were aimed at introducing improved models and methods in order to strengthen the control system for prevention, detection and fight against customs fraud and illicit trade in goods, while facilitating trade, as well as providing equipment and tools to implement improved control models facilitate trade and improve the quality of services.

Context/Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Improving the capacities of the control and prosecution bodies for fight against crime
- Synergy between law enforcement agencies and improved security situation
- Strengthening the capacities of national institutions and their coordination in monitoring the flow of money, as well as detecting possible concealment and transfer of illegally acquired property
- Criminal investigations to result in confiscation of property and property gain
- Increased efficiency in detecting, prosecuting and adequately sanctioning perpetrators of money laundering and terrorist financing
- Access to electronic databases to be established and functional

- Trained staff for performing the legal competencies in accordance with the identified risks
- Improving the professional staff in the field of inspection services in the competent institutions, in order to achieve effective results in the fight against the shadow economy.

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

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

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

Implementation

Completed in year:	2025
Deliverables:	Availability of innovative equipment and training of staff for detection and control in order to: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search.
Costs implications:	EUR 4,000,000
Responsible entity:	Customs Administration
Risk:	- Different levels of customs staffing can be an incentive for organized crime networks to redirect their operations to border points with weaker customs control; - Timely and quality implementation of trainings for handling the new sophisticated control equipment;

Measure 2: Modernization of customs services and their digitalization

Measure objective

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

Reference to findings from external assessments:

EU:	**EU Report for 2021** North Macedonia has a good level of preparation in the part of the Customs Union. Good progress has been made in the reporting period with continuous consolidation, application and upgrade of IT systems. The Concept of Authorized Economic Operator (AEO) was implemented and promoted. The electronic system for processing customs declarations and excise documents is fully functional and paperless. Green corridors have been established at the key border crossing

	with CEFTA countries, ensuring a smooth flow of goods with the onset of the crisis caused by COVID-19 Next year, the country should continue with the consolidation and full implementation of the existing IT systems, including harmonization with the modules of the Multiannual Strategic Plan (MASP) of the Commission, to ensure their constant upgrading and business continuity;
Others:	**Ensuring continuity of business processes in the Customs Administration and data storage through consolidation of ICT systems and establishment of a joint Data Center in case of crisis and natural disasters ("DisasterRecoveryCentre") (IPA2 - IPA 2018)** Through this project, equipment for establishment of a joint Data Center in case of crisis and natural disasters was procured; As part of this project, procurement of 200 personal computers for border crossings and internal customs offices was realized.

Context/Background

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

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

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

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

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

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

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

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

The strategic plan builds on the previously realized activities and is complementary to the strategic activities defined by the separate strategies of the Customs Administration that refer to specific domains of implementation of the missions of the service: Strategy for development of ICT of the

Customs Administration 2021-2025; Customs Risk Management Strategy for Customs Issues 2018-2022; Integrity and Anti-Corruption Strategy in the Customs Administration of the Republic of North Macedonia 2019-2022; Strategy for training and development of competencies in the Customs Administration of the Republic of North Macedonia 2021-2023;

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

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

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

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

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

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

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

Strategic action activities for modernization and digitalization of customs services:

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

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

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

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

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

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

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

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

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

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

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

Implementation

Completed in year:	2025
Deliverables:	Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and equipping with appropriate hardware for those systems.
Costs implications:	EUR 5,500,000
Responsible entity:	Customs Administration
Risk:	Untimely implementation of all phases in the process of harmonization with EU systems.

PILLAR III: Planning and Budget

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

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

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

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

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

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

The proposed law contains provisions regarding:

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

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

- contribute to greater harmonization of budget allocations with the Government’s investment priorities;

- improve the comprehensiveness of the budget documentation so as to include all public expenditures for capital investments and information on the financial needs of ongoing and new projects; and
- strengthen central oversight of the national public investments portfolio as a whole, including monitoring and management of the overall delivery risks.

Growth Acceleration Plan as a general framework consists instruments that could contribute to growth potential of N. Macedonia on a medium-term basis. This plan has innovative ways to finance the investments, to consume all the available funds offered from official creditors and finally to reach all the possibilities to mobilize private investments.

The Growth Acceleration Plan will play a key role in boosting jobs and growth in the economy of N. Macedonia. The ultimate goals are threefold: increase investments and to make more efficient use of the publicly funded investment and mobilizing additional investments by the private sector, to acclerate growth - to double the rates of medium-term economic growth and to ensure fiscal consolidation - to facilitate the reduction of the public debt below 60% of the country’s GDP in the medium-term.

Priority 1: Budget Planning

Objective

In the medium-term, improving public finance structure, enhancing the performance-based budget planning process, as well as gradual consolidation of public expenditures by reducing the budget deficit as a percentage of GDP.

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

Measure 1: Improving medium-term planning
Activity 1: Medium-Term Fiscal Strategy based on a sectoral approach;
Activity 2: Improving planning through tools - baseline scenario and new initiatives;
Activity 3: Strengthening medium-term planning at public enterprises and companies at central level.

Measure 2: Improved budget planning and developing measurable performance indicators
Activity 1: Preparing and implementing bylaws and several types of classifications - administrative/organizational, economic, program, functional classifications, as well as classification of sources of financing;
Activity 2: Developing and monitoring of performance indicators in the implementation of budget policies;
Activity 3: Increasing the staff in MoF and the budget users in the process of providing comprehensive information by volume and contents, when preparing the Budget, as well as harmonizing the processes with the international methodologies and the good practices.

Measure 3: Fiscal consolidation for gradual and sustainable reduction of budget deficit
Activity 1: Reducing the current expenditures in the total expenditure structure by determining spending standards and defined allocation criteria;
Activity 2: Improving capital expenditure structure and execution.

Outcome

Fiscal policy aimed at consolidating public spending and reducing the budget deficit.

Outcome indicator

Reducing the budget deficit as % compared to the previous year.

Measure 1: Improving Medium-Term Planning

Measure Objective

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

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

Reference to the external assessments findings:

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

Context/Background

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

Key elements of the medium-term fiscal policy 2022-2026 are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026.

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

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

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

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

- sectoral approach to planning with additional quality data and analyses to the end of improved and more credible planning;

- wider range of data in the narrative part, based on sectoral approach with new tables and charts for the Central Budget and the local government budget, as well as data for projects financed with IPA funds;

- comparative analysis of the projections with data from the previous Fiscal Strategy, as well as comparison with the projections of other domestic and international institutions.

Activity 2: Improving planning through tools- baseline scenario and new initiatives

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

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

Baseline scenario does not cover new funding initiatives.

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

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

In line with the latest revised Fiscal Strategy 2022-2024, with prospects until 2026, key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026.

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

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

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

Implementation

Completed in year:	2025
Deliverables:	- Improved Fiscal Strategy.
Cost implications:	EUR 5,000
Responsible entity:	Ministry of Finance, Budget and Funds Department
Risk:	- Human potential for implementation.

Measure 2: Improved Budget planning and developing measurable performance indicators

Measure objective

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

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

Reference to the external assessments findings:

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

Context/Background

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

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

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

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

Activity 1: Preparing and implementing bylaws and several types of classifications - administrative/organizational, economic, Program, functional, as well as classification of sources of financing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- classification of sources of financing.

Activity 2 : Development and monitoring of indicators for measuring success in the implementation of budget policies

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

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

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

-General objectives (linked with the policies);

-Specific objectives (linked with programmes);

-Output, i.e. indicators (linked with sub-programmes).

The general objective defines the final state to be achieved.

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

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

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

Input indicator is the total sum of budget spent for a specifi objective;
Output indicator (*sub-programme level)* - indicator that measures specific results - outputs (direct effects of measures or projects), supporting the realisation of the specific objectives. Target value of these indicators are determined yearly or for the period covered by the medium-term strategies.

Activity 3: Staff strengthening in MoF and budget users in the process of providing comprehensive information on the scope and the contents of budget preparation, as well as harmonisation of processes with international methodologies and good practices

In order to enable full implementation of the planned budget reforms, it is necessary to strengthen the human capacity of the Ministry of Finance and the budget users through training and professional development for the application of new methodologies, tools and processes in budget preparation and medium-term projections.

Implementation

Completed in year:	2025
Deliverables:	- Budget in accordance with the provisions of the new OBL.
Costs implications:	EUR 165,000
Responsible entity:	Ministry of Finance - Budgets and Funds Department
Risk:	- Human potential for implementation.

Measure 3: Fiscal consolidation for phased and sustainable budget deficit reduction

Measure objective

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

Reference to findings from external assessments:

PEFA 2021:	- Budget preparation process, as well as its structure to reflect the reforms envisaged in the draft Organic Budget Law, - Development and monitoring of programme objectives and indicators.

SIGMA 2021:	Improving the credibility of the projections (one-year and multi-year)
EU 2021:	In order to increase execution of the state budget, the Ministry of Finance has introduced a capital expenditure efficiency mechanism.

Context / Background

During the second half of 2021, Ministry of Finance was working on a new document Fiscal Sustainability and Economic Growth Support Plan: policies, recommendations, measures and indicators, which the Government adopted in October 2021.

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require mixture of measures on both budget revenue and budget expenditure side. Limited resources and necessity to finance priority projects impose a need to strengthen the performance-based budget planning process, rationalize certain expenditures and introduce adequate spending standards. Fiscal management implies activity for continuous advancement of the budget planning system, better control over expenditures and undertaking certain draft measures, as follows:

1. EXPENDITURE SIDE;
2. REVENUE SIDE;
3. FINANCING.

The Plan analyzes the 2015-2020 period and based on the historical data and the achievements of the key parameters, certain recommendations are given for strengthening and consolidating the public finances.

Health crisis has resulted in increased public spending geared towards supporting the economy, at the same time, postponing the medium-term framework for the projected fiscal targets, which were aimed at fiscal consolidation and fiscal sustainability. Need arose to speed up the pace of the fiscal consolidation process by including more measures and activities, all to the end of achieving long-term sustainability of public finances.

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

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require mixture of measures on both budget revenue and budget expenditure side. Limited resources and necessity to finance priority projects impose a need to strengthen the performance-based budget planning process, rationalize certain expenditures and introduce adequate spending standards.

Activity 1: Reduction of current expenditures in the structure of total expenditures by establishing spending standards and defined allocation criteria

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require mixture of measures on both budget revenue and budget expenditure side.

Initial activities aimed at fiscal consolidation and strengthened budget planning require analysis and control over certain expenditures of the budget users, above all:

- current expenditures and introduction of spending standards, as well as

- undertaking activities geared towards enhanced expenditure structure.

Fiscal consolidation on the expenditure side of the Central Budget would be achieved mainly through the policy of reducing current expenditures, by redefining the criteria for allocation, increased monitoring of the appropriations, as well as budgeting aimed at results that have a positive impact on economic growth.

Activity 2 : Improving the structure and realization of capital expenditures

Reforms are planned in the medium term, which are to be implemented gradually, aimed at enhancing the planning, allocation and implementation of public infrastructure projects. They will contribute for greater alignment of the budget allocations with the investment priorities of the Government, improving the comprehensiveness of the budget documentation so as to include all public capital investment spending and information on the financial needs of the ongoing and the new projects, introducing oversight of public investment portfolio at national level, including the monitoring and the management of the overall delivery risk.

In order to improve execution of capital expenditures, series of activities are planned, as follows:

- budget users to project the capital expenditures in a more realistic manner;
- continuing the application of the CAPEF mechanism;
- prioritizing the capital investments and strengthened role of the Government in selecting, oversight and monitoring the implementation through the established Delivery Unit;
- strengthening the role of the Ministry of Finance in the process of public investment management by establishing a special organisational unit to appraise and monitor public infrastructure projects;
- developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal, project approval and budgeting and project monitoring and reporting;
- adopting standard methodology for defining, preparing, reviewing, appraising and prioritizing new infrastructure projects;
- enhancing the budget structure by increasing the share of capital expenditures in the total budget expenditures;
- enhancing the structure of capital expenditures by reducing the less productive capital expenditures (introducing rules and standards when purchasing/investing in vehicles, furniture, equipment).

In order to improve capital expenditure execution, legally prescribed obligation was introduced in 2021 for the budget users to execute 15% of the capital expenditures by the first quarter inclusive, 40% as of the second quarter inclusive and 65% as of the third quarter inclusive. In case of failure to do so, Ministry of Finance reallocates the unused funds up to the prescribed limit to item 414 - Capital Expenditures Reserves at the respective budget user, without any right to spending. Should the budget users spend the funds up to the prescribed limit in the next quarter, Ministry of Finance, ex officio, returns the reduced funds to the appropriate sub-programme and item they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter as well, the Parliament, upon proposal by the Government, decides on the use of the funds reallocated to item 414 - Capital Expenditures Reserves.

Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, at the expense of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures in line with the allocated budget.

Implementation

Completed in year:	2025
Deliverables:	- Fiscal consolidation and phased reduction of the budget deficit.
Costs implications:	EUR 50,000
Responsible entity:	Ministry of Finance - Budgets and Funds Department
Risk:	- Insufficient human capacity to carry out the activity.

Priority 2: Strengthened Public Investment Management

Objective

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

Background

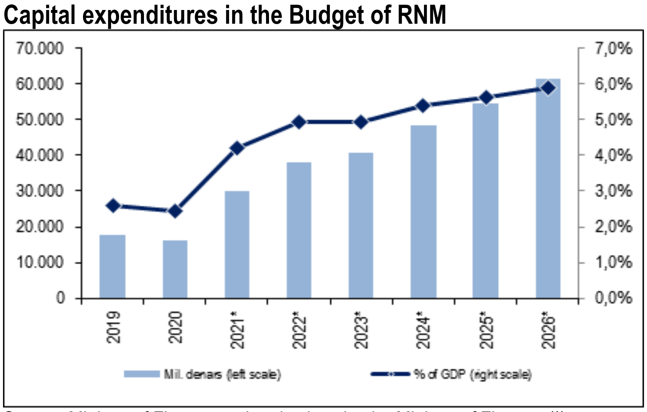
In the period 2015-2020, capital expenditures amounted to Denar 101,579 billion, accounting for 8.4% on average of the total expenditures, i.e. 2.7% of GDP. In retrospect, execution of capital expenditures was significantly lower than projected, with under-execution averaging 21.4 % between 2015 and 2020.
In 2021, capital expenditures were executed in the amount of Denar 23.4 billion (78.4%), being higher by Denar 7.3 billion or by 45.3% compared to last year.

Table 1: Capital expenditures execution

Capital Expenditures	Projections	Execution	%
2015	22,234	18,667	84.0%
2016	22,331	16,974	76.0%
2017	23,747	19,863	83.6%
2018	18,519	12,147	65.6%
2019	22,955	17,813	77.6%
2020	19,650	16,115	82.0%
2021	29,804	23,408	78.4%

In the medium-term period 2022 - 2026, fiscal policy remains to focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better life of the citizens. To that end, significant amount of capital investments is projected (Figure 1) by using budget funds, including funds under loans extended from international financial institutions and bilateral creditors. In 2022, capital expenditures are projected in the amount of approximately Denar 38.2 billion or by around 28.3% higher compared to the 2021 projections.

Figure 1. Capital expenditures in the Budget of the Republic of North Macedonia



Source: Ministry of Finance and projections by the Ministry of Finance (*)

The Government made many attempts in the past to introduce measures in order to improve capital expenditure execution, the latest of which is the introduction of a CAPEF mechanism as stipulated in the 2021 Budget Execution Law[2] .

Key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures. As for policy aimed at improving capital

[2] Legally prescribed obligation for the budget users to execute certain amount of the capital expenditures in a specified time period in order to encourage them to execute the capital expenditures as projected and at the expense of the budget users having underperformed, i.e. budget users having executed the capital expenditures in line with the approved budget would obtain more funds.

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

Upon Government`s request, Public Investment Management Assessment (PIMA) was conducted in January 2020 to assess the efficiency of public investment management practices in North Macedonia and provide recommendations on how to improve the current framework. PIMA Report detected weaknesses in different aspects of public investment management in North Macedonia, as follows:

- Project appraisal and selection was found to be weak, both in institutional design and effectiveness;
- There was no comprehensive single pipeline of appraised capital projects, although some projects were identified in a pipeline of candidates for EU funding;
- No standard methodology to serve as guideline for project preparation and appraisal;
- Feasibility studies were done at the request of IFIs and following their guidelines;
- Monitoring of projects was highly decentralized and there was no overall perspective on implementation progress, either at national or sectoral level.

To overcome the above mentioned weaknesses, the PIMA Report indicated the need of strengthening public investment management, particularly the role of MoF.

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

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

In May 2021, the Minister of Finance established two working groups for implementing the PIM Action Plan: (1) Inter-institutional 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. The activities of the second working group commenced with IMF technical assistance, aimed at defining the organizational set-up, competence, tasks and basic working processes of the new organizational unit for public investment management in MoF.

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

Measure 1:	**Planning sustainable levels of investment**
Activity 1:	Improve sectoral plans by aligning them with the strategic planning system;
Activity 2:	Strengthen the coordination of investment plans between the central government and the LSGUs;

Activity 3: Strengthen the role, the supporting legal framework and the institutional set up of MoF in the PIM system;
Activity 4: Strengthen the central oversight of alternative infrastructure financing sources;
Activity 5: Increase the comprehensiveness of medium-term fiscal planning and budget documentation in relation to public capital investment spending.

Measure 2: Improved project appraisal, selection and allocation of resources for capital investments
Activity 1: Develop a single pipeline of appraised capital projects;
Activity 2: Include detailed information on individual projects in the budget documentation;
Activity 3: Provide training to professionals of the MoF on project appraisal and review of preinvestment studies;
Activity 4: Develop general project appraisal methodology and determine shadow prices;
Activity 5: Establish standard criteria for project selection;
Activity 6: Provide training to professionals of budget users/SoEs/LSGUs on project formulation, appraisal and selection.

Measure 3: Efficient and effective monitoring of capital investments
Activity 1: Introduce risk-based centralized monitoring;
Activity 2: Introduce rules for fundamental review of problem projects, irrespective of funding source;
Activity 3: Develop an IT system functional requirements for comprehensive physical and financial monitoring of projects being implemented;
Activity 4: Develop guidelines and introduce a formal requirement for ex-post review of completed projects.

Outcome

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

Outcome indicator

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

Measure 1: Planning Sustainable Levels of Investment

Measure objective

Efficient investment planning ensures public investment is fiscally sustainable and effectively coordinated across sectors and levels of government.

Reference to the external assessments findings:

PEFA:	PI -11/ Dimension 11.2: There are three important shortcomings of the planning system for the purpose of this dimension. First, many priorities in the Government 4-year Working Program were not subjected to technical analysis to promote efficiency and productivity. Second, since the Government 4-year Working Program is not detailed at the project level, there is substantial room for interpretation when selecting projects on the basis of the Working Program. Third, the General Secretariat does not assess the technical qualities, feasibility, and costing of a proposed project as part of its review.
	PI -11/ Dimension 11.3: In North Macedonia, the budget shows the capital cost of a project, broken down by each year covered by the medium-term, along with a remainder if the project is implemented over more than three years. It is generally understood that construction costs are included in capital costs, but there is ambiguity on other related costs. For externally funded projects, costing methods are established by the funding entity; for

	domestically funded projects, costing methods are established by each BU independently. Recurrent costs associated with major projects are sometimes identified in project documents but not in the budget. Since capital costs of a major project are included in each year of the medium-term budget, but recurrent costs of the project are not included in budget documents, the score for this dimension is C.
PIMA:	Fragmentation affects all stages of the PIM cycle. At the planning stage, strategic planning does not clearly identify public investment priorities at a consolidated national level and does not provide a solid base for the budget process. A multiplicity of documents (e.g., sectoral strategies, government work plan) point to infrastructure development needs in key economic and social sectors with varying levels of detail and time horizons. Yet, there is no consolidated national investment strategy or plan, including costing of major infrastructure projects, regardless of levels of government or financing sources. There is currently no department, unit or team in North Macedonia responsible for coordinating or managing and fostering development of PIM processes. At the MoF the roles and responsibilities regarding public investment do not cover all required functions for efficient capital investment management.

Context / Background

The Government needs to address certain shortcomings identified in the investment planning system.

Infrastructure plans are fragmented by funding source, sector and horizon, and it is difficult to have a consolidated view of infrastructure priorities. Sectoral infrastructure plans are not prepared according to a systematic framework that takes into account all funding sources and aligns with the broader strategic planning and budgeting system. Priorities in the local self-government units (LSGUs) investment plans are not formally discussed with the central government nor published alongside the central government's investments. Rules for transfer to LSGUs exist within each individual budgetary units (BU), however, it is not transparent and LSGUs are not notified of expected transfers on time. Contingent liabilities are not reported to the central government. Therefore, there is a need to align the sectoral planning process with the strategic planning system coordinated by the Secretariat General so that BUs' strategic plans better reflect sectoral investment priorities. Also, the coordination of investment plans between the central government and the LSGUs should be strengthened. It is necessary to set guidelines for preparing capital investments plans by BUs and LSGUs by adopting standard methodology for preparing investment plans by BUs and LSGUs in line with the strategic planning system managed by the Secretariat General.

There is an urgent need for a PIM Department or unit in charge of fostering use of project appraisal. Ministry of Finance should strengthen its role in the process of public investment management by establishing a special organizational unit to develop and coordinate functions pertaining to public investment management.

Main infrastructure markets are still dominated by PCs fully owned by government, despite subsequent regulatory reforms. There is no central oversight of PCs' financial performance or investment plans. Therefore, MoF needs to strengthen its oversight of alternative infrastructure financing sources (PPP), in particular public enterprises/joint stock companies. In that regard, MoF would need to be given a mandate to request and compile information on public enterprises/joint stock companies and PPPs to the end of gradually supplementing the information on public enterprises/joint stock companies' financial performance in the MTFS with data on capital spending plans and their realization by public enterprises/joint stock companies.

Activities:

- Improve sectoral plans by aligning them with the strategic planning system;
- Strengthen the coordination of investment plans between the central government and the LSGUs;

- Strengthen the role, the supporting legal framework and the institutional set up of MoF in the PIM system;
- Strengthen the central oversight of alternative infrastructure financing sources;

Implementation

Completed in year:	2025
Deliverables:	- Established PIM Department in MoF; - National guidelines/methodology for preparing investment plans by BUs and LSGUs; - Legal framework to support the new tasks assigned to MoF.
Cost implications:	EUR 581,000
Responsible entity:	Ministry of Finance, BUs/SoEs/LSGUs
Risk:	- Lack of political will to support reforms, insufficient staff and lack of capacities, poor coordination between institutions.

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

Measure objective

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

Reference to the external assessments findings:

PEFA:	PI -11/ Dimension 11.2: There are no published standard criteria for project selection. For externally funded projects, selection criteria are established by the external funding entity. That said, the Single Project Pipeline (SPP), coordinated by the Secretariat for European Affairs and covering all externally funded projects, uses selection criteria published under the “Support to Western Balkans Infrastructure Investment Projects in the period 2014-2020” project. For domestically funded projects, selection criteria are established by each BU independently, some of whom follow the SPP selection criteria. Prioritization of projects for inclusion in the budget is determined most directly by the General Secretariat of the Government. The focus of the prioritization is compliance with the Government 4-year Working Program, and is communicated through the 3-year strategic plan prepared by each BU in parallel with the budget (see PI-16.3 for a more detailed explanation of the planning system). **Since major projects are prioritized by a central entity but not on the basis of measurable criteria for selection that are rigorous and focus on economic efficiency and productivity, the score for this dimension is D.**

	PI -11/ Dimension 11.3: In North Macedonia, the budget shows the capital cost of a project, broken down by each year covered by the medium-term, along with a remainder if the project is implemented over more than three years. It is generally understood that construction costs are included in capital costs, but there is ambiguity on other related costs. For externally funded projects, costing methods are established by the funding entity; for domestically funded projects, costing methods are established by each BU independently. Recurrent costs associated with major projects are sometimes identified in project documents but not in the budget. **Since capital costs of a major project are included in each year of the medium-term budget, but recurrent costs of the project are not included in budget documents, the score for this dimension is C.**
PIMA:	Fragmentation affects all stages of the PIM cycle. At the allocation stage, there is no single pipeline of appraised capital projects ready to be prioritized and to compete on a level playing field for budgetary resources. Multiple project pipelines coexist depending on sources of financing and economic sectors. Project selection and prioritization is not done using standard and comparable methodologies across sectors, and there is no standard methodology for determining maintenance needs. Staff capacity in budget users regarding financial and economic project appraisal is insufficient for effective preparation, appraisal and selection of capital investment projects.

Context / Background

Project appraisal, selection and allocation of capital investments face significant shortcomings that need to be addressed.

There is no standard methodology for appraising major capital investment projects, and there is no centralized and independent review of appraised projects. National parameters for economic appraisal (shadow prices) have not been determined, and no central support is provided to line ministries, which lack capacity to act as effective counterparts to external consultants.

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

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

The absence of medium-term capital expenditure ceilings during budgeting reduces the ability of Government to ensure that budget allocations align with its investment priorities. An incomplete picture of total investment spending by sector undermines transparency and decision-makers' ability to make fully informed public investment allocation decisions. The budgetary documentation has no information on the financial needs of ongoing and new projects potentially leading to a lack of transparency concerning funding commitments to individual ongoing projects and forward funding needs of individual new projects. Funding for infrastructure maintenance and continued funding of projects already started need to be protected. The budget process does not highlight time delays –

that is, deferral of maintenance and delaying completion of ongoing projects in favor of funding new projects. To overcome these shortcomings, the comprehensiveness of the budget documentation should be increased to include all public capital investment spending, regardless of sources of funding. Information on individual projects should be defined and presented in the budget documentation, distinguishing between new and ongoing, and identifying cumulative expenditure, remaining balances to complete, and projections. It is important to introduce an obligation for mandatory completion of the template on multiyear capital construction projects issued with the budget circular by main budget users.

There is neither a single pipeline of appraised projects ready to compete for budget resources, nor standard criteria for project selection. Selection criteria are fragmented by sector, and rarely based on economic indicators. It would be necessary to develop a single pipeline of appraised capital projects, based on an inventory of all existing appraised projects, thus creating project database covering all sectors and all funding sources, and establish a standard criteria for selection of project.

The new Draft OBL (Article 20 - Medium-Term Priorities and Procedure for Selection of New Initiatives - Projects and Activities) stipulates that the new evaluated projects should be further considered and prioritized by an inter-sectoral working group/committee established by the Government and/or a Municipal Council respectively. The priority list of new initiatives and projects should be approved by the Government or a Municipal Council respectively.
Activities:

- Develop a single pipeline of appraised capital projects;
- Include detailed information on individual projects in the budget documentation;
- Provide training to MoF professionals on project appraisal and review of preinvestment studies;
- Develop general project appraisal methodology and determine shadow prices;
- Establish standard criteria for project selection;
- Provide training to budget users/SoEs/LSGUs professionals on project formulation appraisal and selection.

Implementation

Completed in year:	2025
Deliverables:	- Budget documentation includes complete data on all public capital investment spending, regardless of sources of funding and information on individual projects; - Training of staff; - Standard criteria for project selection; - Single project pipeline of appraised projects.
Cost implications:	EUR 255,000
Responsible entity:	Ministry of Finance, budget users/SoEs/LSGUs, Government Cabinet, Municipal Council
Risk:	- Insufficient staff, lack of capacities, lack of coordination between institutions and lack of data.

Measure 3: Efficient and effective monitoring of capital investments

Measure objective

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

Reference to the external assessments findings:

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

Context / Background

As regards monitoring of capital investments, several shortcomings were identified and need to be addressed.

There is no central oversight of the national public investment portfolio as a whole, making it difficult to monitor and manage overall delivery risk and to make high-level adjustments. The Government should introduce risk-based centralized monitoring, involving high-level monitoring by MoF for most projects and closer scrutiny of projects with higher delivery risk. Monitoring plan should be prepared to amalgamate existing information at a single point and develop procedures to fill information gaps.

There is no feedback loop that allows government to adjust implementation policies and procedures on the basis of implementation experience. Methods and procedures for basic completion reports for all major projects should be designed. Moreover, there is a need to introduce a formal requirement for ex-post review of some completed projects, beginning with an analytical basic completion review that includes an implementation performance assessment and lesson learned.

There is no formal procedure for reassessing problem projects, leading to the risk that resources continue to be used up on projects for which there is no longer a justification. It is essential to design and implement methods, rules and procedures for fundamental review of problem projects, irrespective of funding source, to be triggered by excessive deviations in key indicators, like cost and implementation schedule.

Activities:

Introduce risk-based centralized monitoring;
Introduce rules for fundamental review of problem projects, irrespective of funding source;
Develop an IT system functional requirements for comprehensive physical and financial monitoring of projects being implemented;
Develop guidelines and introduce a formal requirement for ex-post review of completed projects.

Implementation

Completed in year:	2025
Deliverables:	- Training of staff;

	- Monitoring plan; - Warning system for delivery risk for major projects; - Protocol for strengthened monitoring of at-risk projects; - Monitoring reports on the national investment portfolio; - Methods and procedures for a basic completion report; - Rules for ex-post review of completed projects; - Rules for fundamental review of problem projects.
Cost implications:	EUR 115,000
Responsible entity:	Ministry of Finance, budget users/SoEs/LSGUs
Risk:	- Insufficient staff, lack of capacities, lack of data, lack of coordination between institutions.

Priority 3: Effective Instruments under the Growth Acceleration Plan

Objective

Financing the recovery of the economy affected by COVID-19 induced crisis and supporting accelerated and sustainable growth.

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

Measure 1:	**Establishment of different funds in the state institutions and development of different financial instruments**
Activity 1:	Establishment of Hybrid National Green and Digital MSME Fund for start-ups and innovative enterprises;
Activity 2:	Establishment of "Greening Business" Facility;
Activity 3:	Establishment of Guarantee Fund;
Activity 4:	Establishment of Energy Efficiency Fund;
Activity 5:	Establishment of Research and Development Fund;
Activity 6:	Establishment of Local and Regional Development Fund.
Measure 2:	**Strenghtening the capacities of various institution**
Activity 1:	Establishment of a Delivery Unit for infrastructure project coordination;
Activity 2:	Establishment of Project Monitoring Unit;
Activity 3:	Establishment of a Capacity Building and Training Unit for strengthening management and institutional capacities.

Outcome

Increased public and private investments using new financial instruments.

Outcome indicators

Accumulated public and private investments in millions of euros using the new financial instruments.

Measure 1: Establishment of different funds in the state institutions and development of different financial instruments

Measure objective

The objective of this measure is to provide support to the private sector by putting financial instruments and mechanisms in place and creating opportunities for mobilizing private investment. The instruments will provide easier access to financial resources for companies, financing investments in the field of energy efficiency, supporting export-oriented companies, encouraging innovative activities, encouraging the concept of crowd funding.

The instruments will be introduced through adoption of new legal solutions, as well as amendments to the existing laws, so as to enable their implementation. Actions to be taken will be focused on building the institutional capacities of the institutions that will implement these instruments.

Activity 1: Establishment of Hybrid National Green and Digital MSME Fund for start-ups and innovative enterprises

The proposed Facility or Fund will contribute to the implementation of the access to finance pillar of the SME Strategy for a Sustainable and Digital Europe in the country, as well as the national Innovation Strategy and Law on Innovation Activity. Main objective of this fund is to close the financing gap in venture and early growth equity and quasi-equity finance for green and digital start-ups and innovative SMEs through leveraging private investment.

Activity 2: Establishment of "Greening Business" Facility

Operations of the "Greening Business" Facility will promote and stimulate environmental responsibility among business. It is considered an investment vehicle to encourage businesses to innovate their operations and decrease their environmental footprint. The facility will provide grants, through a competitive procedure (targeted calls for proposals) to selected companies for their projects/initiatives.

Activity 3: Establishment of Guarantee Fund

By establishing a Guarantee Fund, two products are introduced in the country:

- Portfolio guarantees towards banks and saving houses (guarantees up to 50% for assets, up to 80% for working-capital loans);
- Individual guarantees for big companies that do export (at least 30% export share in revenues) with up to 50% guarantee.

Activity 4: Establishment of Energy Efficiency Fund

The Fund will be established within the Development Bank of North Macedonia. The assets provided within this Fund will be intended for: (a) operating costs and marketing activities of the Fund; (b) preparation of energy controls, major projects and technical specifications, technical audit of major projects and technical specifications, performance supervision, certificates for energy classes and other technical studies, for future energy efficient investments, as well as financing of investments in energy efficiency and renewable energy in public buildings.

Activity 5: Establishment of Research and Development Fund

The Fund will be established within the Development Bank of North Macedonia. This Fund, through favorable credit products, will support the export-oriented companies in research and development in order to boost exports, technological development, and the introduction of new products. Activities focused on supporting export will also cover a Supplier Development Program, geared towards strengthening the technologic readiness and the capacities of domestic companies, thus being able to participate in the global value chains.

Activity 6: Establishment of Local and Regional Development Fund

This Fund (Agency) will replace the existing Bureau for Equal Regional Development, however with a more prominent role enabled by greater fiscal resources and broader competences. It will serve as a focal point for better coordination of activities and public resources aiming to mobilize private capital and promote local and a more balanced regional development. The goal of the Fund is to support local governments and local and national public enterprises, all to the end of expanding and developing the local infrastructure, providing high-quality local public services and improving the local governance. Capital for the respective Fund will be provided from Central Budget, whereby commercial banks, official creditors and donors will provide additional funds geared towards local and regional investments and development projects.

Completed in year:	2025
Deliverables:	- New Law on Alternative Investment Funds; - Amended Law on Investment Funds; - Amended Law on Development Bank of the Republic of North Macedonia; - Amended Law on Innovation Activity; - Amended Law on Central Registry.
Cost implications:	EUR 57,000,000
Responsible entity:	Ministry of Finance
Risk:	- Insufficient human capacity to carry out the activity.

Measure 2: Strenghtening the capacities of various institution

Measure objective

In order to ensure effective implementation of the Growth Acceleration Plan, management structure will be established, which will cover the entire project management process, including feedback to accelerate effectiveness over the years. The management structure is based on the existing institutional elements, with new elements introduced in those parts of the project cycle that currently does not exist. Ministries and institutions within the Government will have a leading role in the implementation, supported by external entities (development partners and official creditors) depending on the needs the support of external entities will be available.

The institutional framework for publicly available and publicly mobilized sources for financing economic growth is consisted of a network of domestic institutions (ministries and agencies) and mechanisms, supported by a legal framework. In order to support the Growth Acceleration Plan, efforts will be initially made for implementation within the existing legal framework. Also, all opportunities that will be offered in support of this Plan will be accompanied by initiating changes and improvements to the existing legal framework in accordance with the legislation of the European Union.
Public Investment Management Unit will be established by the Ministry of Finance with the aim of assessing the readiness and the effectiveness of the annual project cycle, thereby following the recommendations of the Public Investment Management Assessment. The end result therefrom will be preparation of an annual evaluation report with specific recommendations for the project cycle for the next year.

Activity 1: Establishment of a Delivery Unit for infrastructure project coordination

The Infrastructure Project Coordination Unit will be established and located in the Cabinet of the Prime Minister. The Unit should achieve the results: (1) acting as an extended arm of the Prime Minister in order to continue the accelerated dynamics of project implementation through strong direct monitoring, (2) giving recommendations to implementers to overcome implementation challenges, (3) monitoring the outcome / the results by using high-frequency data, and (4) coordinating government bodies to engage all stakeholders in achieving the results.

Activity 2: Establishment of Project Monitoring Unit

The Project Monitoring Unit, to be established within the Cabinet of the Deputy Prime Minister of the Republic of North Macedonia in charge of Economic Affairs, Coordination of Economic Departments and Investments, will be in chrage of the comprehensive monitoring of the progresss of the entire investment portfolio. The Project Monitoring Unit will establish a monitoring framework to report to the government leadership on the progress of implementation on a monthly / quarterly basis. All project-related delays will be marked on the monitoring dashboard, with a special focus on high-potential and high-risk projects. The Unit will collect and consolidate project information from the project implementation units and other implementers.

Activity 3: Establishment of a Capacity Building and Training Unit for strengthening management and institutional capacities

Institutional capacity building refers to capacity building in addition to the benefits of education and vocational training. This Unit will aim to strengthen the capacity of governments, the business sector, non-governmental groups and communities to effectively and efficiently plan and manage assets.

Completed in year:	2022
Deliverables:	- Established units for management, coordination, project monitoring.
Cost implications:	EUR 702,000
Responsible entity:	Cabinet of the Prime Minister, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments
Risk:	- Insufficient human capacity to carry out the activity.

PILLAR IV - Public procurement

It is very important for Republic of North Macedonia to secure an efficient system of public procurement, especially with a view to the fact that public procurement market reached 8% of GDP of the country and 23% of the state budget in the 2020.

In this direction, improvement of the public procurement system will contribute to better public finance management, legal consistency for all parties in the system, inducing competition and sustainable economic growth.

The implementation of the proposed measures will provide greater transparency and unified approach of all public partners in the implementation of public-private partnership projects, as well as improved quality and success in the implementation of public-private partnership projects and activating hitherto inactive funds for construction of large facilities and facilities of public interest, while stimulating competition and achieving the most favorable value for money.

Appeal mechanism contributes to the harmonization of legal protection issues, increasing the required level of efficiency of the SAC and making quality and sound decisions in accordance with EU public procurement law and practices, as well as bringing the legal protection system closer to economic operators and contracting authorities.

Priority 1: Public Procurement Policy

Objective

Strengthening the capacity of the all public procurement system with the purpose of securing effective public procurement and aligning with the EU legislation in practice.

New Public Procurement Law with a high level of compliance with the relevant EU legislation, as well as Law for Public Procurement in the area of defence and security, covering the public procurement contracts in the fields of defence and security, were adopted in 2019. Due to many new issues which were introduced with the adoption of these laws, the public procurement system is now in a sensitive phase as regards their implementation. Additionally, to induce economic recovery, public procurement needs to provide quality and value for money.

Aiming to achievement, it is necessary for all stakeholders in the public procurement system to have the required skills, knowledge and integrity for securing effective public procurement.

In this direction, it is clear that there is a need for strengthening the capacity of the all public procurement system with the purpose of securing effective public procurement and aligning with the EU legislation in practice.

Main challenges for the forthcoming period are already identified in a few analyses which were prepared by the experts in the twining project “Strengthening budget planning, execution and internal control functions”, as preparatory activities for the preparation of the Strategy for development of the public procurement system 2022-2026.

All the identified challenges are partly related with the capacity building. It is a general impression that the main weakness and challenge is the lack of the capacity for implementation good practices.

In relation to the abovementioned, it is accepted the need for revising the concept for certification and recertification of the public procurement officials through rationalisation of the training programme and creating improved, extended and more flexible programme which will contribute to strengthening the administrative capacity for duly implementation of the legal framework.

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

Additionally, official cooperation among the key institutions in the system is limited. Appropriate measures will be implemented in the next period to improve the cooperation for duly implementation of the law.

Regarding the strategic public procurement, main goal is to broaden the strategic perspective for public procurement through raising awareness and knowledge. The successful implementation of the strategic public procurement requires identifying and realisation of the possibilities for environmental impacts, on strategic and operative level, in relation to specifying procurement models, sustainable development, green innovations and other governmental priorities.

With each legal frame changes, procurements become more sophisticated, so there is a need for trainings for the stakeholders to understand the contemporary requirements for procurements. Instructions should be shared with the economic operators, not only with the public procurement officials. With additional national initiatives, the contribution in the participation of SMEs in public procurements may be improved also.

E-Procurement platform makes the information more readily accessible, and provides real opportunities to drive standardization of practice, and use of data sets exchange on the market. Exploiting the full potential of the e-Procurement platform should be at the heart of efforts to improve transparency and therefore increase confidence in the public procurement system. In this direction, it is needed further improvement and analysis, as well as data openness i.e. providing of data sets from ESPP in workable format for further analysis by interested parties, relevant institutions and the public in general.

It is also necessary to secure that the other institutions in the system will have appropriate tools which are linked among them. Huge amount of data included in registers which are not connected in governmental authorities could be better and more efficiently used for analysis of the system, creating targeted and better informed decisions for the implementation policy, to serve as an important information for proposal of legal framework changes as well as better and thorough monitoring of the system.

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

Measure 1:	**Strengthening the institutional capacity**
Activity 1:	Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026;
Activity 2:	Improving the cooperation among the key institutions in the public procurement system;
Activity 3:	Introducing new system for education within PPB.
Measure 2:	**Improvements in statistical data and analysis of the open data**
Activity 1:	Improving the statistical database.

Outcome

Better implementation of the Public procurement law.

Outcome indicators

1) Percentage of one bid tenders;

2) Percentage of cancelled procedures.

Measure 1: Strengthening the institutional capacity

Measure objective

Main objective of the measure is, through different activities, to contribute to strengthening the capacity of the stakeholders in the system for duly implementation of the law and securing more effective public procurement system.

Reference to the external assessments findings:

SIGMA 2021:	Public procurement operations comply with the basic principles of equal treatment, non-discrimination, proportionality and transparency. However, the introduction of the new PPL in 2019 which is substantially compliant with the 2014 EU Directives and introduces flexibilities, has had minimal practical impact. Old habits have not changed and the levels of competition have not shown marked improvement. The continued extremely high number of awards based on the lowest price using e-auctions, and the limited use of centralised procurement means that the most efficient use of public funds is unlikely. Contract management remains a significant area for improvement.

	The PPB has continued to deliver certification training and publish guidance, despite challenges presented by the pandemic, but the focus in training is on legal compliance. Practical guidelines, tools and training, have not been fully updated or aligned with the new PPL. There has been a decline in active co-operation among institutions to co-ordinate the interpretation of procurement legislation, contributing to uncertainty as to the application of the legal framework in practice.
PEFA 2021:	Ensure continuous capacity building in public procurement through design and implementation of training plans, twinning arrangements and other capacity building programs.
EU:	Ensure the efficient implementation of the public procurement legal framework, including the development and adoption of the Law on Public-Private Partnerships, the Law on Concessions and the bylaw on low-value e-marketplace; Improve the co-ordination among key players in public procurement and strengthen their capacities and independence to implement the principles of transparency, free competition, equal treatment and non-discrimination; The quality of tender documentation remains a challenge for smaller contracting authorities.

Context / Background

All the identified challenges are partly related with the capacity building. Lack of the capacity for implementation of good practices is the main weakness and challenge for better implementation of the legal framework in the next period.

The basic training for certification and additional training program for recertification covers all topics of the public procurement cycle that a public procurement officials must know (national and EU legal framework, ethics, planning, procedures, legal protection, contract management, etc.). Recertification system currently presents the news and changes in the public procurement, and do not provide trainings for improving the knowledge, competencies and skills.

Training in the field of procurement tends to focus on compliance with regulatory rules so it often ignores issues related to the quality of procurement, which requires the possession of specific skills, knowledge, and experience, as well as the ability to use the modern procurement tools.

Due to the lack of knowledge and professional skills of procurement officials, there is a high number of requests for opinion submitted to PPB by contracting authorities.

It is already recognized the need to revise the concept of certification and recertification of procurement officials through rationalisation of the training programme and creating improved, extended and more flexible programme which will contribute to strengthening the administrative capacity for duly implementation of the legal framework.

Aiming to support the contracting authorities and economic operators to develop and improve the knowledge and professional skills, different methodological tools, including practical guidelines, models of tender documents, forms and contract models will be prepared.

In relation to the quality of tender documentation, there is a possibility for the contracting authorities to use the Technical dialogue, in a scope and manner prescribed in the Public procurement law (Preliminary market consultation), as a mean for improving the quality of the Tender documents.

Additionally, it is necessary to strengthen the cooperation among the key institutions in the system, i.e. Public Procurement Bureau, State Appeal Commission, State Audit Office, State commission for preventing corruption, State commission for protecting competition and Ministry of economy for duly implementation of the legal framework and securing effective public procurement system.

In this direction, an Advisory group with representatives from the abovementioned institutions will be established. It is expected that the Advisory group will hold meetings on regular basis and will identify the weaknesses in the system and issues for improvement.

Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026, which preparation started within PFM Programme 2018-2021, will contribute to realisation of measures in key priorities defined in the Strategy, aiming to further improvement of the public procurement system.

Activity 1: Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026

Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026 will contribute to further improvement of the public procurement system, through the realisation of the defined measures.

Activity 2: Improving the cooperation among the key institutions in the public procurement system

Improving the cooperation among the key institutions in the public procurement system i.e. Public procurement Bureau, State Appeal Commission, State Audit Office, State commission for preventing corruption, State commission for protecting competition and Ministry of economy, and establishing an advisory group consisting of experts and/or officials from the key procurement institutions, aiming to better coordination and communication among the institutions for preventing irregularities and weaknesses in the public procurement procedures.

Activity 3: Introducing new system for education within PPB

Whole redesign of the PPB's education system i.e. improving the public procurement trainings through development of new tools for acquiring theoretical and practical knowledge, professional skills and competences for professional, economic, efficient and effective implementation of public procurement at each level.

Implementation

Completed in year:	2025
Deliverables:	- Revision of the Programme for education with recommendations; - Rulebook for education; - Tariff Book of the fee for delivering education; - Memorandum of cooperation; - Strategy for development of the public procurement system in Republic of North Macedonia 2022-2026.
Cost implications:	EUR 185,000
Responsible entity:	PPB
Risk:	- Adoption of Law Amending the Law on Public Procurement; - Impossibility to engage appropriate trainers; - Impossibility to participate in trainings; - Leaving of competent PPB employees; - Inappropriate detecting of the weaknesses in the system and the issues for improvement.

Measure 2: Improvements in statistical data and analysis of the open data

Measure objective

Improved transparency and data availability for the purpose of monitoring, analysis and reporting, aiming to improve the public procurement system.

Reference to the external assessments findings:

PEFA:	Development of mechanisms for performance monitoring and improvements of the public procurement system.
EU:	Improve control of public procurement procedures through efficient follow-up and the reporting of irregularities, cases of conflict of interest and fraudulent practices.

Context / Background

Electronic System for Public Procurement (ESPP) is an effective tool for ensuring transparency within the entire system of public procurement.

ESPP is a web based system for implementation of the public procurement in electronical format, which secure transparency through publicly available information for spending public funds.

There is a need for further development and data openness i.e. providing of data sets from ESPP in workable format for further analysis by interested parties, relevant institutions and the public in general.

Activity 1: Improving the statistical database

Development of a module in ESPP for downloading of the published information from the contract award notices in workable format for further analysis.

Implementation

Completed in year:	2023
Deliverables:	- Technical specification for the functionalities and possibilities of the solution including a mechanism for big data management and protection against system overload; - Test version of the module; - Functional module on ESPP for: • fast analysis of a large data set; • increased number of users of public procurement analysis; • improved control and integrity of public procurement; • facilitated work of civil society organizations and media. - Instruction for the users.
Cost implications:	EUR 5,000
Responsible entity:	PPB
Risk:	Possible impact on the implementation of the measure as a result of the previous analysis of ESPP in relation to performance and stability of the system and data base.

Priority 2: Public Private Partnerships (PPPs)

Objective

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

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

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

In direction for providing compliance with EU legislation, ie transposition of Directive 2014/23 / EU on the award of concession agreements, as well as the creation of policies in the field of concessions and public-private partnership for preparation and implementation of quality and successful public projects, the Draft Law on Public Private Partnership was prepared and is to be adopted in the forthcoming period, also its implementation imposes the need to strengthen and build the capacity of the institutions responsible for acting in the field of public-private partnership.

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

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

Activity 1:	Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership;
Activity 2:	Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts the establishment of public-private partnership**.**
Measure 2:	**Completing the legal and regulatory framework in the field of public-private partnership**
Activity 1:	Preparation of bylaws that will arise from the Law on Public Private Partnership;
Activity 2:	Adoption of the bylaws that will arise from the Law on Public Private Partnership.
Measure 3:	**Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership**
Activity 1:	Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership.

Outcome

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

Outcome indicators

1) Number of concluded agreements for establishing a public-private partnership;
2) Effective and consistent implementation of the obligations of the contracting parties in accordance with the agreements for establishment of public-private partnership.

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

Measure objective

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

Reference to the external assessments findings:

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

Context / Background

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

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

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

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

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

Implementation

Completed in year:	2024
Deliverables:	- Established UEPPPS as a single digital database for public-private partnership.
Costs implications:	EUR 1,000,000
Responsible entity:	Ministry of Economy
Risk:	- Inability to provide financial and technical assistance, breach of deadlines for implementation.

Measure 2: Completing the legal and regulatory framework in the field of public-private partnership

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

Reference to findings from external assessments:

WB:	Strengthening the regulatory framework and policies for public-private partnership.
EU:	To ensure full compliance with EU legislation in the field of public-private partnerships and concessions.

Context / Background

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

Activity 1: Preparation of bylaws that will arise from the Law on Public Private Partnership

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

Activity 2: Adoption of bylaws that will arise from the Law on Public Private Partnership

The activity implies implementation of a procedure for adoption of the bylaws that will arise from the Law on Public Private Partnership by the Minister of Economy.

Implementation

Completed in year:	2023
Deliverables:	- By-laws prepared and adopted.
Costs implications:	/
Responsible entity:	Ministry of Economy.
Risk:	- Extension of deadlines for adoption of bylaws.

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

Objective measure

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

Reference to findings from external assessments:

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

Context / Background

According to the proposed regulation on public-private partnership and consistent implementation of the same, there is a need to increase the number of civil servants to timely perform all activities within their competencies. There is a great need to strengthen the capacity through the employment of professional staff who have relevant experience in this area, which would be reflected in achieving the required level of efficiency of the Ministry of Economy, and analogously to the proper functioning of the public-private partnership system in general.

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

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

Implementation

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

Priority 3: Appeal mechanism

Objective

Improved legal protection in the public procurement based on the principles of legality, efficiency, cost-effectiveness and adversarial procedure.

In 2019, new Law on Public Procurement was adopted, being largely in line with Directives 2014/24/EU and 2014/25/ EU, as well as a special law on public procurement in the field of defense and security, which covers public procurement contracts in the field of defense and security. The State Appeal Commission provides legal protection based on the principles of legality, efficiency, cost-effectiveness and adversarial procedure.

State Appeal Commission contributes to strengthening the overall public procurement system, through quality and transparent work.

Moreover, the State Appeal Commission also ensures prompt, objective and effective legal protection in the procedures for awarding public procurement contracts, concessions and public-private partnerships. Legal protection is available at all stages of the procedure, from the publication of notices to the award of the public procurement contract.

Such legal protection promotes the maintenance and the development of the public procurement system based on the principles of competition, equal treatment and non-discrimination of economic operators, transparency and integrity in the process of awarding public procurement contracts, concessions and PPP, as well as rational and efficient utilization of funds in the contract award procedures.

The State Appeal Commission achieves this objective primarily through the implementation of the Law on Public Procurement and the Law on Concessions and Public Private Partnership, speaking of the objectives being realistically and practically achievable, keeping up with the modern needs and reform trends in the Republic of North Macedonia.

The Commission decides on the appeals at sessions with a majority vote of the members, and the members may not abstain from voting.

In 2020, total of 1,076 cases were received and registered at SAC, 1,037 cases of which were resolved, and 39 unresolved cases due to incomplete documentation were shifted to be acted upon in 2021. Since the entry into force of the new Law on Public Procurement dated 1st April 2019, SAC decides on administrative control as well.

Court protection before the Administrative Court was requested by the parties in 110 cases out of total of 1,037 resolved cases, i.e. lawsuits were filed only for 10.61% of the cases. Administrative Court reached 34 judgments / decisions in 2020.

In the period from 1st January 2020 to 31st December 2020, 40 appeals were lodged to the Higher Administrative Court against decisions of the Administrative Court, 34 cases out of which were resolved.

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

Measure 1:	**Strengthening the legal and regulatory framework of review procedure in the public procurement process**
Activity 1:	Preparation of a special law on review procedure in the field of public procurement;

Measure 2:	**Strengthening the administrative capacity of SAC and increasing the transparency, efficiency and effectiveness of SAC**
Activity 1:	Increasing the administrative capacities of the SAC;
Activity 2:	Designing a new SAC's website.

Outcome

Improved implementation of the LPP, strengthening the capacities of SAC and increased transparency and efficiency in the decision-making process.

Outcome indicators

1) Number of appeals;
2) Number of appeals before both the Administrative Court and the Higher Administrative Court.

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

Measure objective

The main objective of the measure - Strengthening the legal and regulatory framework of review procedure in the public procurement process - is the preparation of a special law on review procedure in the field of public procurement which, by regulating review procedure in public procurement, public-private partnerships and concessions, issues related to SAC work, the number of members, the requirements for their appointment, the appointment procedure, as well as the rights and the obligations of the members and the professional service of SAC, in accordance with EU best practices.

Reference to findings from external assessments:

EU:	Ensure efficient implementation of the legal framework for review procedure in the field of public procurement.

Context / Background

Harmonization of issues in the field of review procedure, SAC work, the number of members, the requirement for their appointment, the appointment procedure, as well as the rights and obligations of SAC members subject to special laws, with the EU best practices. In addition, removing SAC employees from the scope of the Law on Administrative Servants, taking into account the nature of the work and the degree of confidentiality of the information.

Activity 1: Preparation of a special law on review procedure in the field of public procurement

This activity implies entirely improving the system for review procedure in public procurement by developing new tools for acquiring theoretical and practical knowledge, professional skills and competencies for professional, cost-effective, efficient and effective implementation of public procurement procedures at all levels.

Implementation

Completed in year:	2023

Deliverables:	Special law on review procedure in the field of public procurement.
Cost implications:	/
Responsible entity:	Government of RNM / Assembly of RNM.
Risk:	Inability to decide within the legally prescribed deadlines, possibility for outflow of skilled qualified staff.

Measure 2: Strengthening the administrative capacity of SAC and increasing the transparency, efficiency and effectiveness of SAC

Measure objective

Objective of the measure - Strengthening the administrative capacity of SAC -is to increase the number of civil servants in the professional service of SAC and the transparency, efficiency and effectiveness of SAC, design new website and introduce an internal information document management system to be interoperable with the ESPP, thus enabling multiple exchange of all relevant data with the ESPP, especially data related to the public procurement procedure (contracting authority, appellant, subject to the procurement, etc.), as well as all data and statistics required for preparation of annual reports, which is expected to provide for time optimization of the process and make it more efficient in resolving appeals and preparing annual reports.

Context/Background

There is a need to adopt the new Rulebook on SAC internal organizational setup and job description. Number of civil servants should be increased for the purpose of timely carrying out of all activities within their competencies in order to prevent SAC from becoming a bottleneck for future investments and a reason for slowing down public procurement procedures. Number of cases handled by SAC is increasing rapidly in recent years. The volume of work of SAC related to its core competence (decision-making on appeals) is constantly increasing, while the administrative capacity is not increasing accordingly. There is a great need to strengthen the capacity by employing professional staff with relevant experience in public procurement procedures. Strengthening the administrative capacity of SAC by employing sufficient number of qualified experts to work on the tasks falling within the core competence of SAC is considered as one of the preconditions not only for achieving the required level of efficiency of SAC, but also for proper functioning of the public procurement system in general.

Activity 1: Increasing the administrative capacities of the SAC

Activity 2: Designing a new SAC's website

The activities includes strengthening of SAC capacities and designing SAC website, as well as introducing an internal information document management system aimed at increased transparency, efficiency and effectiveness of the work of SAC and better access to information of all stakeholders.

Implementation

Completed in year:	2024
Deliverables:	- Enhanced administrative capacity of SAC; - Improved website of SAC; - Internal information document management system in SAC.
Cost implications:	EUR 84,000
Responsible entity:	SAC

Risk:	- Possible outflow of professional personnel and causing for the functioning of SAC to face difficulties; - System failure.

PILLAR V - Integrated Public Finances

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

Recognition of revenues and expenditures in the accounting of budget users is carried out according to the accounting principle of monetary expression. This way of expressing the revenues and expenditures does not enable real and up-to-date monitoring of the undertaken and outstanding liabilities of the budgets and budget users. In order to improve the financial reporting of budgets and budget users, as well as a realistic presentation of the undertaken and outstanding liabilities of budgets and budget users, reforms in budget accounting are needed. These reforms should be aimed at replacing the cash principle of accounting with the adoption of a new regulatory framework for the accounting of budgets and budget users. With the introduction of modified cash accounting, all budget users will be obliged to adapt their information systems to the new requirements.
Priority pertaining to establishment of Public Finance Academy is important element of the integrated public finances within this Program.

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

Activities under this Program will create legal basis for establishment of the Public Finance Academy, while staffing, training and equipping the Academy will ensure its functionality, thus contributing to strengthened professional capacities of the administration in the field of public financial management.

Establishment of inter-institutional cooperation will provide for exchange of best practices and experience and improve the quality of Public Finance Academy work.

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

Objective

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

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

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

Measure 1: **IFMIS is fully operational to support the implementation of OBL reforms**

Activity 1: Development of IFMIS as an integrated centralized web-based system supporting decentralized operations;

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

Activity 3: Capacity strengthening (OBL Reform Unit), training and change management to support OBL reforms and countrywide IFMIS operations.

Outcome

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

Outcome indicators

1) Annual budget, including climate and gender tagging, prepared and executed through new IFMIS;
2) The required time for the processing of payments through IFMIS and Treasury Single Account interface was reduced (efficiency);
3) Ratio of budget coverage and comprehensiveness (central government budget managed and reported through IFMIS, %) improved;
4) Open Budget Index Score (transparency) increased.

Measure 1: IFMIS is fully operational to support the implementation of OBL reforms

Measure objective

To improve operational efficiency and transparency in public financial management by supporting the amendment of the legal and institutional organic budget framework and the introduction of Integrated Financial Management Information System (IFMIS) in the Republic of North Macedonia.

Reference to the external assessment findings:

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

Context / Background

Despite substantial progress in the PFM reforms since 2018, the lack of an integrated financial management information system (IFMIS) poses important challenges especially for the implementation of new OBL. The OBL's implementation will require changes to the entire PFM framework, including adjustments to institutional structures, secondary regulations, processes, and systems, and affect management and staff practices across the whole public sector. Implementation of the IFMIS will be key to the success of the OBL's broader implementation and strengthening the Ministry of Finance's performance of core PFM functions including budget planning and execution, public debt management, monitoring of public investments, data analytics, and business intelligence. This process also offers the opportunity to fill an existing gap and integrate climate change and gender considerations into the budget process and the associated systems. Having been advancing on assessing PFM processes and systems, comparing IFMIS implementation options, and preparing the detailed requirements in line with the reform priorities since 2019 together with support from the World Bank under the Organic Budget Law Technical Assistance ASA (P168027), the Government is now ready to progress to implementation.

In developing their IFMIS systems, countries across the globe have made different choices about the software development approach, choosing between commercial off-the-shelf (COTS) vs. custom software (CSW) solutions (or a combination of these options) based on what best fits their specific contexts. In the case of the new IFMIS, a custom software solution was selected by the MoF following a detailed review of possible IFMIS development models and international examples, and consideration of North Macedonia's context and needs. Particular factors contributing to the selection of the CSW approach included: (i) the need for sufficient flexibility in the business logic of the software for country-specific customization to support the implementation of the new OBL; (ii) the desire to have an integrated platform covering 15 modules supporting budget planning, execution, and other PFM functions; (iii) the ease of future maintenance and expansion provided by MoF's ownership of the source code of IFMIS custom software; (iv) the alignment of the software's expected implementation timeline with the Government's planned reform timeline; and (v) lower development and annual maintenance and support costs.

The IFMIS will be a centralized web-based shared platform to support decentralized operations (online/offline) by combining enhanced versions of existing PFM information systems with several new modules to create a cost-effective solution in a relatively short time. The new IFMIS is expected to optimize and simplify core PFM functions and provide reliable access to most of the budget entities freely through a web portal. Several PFM functions can still be decentralized but connected to the shared platform through web portal/interfaces. It is expected that around 1,400 central and local budget entities will be connected to IFMIS (including 500 state budget users/entities, 700 entities at municipality level, and 200 public enterprises), in addition to the MoF units. The total number of system users from all public entities is estimated at around 6,000, including 200 users from the MoF units.

Given change management's cross-cutting implications, implementation of the OBL and the IFMIS (as a part of that strategy) will also require strengthening the MoF's capacity to foster a high-level of inter-institutional coordination, cooperation, and collaboration with entities across Government as well as strategies to address resistance to changes in procedure from the rank and file, and to provide middle management with improved control over the pace and scope of reforms.

Activity 1: Development of IFMIS as an integrated centralized web-based system supporting decentralized operations

This activity will focus on the development of new IFMIS application software and relevant GovTech solutions to operationalize the new OBL, as well as the new/enhanced PFM processes. The competitive selection of the solution provider and the development and rollout of new IFMIS are two complementary parts of this activity. It includes the development of IFMIS based on a web-based custom software including capabilities for climate and gender tagging of expenditures, a data warehouse, and interfaces with other government systems, as well as a new PIM module. This activity will also include the implementation of citizen interfaces on the MoF's web portal to improve budget planning, transparency, and accountability.

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

New IFMIS will be a centralized web-based shared platform to support decentralized operations (online/offline) countrywide. Hence, existing data centers and network connectivity will be enhanced in line with the expected increase in the workload and operational needs. This activity will support the installation of new IFMIS servers, data storage units and replication systems in the existing MoF Main Data Center (MDC) and the shared Disaster Recovery Center (DRC) operated by the Ministry of Interior (including energy efficient hardware and engineering systems). Additionally, secure backup network connections will be established between the MDC and the DRC (transition to private government cloud as a part of the whole-of-government approach).

Activity 3: Capacity strengthening (OBL Reform Unit), training and change management to support OBL reforms and countrywide IFMIS operations

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

The MoF management decided to establish a dedicated OBL Reform Unit (or Sector according to the MoF organizational structure) in order to manage the countrywide implementation of IFMIS and other GovTech solutions supporting daily operations of the central and local government entities. The OBL Reform Unit's main objective is to contribute to the improvement of PFM capabilities and IFMIS operations with a focus on enhancing efficiency, reliability, and transparency of core government practices, systems, and services in accordance with international good practices. Further development and expansion of the Unit will take into consideration the evolving needs of the MoF in improving the quality of public financial management. This activity will also support the establishment of the new OBL Reform Unit in collaboration with the World Bank.

It will also support strengthening of the business continuity model through the development of a business continuity plan and disaster recovery skills for the MoF's main data center and business continuity / disaster recovery center operations.

Additionally, several other capacity building activities will be supported: (i) assist the MoF in introducing OBL reforms, and IFMIS capabilities, (ii) provide training support for the line agencies to implement the new PFM requirements, including the new climate informed methodologies, (iii) carry out other relevant training and awareness raising activities related to implementation of the OBL; and (iv) support capacity building on PIM, including PPP activities.

Implementation

Completed in year:	2024
Deliverables:	- New IFMIS is fully developed and deployed and connected with other government systems. - Existing MoF Main Data Center (MDC) and the shared Disaster Recovery Center (DRC) enhanced and network connectivity improved to support new IFMIS operations. - New OBL Reform Unit established, change management program developed and training of IFMIS specialists and users completed.
Cost implications:	EUR 10,500,000 (latest estimate)
Responsible entity:	Ministry of Finance
Risk:	- Insufficient staffing and insufficient training of human resource; - Postponing in adoption of OBL might postpone the implementation of the IFMIS; - Staff turnover; - Insufficient commitment of senior management.

Priority 2: Strengthen the accounting of budgets and budget users

Objective

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

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

Measure 1:	**Strengthening the accounting system by applying new accounting practices**
Activity 1:	Preparing a Strategy for Improvement of the Budget Institutions's Accounting with a gap analysis, setting priorities and goals and action plan;
Activity 2:	Adopting a new regulatory framework on accounting of budgets and budget users and bylaws;
Activity 3:	Harmonizing budget information systems and budget users with the new accounting requirements.
Measure 2:	**Capacity building of public sector accountants**
Activity 1:	Preparing training and exam curriculum for public sector accountants;
Activity 2:	Train-the-trainer for persons who will carry out the training of public sector accountants;
Activity 3:	Training and examination for certified accountants at the budget institutions.

Outcome

Improved financial reporting by establishing new accounting practices.

Outcome indicator

Percentage of budget users applying new accounting practices.

Measure 1: Strengthening the accounting system by applying new accounting practices

Measure objective

Determining the strategic direction for the development of modified cash accounting.

Reference to findings from external assessments:

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

Context/Background

Pursuant to the Law on Budget Institutions' Accounting, recognition of revenues and other inflows, expenditures and other outflows, contained in the general ledger of the budget institutions, is carried out according to the cash accounting principle. The transition from cash accounting at budget institutions will be provided with the adoption of a new regulatory framework on accounting of budgets and budget users and bylaw. It is necessary to prepare strategic guidelines for improving the budget institutions's accounting.

In order to strengthen the budget institution's accounting, Strategy for Improvement of Budget Institutions' Accounting is required to be prepared. Under the Strategy, gap analysis should be conducted to identify the non-compliance of public sector accounting with the international practice, followed by determining the priorities and the objectives for introduction of the modified cash accounting principle, and preparing an action plan for gradual transition from the cash accounting to the so-called modified cash accounting.

New regulatory framework on accounting of budgets and budget users and bylaws are envisaged to be adopted in 2022 and 2023. Such legislative changes will provide for implementing reforms in the field of budget accounting in order to replace cash accounting with the so-called modified cash accounting and adoption of new accounting standards for financial reporting in the public sector.

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

This measure will be implemented through the following activities:

- Preparing a Strategy for Improvement of Budget Institutions' Accounting with a gap analysis, setting priorities and goals and action plan;
- Adopting a new regulatory framework on accounting of budgets and budget users and bylaws;
- Harmonizing budget information systems and budget users with the new accounting requirements.

Implementation

Completed in year:	2025
Deliverables:	- Adopted Strategy for Improvement of Budget Institutions' Accounting; - Adopted new regulatory framework on accounting of budgets and budget users and bylaws arising from the respective law; - Harmonized budget institutions' information systems with the new accounting requirements.
Cost implications:	EUR 60,000
Responsible entity:	Ministry of Finance - Financial System Department, Treasury Department, Budget Department
Risk:	- Insufficient human capacity to carry out the activity.

Measure 2: Capacity building of public sector accountants

Measure objective

Capacity building of public sector accountants for the purpose of introducing modified cash accounting.

Reference to findings from external assessments:

PEFA 2021:	Capacity development for the public sector accounting profession is supported by technical assistance project, but most accounting staff are not trained in accrual accounting policies and techniques (interviews, other diagnostics).

Context/Background

Budget institutions conduct accounting according to the cash accounting principle. It is planned for this principle to be abandoned in the coming period, by implementing reforms in the field of budget accounting in order to replace the cash accounting with the so-called modified cash accounting.

Introduction of "modified cash accounting" also imposes the need to develop the capacity of the accounting profession in the public sector. Accounting profession reform will include mandatory training and certification of accountants in the public sector. These reforms are to be linked to and implemented through the envisaged establishment of the Public Finance Academy.

The Law on Budget Institutions' Accounting will prescribe that accounting activities in the public sector will be performed by certified public sector accountants. Mandatory training for accountants will be introduced under the respective Law, as well as an obligation for such accountants to have passed the exam for certified public sector accountants.

Curriculum for the training and the exam for public sector accountants is required to be prepared so as for the mandatory training and the exam for obtaining a certificate for public sector accountant to be carried out. Training and exams for public sector accountants will be organized by the Public Finance Academy, to be established within the Ministry of Finance will carry out the training and irganize the exam.

Train-the-trainer is envisaged to be carried out in the coming period, so as to train the persons who will carry out the public sector accountants training. Given the number and the size of budget users in the Republic of North Macedonia, it is reasonable to expect a greater need for training during the first years of the public sector accountants training. Trainer profile should be determined based on the contents of the curriculum and the need for practical training in the field of budget accounting.

It is necessary to renew the tutoring staff continuously, and a flexible training scheme for the respective should be introduced.

Training and exams for public sector accountants will be organized by the Public Finance Academy. In the period 2022-2025, one of the challenges the MoF will face is to train and certify all public sector accountants. The certificate issued following the passing of the exam for pursuaing the accounting practice in the budget institutions will be a prerequisite for both obtaining the title of public sector accountant and working in the accounting units of the budget institutions. To avoid the risk of not being able to train all accountants in a short period of time, a transition period of three years for obtaining the respective certificate will need to be envisaged.

This measure will be implemented through the following activities:

- Preparing training and exam curriculum for public sector accountants;
- Train-the-trainer for persons who will carry out the training of public sector accountants;
- Training and examination for certified accountants at the budget institutions.

Implementation

Completed in year:	2025
Deliverables:	- Prepared training and exam curriculum for public sector accountants; - Conducted train-the-trainer for persons who will carry out the training; - Carried out training and exam for certified public sector accountants.
Cost implications:	EUR 60,000
Responsible entity:	Ministry of Finance – Department for Organizing Training and Exams (PFM Academy), Financial Inspection Department, Treasury Department,

	Budget Department
Risk:	- Insufficient human capacity to carry out the activity.

Priority 3: PFM Academy

Objective

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

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

Measure 1:	**Establishing a Public Finance Academy**
Activity 1:	Creating a legal basis for establishing and functioning of the Public Finance Academy;
Activity 2:	Strengthened human resources capacities of the Public Finance Academy, through staffing, training and equipping.
Measure 2:	**Preparing and implementing a curriculum**
Activity 1:	Preparing methodological tools for implementation of the activities of the Public Finance Academy;
Activity 2:	Preparing Annual Work Program.
Measure 3:	**Inter-institutional cooperation**
Activity 1:	Establishing cooperation with domestic and foreign institutions.

Outcome

Provided continuous education in the field of public financial management.

Outcome Indicator

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

Measure 1: Establishing a Public Finance Academy

Measure Objective

Strengthening the professional capacities of the administration in the field of Public Financial Management through the establishment of well-functioning Public Finance Academy.

Reference to the external assessments findings:

EU:	It is expected to provide continuous and systematic training of experts in public finance sector, through the establishment of the Public Finance Academy. The adoption of the Law on the Public Finance Academy is still pending.

Context/Background

Trainings in the field of public finance, as well as certification and licensing for internal auditors and financial inspectors so far have been conducted partially and without any continuity. In general, they were organized within the twinning projects implemented so far.

Purpose of providing continuous education and certification of public administration in the field of public financial management, determines the need to establish Public Finance Academy in the Ministry of Finance.

Activity 1: Creating a legal basis for establishing and functioning of the Public Finance Academy

Within this activity, the internal acts for organization and systematization of the Ministry of Finance will be changed, and a new organizational unit of the Public Finance Academy will be established.

In order to create a legal basis for the functioning of this sector, under the separate laws governing the areas related to public financial management, it is necessary to add provisions that will prescribe the organization and implementation of trainings in the respective area through the Ministry of Finance.

Activity 2: Strengthened human resources capacities of the Public Finance Academy, through staffing, training and equipping

Within this activity, it is necessary to implement the following sub-activities:

- Staffing of the Public Finance Academy;
- Training of the employees in the Public Finance Academy, pertaining to organization and carrying out of trainings; and
- Equipping of the Public Finance Academy with the necessary furniture, information and technical equipment.

Implementation

Completed in year:	2025
Deliverables:	- Amended acts for organization and systematization of the Ministry of Finance, under which the Public Finance Academy was established; - Modified and amended laws; - Staffed and equipped Public Finance Academy.
Cost implications:	EUR 116,000
Responsible entity:	Ministry of Finance
Risk:	- Insufficient staffing and training as regards staff resources; - Delays in the adoption of the modified and amended laws.

Measure 2: Preparing and implementing a curriculum

Measure Objective

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

Context/Background

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

Activity 1: Preparing methodological tools for implementation of the activities of the Public Finance Academy

Within this activity, methodological tools (manuals, instructions and similar) will be prepared, pertaining to the operations of the Public Finance Academy, as well as the bylaws, which will need to be prepared upon the adoption of the amendments to the laws under Measure 1.

Activity 2: Preparing Annual Work Program

Within this activity, a practice should be established for continuous preparation of the Annual Work Program and the curricula, pertaining to the operations of the Academy.

Implementation

Completed in year:	2025
Deliverables:	- Prepared work manuals and instructions and bylaws; - Prepared annual work Program and curricula; - Satisfaction of the participants with the carried out trainings (low, medium or high level of satisfaction); - Number of organized trainings.
Cost implications:	EUR 278,000
Resoponsible entity:	Ministry of Finance
Risk:	- Insufficient staffing and training as regards staff resources.

Measure 3: Inter-Institutional Cooperation

Measure Objective

Establishment of inter-institutional cooperation in order to ensure the exchange of experience, provide support throughout the operations, as well as improve the quality of the operations of the Academy.

Context/Background

Ministry of Finance, on the basis of appropriate cooperation agreements, has already established bilateral cooperation with the Ministry of Finance of the Netherlands, as well as with the Dutch Academy for Finance and Economics and the Center of Excellence in Finance (CEF-Ljubljana) from Slovenia. Upon the establishment of the Academy, the already established cooperation will have to be deepened and expanded with other domestic and foreign institutions.

Activity 1: Establishing cooperation with domestic and foreign institutions

As regards this activity, activities will be implemented (working meetings, signing of memorandums of cooperation, etc.), pertaining to establishing cooperation with domestic and foreign institutions in order to improve and develop the process of education in the field of public finance through gained experiences and lessons learned from institutions operating in this field for a long time (universities, the Academy for Finance and Economics in the Netherlands, CEF Ljubljana, Slovenia, public finance academies from other countries, etc.).

Implementation

Completed in year:	2025
Deliverables:	Signed cooperation agreements with domestic and foreign institutions.
Cost implications:	/
Responsible entity:	Ministry of Finance
Risk:	Insufficient staffing and training as regards staff resources.

PILLAR VI - Public Internal Financial Control

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

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

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

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

New priority has been introduced in this Program, Financial Inspection, to the end of professional development and improvement of financial inspection function, which will contribute to increasing the quality of financial control in order to protect the financial interests of public sector entities and the use of EU funds.

Planned measures and activities will provide for enhanced legislation and bylaws, introducing models for monitoring the efficiency and the performance of financial inspectors and their remuneration, as well as measuring the increase of the added value of the financial inspection function.
Capacities of financial inspection human resources will be aslo strengthened by increasing the number of employees in the public sector financial inspection, their licensing and providing vocational training and continuous professional development of the financial inspectors.

Priority 1: Financial Managemnet and Control

Objective

Increased effectiveness of internal controls in public sector financial management

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

Measure 1:	**Establishment of a comprehensive system of financial management controls based on risk management**
Activity 1:	Preparation of Financial Management and Control Manual and its publication on the Ministry of Finance's website;
Activity 2:	Adoption and publication of Guidelines on the Manner of Checking the Quality of Financial Management and Control;
Activity 3:	Strengthen the capacity of the CHU to check the quality of financial management and control;
Activity 4:	Establishment of a network of institutions' financial affairs units in coordination with the CHU, for exchange of experiences, best practices and raising awareness at public sector entities about responsibilities for the quality of financial management and control.

Outcome

Prepared and applied procedures for key financial management processes based on risk management.

Outcome indicators

Percentage of implemented recommendations given during quality checks.

Measure 1: Establishment of a comprehensive system of financial management controls based on risk management

Measure objective

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

Reference to findings from external assessments:

PEFA 2021:	Continuous efforts are made to promote sound financial management and control through internal rules and procedures, with a view to strengthen decentralized management and control in spending units. (PI-25). Operationalization of the managerial accountability concept through delegation of *budgets for programs under their purview will require* stronger independent assurance on adequacy and effectiveness of the prescribed controls. The initiative is complementary to internal and external audit work on strengthening internal controls and could compensate for some of coverage gaps in those functions due to resource constraints. Links with the ongoing initiatives to strengthen integrity and quality management in

	public institutions can be better leveraged. **Proposed Action** Enhance the capacity of MoF CHU to carry out quality reviews of risk management and internal control effectiveness. Guidelines envisaged under the new PIFC Law should allow the MoF to assess effectiveness of internal control procedures in spending units.
SIGMA 2021:	Although the operational framework of internal control is generally in place, the implementation of good practices for IC and managerial accountability suffers from the scattered accountability structure in the overall organization of the public administration. Not all budget organisations follow the legal obligations for putting in place internal procedures for the delegation of tasks, risk management and the definition and monitoring of performance indicators. PIFC-related manuals do not appear to be consistently applied by budget organisations, and the IC requirements are perceived as an administrative burden rather than as useful management tools. The new PIFC Law introducing the concept of parent budget users can potentially streamline accountability, monitoring and reporting lines.
EU:	North Macedonia is **moderately prepared** in this area. **Limited progress** has been made with the improvement of the internal control system and managerial accountability in budget users on central and local level. In the coming year, the country should in particular adopt and efficiently implement the new PIFC Law and methodological tools in order to ensure improved transparency, managerial accountability and sound management of public funds.

Context/Background

Internal controls in public sector financial management are moderately effective. Limited progress has been made in establishing managerial accountability among budget users at central and local level. In the coming period, it is necessary to adopt and effectively implement the new Organic Budget Law and the Law on Public Internal Financial Control System and their methodological tools on order to ensure their efficient implementation. The draft Law on Public Internal Financial Control System defines the new model of managerial accountability according to which the head of the parent budget user is accountable for the development of an efficient and effective system for financial management and control of the body having appointed the respective head, the head of the budget user is accountable to the head of the parent budget user, and the head of the publicly owned enterprise is accountable to the supervisory board. Thereby, the head of the budget user and the head of the publicly owned enterprise adhere to the procedures and guidelines given by the parent budget user.

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

Therefore, a need arises to prepare new Manual for Financial Management and Control, which will be harmonized with the International Framework for Internal Control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as well as the best practices.

Activity 1: Preparation of Financial Management and Control Manual and its publication on the Ministry of Finance's website

Central Harmonization Unit, in cooperation with Twining Project experts, will prepare a new Financial Management and Control Manual. Final version of the Manual will be published on the Ministry of Finance's website.

Activity 2: Adoption and publication of Guidelines on the Manner of Checking the Quality of Financial Management and Control

Central Harmonization Unit, in cooperation with Twining Project experts, will prepare a new Guidelines on the Manner of Checking the Quality of Financial Management and Control. Following its adoption by the Minister of Finance, it will be published in the "Official Gazette of RSM".

Activity 3: Strengthen the capacity of the CHU to check the quality of financial management and control

Capacity of CHU to check the quality of financial management and control will be strengthened by establishing a new Unit for Quality Check of Financial Management and Control and the Operations of Internal Audit, as well as employee staffing and training.

Activity 4: Establishment of a network of institutions' financial affairs units in coordination with the CHU, for exchange of experiences, best practices and raising awareness at public sector entities about responsibilities for the quality of financial management and control

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

Implementation

Completed in year:	- 2025
Deliverables:	- Prepared Financial Management and Control Manual - Adopted Guidelines on the Manner of Checking the Quality of Financial Management and Control - Strengthen the CHU capacities - Number of institutions in which quality checks have been performed - Number of member institutions of the web platform
Cost implications:	- EUR 335,000
Responsible entity:	- Ministry of Finance
Risk:	- Insufficient staffing and insufficient training of human resources

Priority 2: Internal Audit

Objective

Increased effectiveness of public sector internal audit.

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

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

Activity 1: Preparation and approval of "Internal Audit Organization Plan" for all Ministries by the Government;

Activity 2: Modifying and amending the Ministries' internal acts for organization and systematization in accordance with the "Internal Audit Organization Plan";

Activity 3 Strengthening CHU's capacities for checking the quality of operations of the internal audit units;

Activity 4: Establishment of a network of institutions' internal audit units in coordination with the CHU, for exchange of experience and best practices.

Measure 2: **Centralization of the powers and the capacities for advanced types of internal audits (performance audit and IT audits) in the Ministry of Finance**

Activity 1: Establishment of a Department for Centralized Conducting of IT Audits and Performance Audits;

Activity 2: Signing a Charter for Conducting IT Audits and Performance Audits with the Ministries.

Outcome

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

Outcome indicators

1) Percentage of implemented recommendations given during quality checks;
2) Number of internal auditors in Ministries;
3) Percentage of implemented recommendations.

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

Measure objective

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

Reference to findings from external assessments:

PEFA 2021:	MoF CHU reported 91 established internal audit units, staffed with over 130 internal auditors as of May 2021, for all public sector institutions at the central government level. Excluding PEs and EBUs from the totals, there are 13 internal audit units (IAU) which are covering 91.75 percent and 91.61 percent of CG revenue and expenditure, respectively, within the assessment scope. Under the Law on PIFC in force at the time of the assessment, internal audit can be established as IAU (at least two internal auditors) and Internal Audit Department (IAD, at least five internal auditors), depending primarily on the average size of the budget in the past three years. Institutions mandated to establish the IA function include all the CG ministries and SSFs. Other institutions are required to establish the function, provided their average budgets in the last three years exceeded the threshold of Denar 50 million.
SIGMA 2021:	The annual PIFC reports provide comprehensive information on organisational capacity and numbers of reports and recommendations. It does not report on the quality of IA as assessed through quality assurance measures because a formal system for quality assurance is lacking at CHU level. CHU plans to develop an adequate quality assurance methodology and train the staff and afterwards proceed with “pilot” quality assurance measures. The implementation will be challenging if the problems of fragmented organisation and understaffing are not first addressed. In terms of the operational framework required to implement IA, laws and regulations are consistent with the international standards and specify appropriate operational arrangements. However, the staffing of the IA function does not meet minimum requirements, and basic quality assurance arrangements for IA are not yet in place. The decision to lower legal requirements on the size of IA units may prove to jeopardise the sustainability of IA systems. The small average size of IA units, combined with understaffing and low qualifications, has an impact on the quality of the audit activities. Although 70% of IA units prepare strategic and annual audit plans based on a risk assessment, these plans generally lack ambition and fail to address high-risk and complex issues. Audit reports, although demonstrating a credible link between evidence and conclusions, are generally focused on compliance issues with a narrow scope.

Context/Background

Out of a total of 16 ministries, IA Units in 4 Ministriesm are not staffed, IA Units in 3 ministries employe only ine person each, and UA Units in 9 ministries have no heads of the respective Units. IA Units are organized as departments in 13 ministries. Having in mind that under the new Law on Public Internal Financial Control System, the ministries will be assigned the role of parent budget users which are to conduct internal audit in their administrative bodies, second-line budget users and public enterprises and state-owned joint stock companies falling within their competence, it is necessary to undertake urgent measures for reorganization of IA Units and their staffing.

Lack of continuous professional development of internal auditors imposes the need to establish a central body to organize and conduct training.

In order to strengthen IA Units, it is required to conduct more agile quality checks of their work, for the purpose of which the Central Harmonization Unit will prepare adequate methodological tools and establish a web network for institutional cooperation and exchange of experience to be coordinated by CHU.

Activity 1: Preparation and approval of “Internal Audit Organization Plan” for all Ministries by the Government

Each Ministry will submit “Internal Audit Organization Plan” to the Government, to be prepared on the basis of a functional analysis carried out by the respective Ministry as a parent budget user, taking into account the number of employees and the budget of the Ministry, its administrative bodies, second-line budget users and public enterprises and joint stock companies falling within its competence in which internal audit is to be performed, should they have no IA Unit or should the IA Unit be non-functioning.

Activity 2: Modifying and amending the Ministries' internal acts for organization and systematization in accordance with the "Internal Audit Organization Plan"

Following the approval of the "Internal Audit Organization Plan" by the Government, on the basis of prior obtained positive opinion from the Ministry of Finance, the Ministries will modify and amend the acts for organization and systematization pertaining to IA Units and will equip them by 31st December 2022.

Activity 3: Strengthening CHU's capacities for checking the quality of operations of the internal audit units

Capacity of CHU to check the quality of work of IA Units will be strengthened by establishing a new Unit for Quality Control of Financial Management and Control and the Operations of Internal Audit, as well as employee staffing and training.

Activity 4: Establishment of a network of institutions internal audit units in coordination with the CHU, for exchange of experience and best practices

Under this activity, IA units will be provided access to the newly established web platform "Network of Institutions' Financial Affairs Units" in coordination with the CHU in order to ensure cooperation and exchange of experience.

Implementation

Completed in year:	2025
Deliverables:	- Number of ministries with approved "Internal Audit Organization Plan"; - Reorganized and staffed IA Units in the Ministries; - Strengthen CHU capacities; - Number of institutions in which quality checks have been performed; - Number of member institutions of the web platform.
Cost implications:	- EUR 750,000
Responsible entity:	- Ministry of Finance - Central Harmonization Unit
Risk:	- Lack of internal auditors on the labor market; - Insufficient IT technical support for web platform.

Measure 2: Centralization of the powers and the capacities for advanced types of internal audits (performance audit and IT audits) in the Ministry of Finance

Measure objective

Increasing the number of conducted performance audits and IT audits which will contribute to improving the work of central-level institutions.

Reference to findings from external assessments:

PEFA 2021	While greater focus is to be expected on value for money in service delivery and digitization of services, there are low numbers of IT and performance audits carried out by internal auditors. Skills needed for these audits may not be available to the extent to meet the demand. This is to be exacerbated with the expected further decrease in the number of internal auditors in the public sector. Note that the compliance considerations (including irregularity management and funds recovery) should be increasingly tackled by the MoF FID (see above). PEFA Report Proposed Action (PEFA) Consolidate (centralize) the mandate and the capacity for advanced types of audits (performance audit and IT internal audits) at the MoF. If legislating this arrangement is not an option as the new PIFC Law is in legislative procedure, consider addressing this through updates of the Internal

	Audit Charters of the MoF and BCG entities.

Context/Background

Number of processes that are partially or completely digitalized is continuously increasing in the institutions' opertaions. In addition, number of implemented projects and programs is constantly growing, however, determining the performance of their implementation is lacking actually. On the other hand, number of conducted performance audits and IT audits is continuously low. Main reasons for the low number of conducted performance audits and IT audits is the insufficient training of internal auditors to conduct this type of audits, such as the low level of staffing of internal audit units.

In order to increase the number of conducted performance audits and IT audits, it is necessary to establish a Department for Centralized Conducting of IT Audits and Performance Audits in the Ministry of Finance. This Department needs to be staffed with an adequate number of internal auditors, properly trained to conduct these types of audits.

Activity 1: Establishment of a Department for Centralized Conducting of IT Audits and Performance Audits

Establishing a Department for Centralized Conducting of IT Audits and Performance Audits by amending the internal acts for organization and systematization of the Ministry of Finance, its staffing and training of internal auditors.

Activity 2: Signing a Charter for Conducting IT Audits and Performance Audits with the Ministries

Preparing and signing a Charter for Conducting IT Audits and Performance Audits with the Ministries

Implementation

Completed in year:	- 2025
Deliverables:	- Signed Charter for Conducting IT Audits and Performance Audits with the Ministries; - Number of conducted performance audits and IT audits.
Cost implications:	- EUR 96,000
Responsible entity:	- Ministry of Finance Central Harmonization Unit
Risk:	- Insufficient number of auditors to work in this Department.

Priority 3: Financial Inspection

Objective

Professional development and strengthening the financial inspection function as basis for increasing the quality of financial control in order to protect the public financial interests.

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

Measure 1:	**Strengthening the institutional basis of the financial inspection function**
Activity 1:	Improving the legal framework;
Activity 2:	Introducing a system of performance-based annual remuneration for financial inspectors;
Activity 3:	Improved methodologies and systematization (increasing the value added of the financial inspection function).
Measure 2:	**Strengthening the capacity of financial inspection human resources**
Activity 1:	Designing a concept for obtaining a license for financial inspector;
Activity 2:	Preparing an annual training program for financial inspectors.

Outcome

Professional and advanced financial inspection function.

Outcome indicators

1) Number of employed / promotion financial inspectors who can independently perform financial inspection;
2) Number of conducted inspections to control compliance with the provisions of the laws regulating the financial inspection;
3) Number of received applications/reports;
4) Amount of funds returned in the Budget of RNM.

Measure 1: Strengthening the institutional basis of the financial inspection function

Measure objective

Improving the institutional set-up of the financial inspection function as basis for achieving optimal level of efficiency and effectiveness of the financial inspection in controlling the use of both public funds by the public sector entities and EU funds.

Reference to findings from external assessments:

PEFA	**Issues Identified** MoF FID is running a substantial backlog on examining and sanctioning irregularities and breaches of compliance due to resource constraints (see PI-22). This will only increase once the competences of the FID for enforcing the misdemeanor provisions over the Law on Accounting are clearly spelled out under ongoing amendments. (interview) **Proposed Action** Staff the MoF FID proportionate to its scope of work, based on work-load analysis and

	anticipated new tasks. Consider reassigning experienced treasury staff, to be released as FMIS controls are automated, to inspector roles.
EU:	**EC North Macedonia 2021 Report** The efficient functioning of the financial inspection is yet to be achieved. Further harmonisation of the legal basis is needed, as well as development and implementation of methodological tools, which will provide for sound financial management. Continuous training and building up of capacities of financial officers and inspectors should be ensured too.

Context/Background

On the basis of the analysis of the existing legal framework in the field of financial Inspection, need for improvement has been identified as basis for increased efficiency and effectiveness of financial inspection in the public sector when controlling the management and spending of public funds, the ultimate goal thereof being public interest protection.

Within IPA "Strengthening Budget Planning, Execution and Internal Control Functions" Twinning Project, series of activities were carried out to assess the overall financial inspection regulations with recommendations for improvement and comparative analysis based on lessons learned and best practices of financial inspection and EU Member States. The analyses identify an urgent need to improve the legal framework for financial inspection, introduce models for monitoring the efficiency and performance of financial inspectors and their remuneration, etc.

Activity 1: Improving the Legal Framework

All regulations on financial inspection, including the Laws below, were assessed within the IPA "Strengthening Budget Planning, Execution and Internal Control Functions" Twinning Project:

- existing Law on Financial Inspection in the Public Sector, as a basic law which prescribes all important characteristics of the financial inspection,
- Organic Budget Law, Law on Public Internal Financial Control, Law on Financing Local Self-Government Units, Law on Financial Discipline and Law on Reporting and Recording of Liabilities, as substantive laws determining the financial inspection as an entity in charge of supervising compliance with the provisions of these laws, and
- Law on Misdemeanours and Law on Inspection Supervision, as systemic laws prescribing provisions on misdemeanour procedure and provisions on all inspection services.

Report has been prepared on the basis of the assessment, containing detailed recommendations for improving the Law on Financial Inspection in the Public Sector. Comparative analysis was also carried out within the Project, on the basis of lessons learned and best practices from the financial inspection and EU Member States. These activities were solid basis for preparation of new Law on Financial Inspection in the Public Sector, which is in the phase of final harmonization with all stakeholders, and it will be adopted in accordance with the legal procedures and the deadlines.

Activity 2: Introducing a System of Performance-Based Annual Remuneration for Financial Inspectors

On the basis of legally prescribed criteria that include strong commitment and quality when performing tasks and duties, significant contribution to financial inspection function and percentage of cases acted upon, financial inspectors can be rewarded once during the calendar year with a reward in the amount of monthly wage paid in the previous month. This activity is expected to stimulate a productive competition among the financial inspectors, which will ultimately affect the effectiveness, number and quality of supervisions conducted by the financial inspection.

Activity 3: Improved Methodologies and Systematization (increasing the value added of the financial inspection function)

New Law on Financial Inspection in the Public Sector envisages a series of changes to the existing ones, as well as preparation of new bylaws on financial inspection, as follows

- preparation of methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector, and
- preparation of methodology for gathering and processing statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector.

Adoption of these methodologies will provide for measuring the value added of the financial inspection function.

Regarding the identified risks, as well as the performed functional analysis for the organizational unit - Department for Public Sector Financial Inspection and Coordination of Combating Fraud against EU Funds, analysis was prepared as regards the needed number of employees, the Department's organizational set-up and vacancies in line with the Rulebook on Modifications and Amendments to the Rulebook on Systematization of Work Posts in the Ministry of Finance.

According to the results from the performed functional analysis, need has arisen to establish another Financial Inspection Unit, with total optimal number of employees in the Financial Inspection Department of 18 persons. Prerequisite for the optimal number of employees in the financial inspection is to implement the following sub-activities:

- modifications and amendments to the Rulebook on Organizational Set-Up and the Rulebook on Systematization of Work Posts in the Ministry of Finance

- staffing the financial inspection in the public sector, and

- conducting an exam for obtaining a license for financial inspector.

Implementation

Completed in year:	2025
Deliverables:	- Adoption of a new Law; - Modified and amended Rulebook on Organizational Set-Up and Rulebook on Systematization of Work Posts in the Ministry of Finance; - Adopted methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector; - Adopted methodology for gathering and processing statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector; - Introduced System of Performance-Based Annual Remuneration for Financial Inspectors; - Adopted Programme for Theoretical Training and Practical Work; - Adopted Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.
Cost implications:	- EUR 226,000
Responsible entity:	- Department for Public Sector Financial Inspection and Coordination of Combating Fraud against EU Funds.
Risk:	- Insifficient human capacity;

	- Law on Public Sector Financial Inspection not being adopted; - Rulebook on Organizational Set-Up and Rulebook on Systematization of Work Posts in the Ministry of Finance not being modified and amended; - Exam for obtaining a license for financial inspector not being conducted.

Measure 2: Strengthening the Capacity of Financial Inspection Human Resources

Measure objective

Strengthening the capacities of financial inspection human resources by increasing the number of employees in the public sector financial inspection, organizing and conducting an exam for obtaining a license for financial inspector and increasing the number of financial inspectors who will be able to independently perform financial inspection.

Reference to findings from external assessments:

SIGMA:	Discussion Paper for the Fifth Regional Conference on Public Internal Financial Control - Guidelines for PIFC Compliant Financial Inspection, September 2019 1. The ex post control function of financial inspection should check the cases of serious mismanagement, suspected professional misconduct and negligence 2. Financial inspection should only check compliance with laws, regulations, rules and national and international agreements 3. Financial inspection should cover the whole public sector 4. Financial inspection should be a reactive control activity 5. Financial inspection should be a centralized, professional control function 6. Financial inspections should be based on risks 7. Financial inspectors should have unlimited access to premises and documentation of the inspected entity 8. Financial inspection should hold perpetrators administratively liable 9. Financial inspection should report to the entity inspected and to the institution responsible for that entity. If the institution responsible for the entity inspected is involved in the FI, the FI institution should report to the next, higher level. The annual FI report should be discussed at government level and published on the FI website. 10. Financial inspection requests to eliminate violations of laws and regulations should be followed-up regularly 11. Financial Inspection should cooperate with functional national and international partners

Context/Background

On the basis of the analysis of the workload of the Financial Inspection, which is carried out at the end of each year, taking into account the large number of applications received for conducting financial inspection in the public sector and the ongoing reforms in the field of financial inspection, need has arisen to expand the structure of the organizational unit for financial inspection in the Ministry of Finance and to increase the number of financial inspectors who will be able to independently perform financial inspection.

Analyses have shown an urgent need to strengthen the financial inspection capacities and to ensure continuous professional development of the financial inspectors. Otherwise, there is a risk of failure to carry out the legally prescribed inspection of compliance with the legal provisions by many public sector entities, which in turn results in inconsistent implementation of policies for sound financial management and economical, efficient and effective spending of public funds. At the same time, this leads to statue of limitations as regards initiating misdemeanour proceedings for a certain part of the received applications for conducting financial inspection.

Activity 1: Designing a concept for obtaining a license for financial inspector

New Law on Financial Inspection in the Public Sector envisages a new way of attending training and taking the exam for obtaining a license for financial inspector. This imposed the need to prepare new bylaws and internal acts that will prescribe in details all aspects related to the new way of attending training, which includes three months of theoretical training and nine months of practical work at the workplace, as well as taking the exam for obtaining a license for financial inspector.

This activity includes the following sub-activities:

- preparation and adoption of a Programme for Theoretical Training and Practical Work;
- preparation and adoption of a Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.

Activity 2: Preparing an Annual Training Programme for Financial Inspectors

On the basis of the annual assessments of the training needs of the financial inspectors, in order to provide vocational training and continuous professional development of the financial inspectors, Annual Training Programme for Financial Inspection will be prepared and adopted.

Implementation

Completed in year:	2025
Deliverables:	- Adopted Annual Training Programmes for Financial Inspection; - Conducted exam for obtaining a license for financial inspector; - Staffed financial inspection in the public sector.
Cost implications:	- EUR 15,000
Responsible entity:	- Department for Public Sector Financial Inspection and Coordination of Combating Fraud against EU Funds.
Risk:	- Insifficient human capacity; - Law on Public Sector Financial Inspection not being adopted; - Annual Training Programmes for Financial Inspection not being adopted; - Exam for obtaining a license for financial inspector not being conducted.

PILLAR VII - External Control and Parliamentary Oversight

Priorities under this pillar are aimed at strengthening independence and efficiency of state audit. The priorities will contribute to improving public finance management and providing transparency and accountability in the use of public funds by strengthening external audit legal framework through achieving SAO constitutional independence, strengthening SAO financial and operational independence in line with INTOSAI principles, standards and guidelines and strengthening SAO institutional and human resource capacities.

By increasing SAO visibility and improving communication processes with stakeholders via electronic tools and media, the effects of performed audits and added value of SAO operation will also increase.

The efficiency of state audit will be improved through modernization of audit processes and use of modern equipment and working conditions, as well as modern audit tools, methodologies and techniques.

Setting up effective mechanism for reviewing audit reports by the Assembly as well as for taking measures upon audit recommendations, and strengthening institutional capacities for reviewing audit reports in the Assembly, will strengthen the effects of audit, and the accountability and transparency in the use of public funds.

Priority 1: External Audit

Objective

Strengthening public finance management and ensuring transparency and accountability of the use of public funds through:

- strengthening external audit legal framework by achieving constitutional independence of SAO and strengthening financial and operational independence in line with INTOSAI principles, standards and guidelines, and
- strengthening the institutional capacities and the capacities of the human resources of the SAO.

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

Measure 1: **Strengthen legislative framework for external audit**

Activity 1 Initiating constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI;

Activity 2: Strengthening external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines.

Measure 2: **Strengthen the institutional capacity and human resource capacities of the SAO**

Activity 1: Preparation of new and improved strategic, planning and methodological acts of the SAO;

Activity 2: Strengthen the capacity to conduct audits;

Activity 3: Increasing the visibility of the SAO and communication with the stakeholders.

Outcome

1) Reduced tax evasion and increased fiscal discipline / increased revenues in the Budget of RNM;
2) Adhered principles in awarding public procurement contracts.

Outcome indicators

1) Established amountof funds with audits that have not been paid in the Budget of RNM;
2) Established amount of funds in awarding public procurement contracts where irregularities have been identified with the audits.

Measure 1: Strengthen the legal framework for external audit

Measure Objective

Strengthening constitutional, financial and operational independence of the State Audit Office by amending the Constitution of RNM and enacting new State Audit Law and bylaws, in accordance with the principles, standards and guidelines of INTOSAI.

Reference to findings from external assessments:

SIGMA 2021:	The legal framework includes sufficient provisions for the independence and mandate of the SAO, but its independence is not yet anchored in the Constitution. Although no interference by the executive has been experienced in practice, the SAO has invested considerable efforts in improving its external communication.
EU:	The State Audit Office (SAO) law is largely harmonised with the International Organisation of Supreme Audit Institutions (INTOSAI) standards. Nevertheless, further harmonisation of the legal framework is currently on-going in order to ensure improved external audit function in public sector as well as enhanced financial and operational independence of SAO. The constitutional amendments providing for SAO's independence are not yet introduced.

Context/Background

The evaluation reports from relevant international organizations, as well as North Macedonia Report 2021 of the European Commission regarding External Audit Area indicate the following aspects for improvement:

- independence of the State Audit Office to be guaranteed by the Constitution of RNM;
- legal framework is largely in line with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). However, further alignment of the legal framework is currently under way to ensure improved external audit function in the public sector, as well as to increase SAO financial and operational independence;
- in the upcoming period SAO will continue to strive for effective completion of the procedure for regulating constitutionality of the State Audit Office and adoption of new State Audit Law to strengthen SAO financial and operational independence in line with INTOSAI principles, standards and guidelines.

Activity 1: Initiating constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI

Preparation of a draft amendment to the Constitution of RNM for regulating SAO as a constitutional category and submitting the amendment to the Assembly of the RNM.

Activity 2: Strengthening external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines

Defining new draft State Audit Law for strengthening SAO financial and operational independence and presenting the new Draft Law to the Assembly of the Republic of North Macedonia for adoption.

Preparing proposals for bylaws based on the improved legal framework.

Implementation

Completed in year:	2025
Deliverables:	- New draft State Audit Law for strengthening SAO financial and operational independence prepared within the Twinning project and submitted to the Assembly of RNM; - Draft amendment to the Constitution of the RNM for regulation of SAO as a constitutional category prepared within the Twinning project

	and submitted to the authorized proposer of the constitutional amendment to be presented to the Assembly of RNM; - Proposals for bylaws based on the improved legal framework.
Costs implications:	- EUR 21,000
Responsible entity:	- State Audit Office in cooperation with the authorized proposer of the constitutional amendment, Ministry of Finance, the Government of RNM and the Assembly of RNM
Risk:	- New draft State Audit Law for strengthening SAO financial and operational independence not submitted and not adopted by the Assembly of RNM; - The proposal for amending the Constitution of RNM for regulating the SAO as a constitutional category was not submitted by the authorized proposer of the constitutional amendment and was not adopted by the Assembly of RNM.

Measure 2: Strengthening the institutional capacity and human resource capacities of the SAO

Measure Objective

Strengthening the institutional capacities and human resources capacities of the SAO in order to increase the effects of the performed audits and the added value of the SAO's work.

Reference to findings from external assessments:

PEFA 2021:	External audit focus remains largely on the compliance, which may pose less of a risk in the medium-term as systemic PFM issues are addressed through other PFM reform streams. There is still limited information from independent evaluation of government policies (especially with respect to outcome and impact). (PI-8.4) Financial risks of municipalities are not analyzed in a consistent manner on an individual or group basis.
SIGMA 2021:	During recent years, the SAO further improved the institutional framework to produce ISSAI-compliant audit reports. It has adopted new manuals for regularity and performance audit that are compliant with the ISSAIs. The audit procedures increasingly emphasize quality control and assurance. Most audit recommendations are accepted by the auditee and their implementation is in progress.
EU:	Progress has been made in raising public awareness of SAO's activities, increase interest of media as well as in implementing the Communication Strategy 2020-2023. The quality of audit work can be considered as sufficient and harmonised with the INTOSAI standards. As regards the impact of the audit work, the SAO's recommendations are not efficiently implemented by the auditees.

Context/Background

The evaluation reports from relevant international organizations, as well as North Macedonia Report 2021 of the European Commission regarding External Audit Area indicate the following aspects for improvement:

– SAO recommendations to be effectively implemented by the audited entities;

– SAO makes significant efforts to improve its external communication.

The State Audit Office will continue strengthening its institutional capacity by strengthening resources for conducting audits, especially in terms of drafting new and improved strategic, planning and methodology acts, increasing the number of performance audits, as well as increasing the scope of audited expenditure. SAO will continue modernizing audit processes by using advanced equipment and working conditions, modern audit tools, methodologies, techniques and innovative presentation of audit results to the public, and by strengthening cooperation with stakeholders, with the aim of increasing the degree of implementation of audit recommendations and the effects and added value of SAO work.

Activity 1: Preparation of new and improved strategic, planning and methodological acts of the SAO

The institutional capacities and the human resources capacities of the SAO by preparing new and improved strategic, planning and methodology acts of the SAO in accordance with the principles, standards and guidelines of INTOSAI.

Activity 2: Strengthen the capacity to conduct audits

The institutional and human resource capacities of the SAO will be strengthened in order to increase the number of performance audits, increase the audit scope of public expenditure and ensure continuous quality of operation, high integrity of employees and fulfillment of the appropriate conditions for the audit work.

The modernization of the audit processes will continue with the use of advanced equipment and working conditions, modern audit tools, methodologies and techniques for improving the efficiency of the state audit.

Activity 3: Increasing the visibility of the SAO and communication with the stakeholders

The institutional and human resource capacities of the SAO will be strengthened in order to increase the effects of the SAO activities, increase SAO visibility and improve the communication processes with stakeholders via electronic tools and media.

The modernization of the work processes will continue with the use of advanced equipment and modern forms for innovative presentation of the audit results to the public and strengthening cooperation with stakeholders (Assembly, Government, Ministry of Finance, Public Prosecutor's Office, Ministry of Interior, State Commission for Prevention of Corruption, audited entities, the public).

Implementation

Completed in year:	2025
Deliverables:	- New SAO Development Strategy for a five-year period with an Action Plan for implementation, and defining the need for preparing new strategic documents arising from the new Development Strategy; - New structure and scope of SAO Annual Work Program in accordance with new SAO strategic documents; - New Performance Audit Manual; - Guidelines for audit of EU funds and detecting fraud and irregularities; - Improved Manual on monitoring recommendations; - Improved guidelines for audit quality control and audit quality assurance; - New Compliance Audit Manual as a separate type of audit; - Audit Practice Guide for Auditing Gender Equality; - Analysis with recommendations for improving the audit process on the Annual Account of the Budget of the Republic of North Macedonia; - New or improved methodological acts and tools on topics relevant to the responsible management and use of public funds (audits of

	sustainable development goals, audits of financial statements prepared on an accrual basis, audits of value for money (Value for Money), audits of LSGUs , etc.). - New Code of Ethics for SAO employees and introduction of system for monitoring its implementation; - Conduct performance audits in relevant areas of government policy; - Carrying out audits on certain topics of importance for the responsible management and use of public funds (audit of EU funds, audits of sustainable development goals, audits of financial statements prepared on an accrual basis, audits of values for money (Value for Money), audits of LSGUs, audit of gender equality, etc.); - Conducted trainings (study visits, conferences, seminars, workshops) for performance audit; - Conducted trainings (study visits, conferences, seminars, workshops) on certain topics of importance for responsible management and use of public funds (audit of EU funds, prevention and detection of corruption, audits of sustainable development goals, audits of financial reports prepared on an accrual basis, audits for Value for Money, audits of LSGUs, audits of gender equality, etc.); - Conducted audits in cooperation with other SAIs and relevant international organizations (cooperative audits); - Use of modern audit tools, methodologies and techniques - Development of software tools for reclassification of financial statements / software tools for auditing financial statements prepared on an accrual basis; - Use of modern equipment and improved working conditions. - New structure and contents of audit reports in accordance with INTOSAI Framework of Professional Pronouncements; - Amendments to the structure and contents of SAO Annual Report to improve presentation of SAO work and results from audit reports; - Abstracts of audit reports containing information that is relevant to the media and the public; - Abstracts of audit reports containing information relevant to MPs and parliamentary administration; - Monitoring the website traffic of the SAO; - Using virtualization (infographics, video presentations, flyers) for presenting audit results to the public; - New channels for communication with stakeholders (Assembly, Government, Ministry of Finance, Public Prosecutor's Office, Ministry of Interior, State Commission for Prevention of Corruption, audited entities, the public; - Use of digital tools for achieving efficient cooperation and communication with the parliamentary bodies to support the work of the Assembly of RNM; - Trainings to strengthen cooperation with stakeholders; - New forms for monitoring and presenting implementation of audit recommendations.
Costs implications:	- EUR 5,032,000
Responsible entity:	- State Audit Office in cooperation with stakeholders
Risk:	- Limited opportunities for modernization of audit processes and presentation of audit results; - Insufficient interest of stakeholders for cooperation with SAO; - Lack of funds provided for full financing of the activities for the period 2022 - 2025; - Lack of support from relevant experts for drafting new or improved

	methodological acts and audit tools; - SAO institutional and HR capacities not strengthened to satisfactory level; - Limited opportunities for modernization of audit processes, optaining modern equipment and improved working conditions.

Priority 2: Parlamentary oversight

Objective

Strengthening public finance management and ensuring transparency and accountability of the use of public funds through:

- establishing mechanism for a proactive role of the Assembly for reviewing audit reports and for measures taken upon audit recommendations; and
- strengthening institutional capacities of the Assembly for reviewing audit reports.

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

Measure 1: **Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM**

Activity 1: Signing of a Memorandum of Cooperation between the Assembly and the SAO;

Activity 2: Preparation of procedures in the SAO and the Assembly of RNM for submission and review of audit reports and other documents;

Activity 3: Preparation of summary reports of final audit reports from certain areas and their submission to the Assembly of RSM.

Measure 2: **Strengthening institutional capacities for reviewing audit reports by the Assembly of RNM**

Activity 1: Preparation of Amendments to the existing Manual "Introduction to Audit Reports";

Activity 2: Preparation of a Training Plan for the Members of Parliament and Administration in the Assembly of the RNM in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports;

Activity 3: Conducting trainings in accordance with the Training Plan for the Members of Parliament and administration in the Assembly of RNM in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports;

Activity 4: Implementation of activities for strengthening the cooperation with the Finance and Budget Committee, the Parliamentary Institute at the Assembly of RNM, and the Parliamentary Budget Office of the Assembly of RNM.

Outcome

Enhanced effects of audit.

Outcome indicator

Percentage of external audit recommendations for which corrective measures have been taken.

Measure 1: Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM

Measure Objective

Strengthening institutional mechanism for reviewing audit reports by the Assembly of RNM.

Reference to findings from external assessments:

PEFA 2021:	Individual audit reports are not reviewed by the Parliament and no hearings take place with auditees. (PI-31)
SIGMA 2021:	With the exception of the SAO's annual report, the audit reports are not used by the Parliament.
EU:	The co-operation between SAO and Parliament has improved, however, parliamentary scrutiny on budget preparation and implementation has to be further enhanced. Transparency and accountability of public funds management has to be ensured on the basis of efficient monitoring mechanisms both by the executive and by Parliament, including through follow-up of audit recommendations provided by the SAO.

Context/Background

The evaluation reports from relevant international organizations, as well as North Macedonia Report 2021 of the European Commission regarding External Audit Area recommend increasing oversight and monitoring by the Assembly of RNM through reviewing SAO reports aimed at improving the degree of implemented recommendations.

Recommendations for increased oversight and monitoring by the Assembly of RNM through parliamentary discussion on audit reports are implemented within the activities of the current Twinning project intended for achieving:

1. Improved legal and methodology framework of SAO and the Assembly for presenting and reviewing audit reports by the Assembly in line with the recommendations of the previous IPA 2013 Twinning project;
2. Improved cooperation between the Assembly and the State Audit Office for reviewing audit reports; and
3. Strengthened capacities of the Assembly for reviewing audit reports in accordance with the new legal and methodology framework.

In the upcoming period, SAO will continue the effective cooperation with the Assembly of RNM by establishing regular mechanism for reviewing audit reports by the Assembly aimed at increasing the degree of implementation of audit recommendations.

Activity 1. Signing of a Memorandum of Cooperation between the Assembly of RNM and SAO

With support of the current Twinning project, a Memorandum of Cooperation between the Assembly and the SAO was prepared and presented for signing.

Activity 2. Preparation of procedures in the SAO and the Assembly of RNM for submission and review of audit reports and other documents

With support of the current Twinning project, procedures will be prepared for preparing, submitting and reviewing audit reports and other documents to the Assembly of RNM, as well as for their review by the Assembly of the RNM.

Activity 3. Preparation of summary reports of the final audit reports from certain areas and their submission to the Assembly of RNM

Summary reports of the final audit reports regarding certain areas, if necessary, will be prepared and submitted to the Assembly of RNM.

Implementation

Completed in year:	2025
Deliverables:	- Memorandum of Cooperation between the Assembly and SAO, emphasizing the need to strengthen cooperation between the institutions, in particular for reviewing and acting upon the submitted audit reports; - SAO procedures for preparing and submitting audit reports and other documents to the Assembly; - Assembly procedures on the mechanism for reviewing audit reports (from receipt of audit reports and other documents to adoption of conclusions and monitoring implementation of audit recommendations); - Summary reports of the final audit reports regarding certain areas submitted to the Assembly of RNM.
Costs implications:	- EUR 146,000
Responsible entity:	- State Audit Office in cooperation with the Assembly of RNM
Risk:	- Inability to sign a Memorandum of Cooperation between the Assembly and the SAO; - Inability to prepare and adopt Procedures of the Assembly of RNM for the mechanism for review of audit reports; - Inability to submit summary reports of the final audit reports from certain areas to the Assembly of RNM.

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

Measure Objective

Strengthened institutional capacities for reviewing the audit reports in the Assembly of RNM.

Reference to findings from external assessments:

PEFA 2021:	Individual audit reports are not reviewed by the Parliament and no hearings take place with auditees. (PI-31)
SIGMA 2021:	With the exception of the SAO’s annual report, the audit reports are not used by the Parliament.
EU:	The co-operation between SAO and Parliament has improved, however, parliamentary scrutiny on budget preparation and implementation has to be further enhanced. Transparency and accountability of public funds management has to be ensured on the basis of efficient monitoring mechanisms both by the executive and by Parliament, including through follow-up of audit recommendations provided by the SAO.

Context/Background

The evaluation reports from relevant international organizations, as well as North Macedonia Report 2021 of the European Commission regarding External Audit Area recommend increasing oversight and monitoring by the Assembly of RNM through reviewing SAO reports aimed at improving the degree of implemented recommendations.

Recommendations for increased oversight and monitoring by the Assembly of RNM through parliamentary discussion on audit reports are implemented within the activities of the current Twinning project intended for achieving:

1. Improved legal and methodology framework of SAO and the Assembly for presenting and reviewing audit reports by the Assembly in line with the recommendations of the previous IPA 2013 Twinning project;
2. Improved cooperation between the Assembly and the State Audit Office for reviewing audit reports; and
3. Strengthened capacities of the Assembly for reviewing audit reports in accordance with the new legal and methodology framework.

In the upcoming period, SAO will continue the effective cooperation with the Assembly of RNM by establishing regular mechanism for reviewing audit reports by the Assembly aimed at increasing the degree of implementation of audit recommendations.

Activity 1. Preparation of amendments to the existing Manual "Introduction to Audit Reports"

With the support of the current Twinning project, amendments to the existing Manual "Introduction to Audit Reports" intended for MPs and the parliamentary administration in order to facilitate the understanding of audit reports will be prepared.

Activity 2. Preparing Training Plan for the Members of Parliament and Administration in the Assembly of RNM in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports

With the support of the current Twinning project, a Training Plan for MPs and the parliamentary administration will be prepared, aimed at understanding of audit reports and preparing for a debate on audit reports.

Activity 3. Conducting trainings in accordance with the Training Plan for the Members of Parliament and the administration in the Assembly of the RNM in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports

Trainings will be conducted in accordance with the Training Plan for the MPs and the parliamentary administration in order to understand the audit reports and prepare for the debate on the audit reports (through workshops, case studies, debate simulations).

Activity 4. Implementation of activities for strengthening the cooperation with the Finance and Budget Committee, the Parliamentary Institute at the Assembly of the RNM and the Parliamentary Budget Office of the Assembly of the RNM

Activities will be implemented to strengthen the cooperation with the Finance and Budget Committee, the Parliamentary Institute at the Assembly of the RNM and the Parliamentary Budget Office of the Assembly of the RNM.

Implementation

Completed in year:	2025
Deliverables:	- Amendments to the existing Manual "Introduction to Audit Reports"; - Training plan for the MPs in the Finance and Budget Committee and other MPs participating in the committees and the administration of the Assembly of RNM to facilitate understanding of audit reports and preparing for debate on audit reports; - Conduct trainings in accordance with the Training Plan for the MPs and the parliamentary administration in order to understand the

	audit reports and prepare for the debate on the audit reports (through study visits, workshops, case studies, debate simulations); - Activities for strengthening the cooperation with the Finance and Budget Committee, the Parliamentary Institute at the Assembly of RNM and the Parliamentary Budget Office of the Assembly of RNM.
Costs implications:	- EUR 288,000
Responsible entity:	- State Audit Office in cooperation with the Assembly of RNM
Risk:	- Inability to prepare amendments to the existing Manual "Introduction to Audit Reports"; - Inability to prepare a training plan; - Lack of funds provided for conducting trainings; - Insufficient interest in conducting trainings;

PILLAR VIII - PFM at Local Level

Decentralization of competencies to local authorities and strengthening their capacity is one of the priorities arising from the Accession Partnership of the Republic of North Macedonia with the EU and the Framework Agreement.

Competencies taken over by the municipalities in several areas have increased both the administrative and the fiscal capacity, as well as strengthened the capacities for managing larger volume of financial resources. Successful administration and collection of own revenues has provided for continuation of the process of increased own revenues of the municipalities and strengthened capacity for fund management, carrying out the transferred competencies and the management of funds and other resources necessary therefore. Successful implementation of fiscal decentralization, coupled with fully established legal and institutional framework for local self-government, provides for advanced, accountable and functional local self-government units and a level of local democracy that brings citizens closer to local self-government institutions.

Continuing and improving the process of fiscal decentralization, with the ultimate goal of providing better services to citizens, requires greater financial discipline of municipalities, greater transparency and accountability of how municipalities spend public funds.

Increasing the financial discipline of municipalities, arrears repayment and cost-effective operations can be achieved through projecting municipal revenues and expenditures in a realistic manner, rationalizing the operations and reducing unnecessary expenditures, regular servicing of arrears, strengthened financial discipline, procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the public enterprises.

Enhanced government oversight can be ensured through the oversign carried out by the Financial Inspection in terms of compliance with the provisions of the Law on Reporting and Recording Liabilities, the Law on Financing Local Self-Government Units and the Law on Financial Discipline, while transparency of the municipalities can be increased by announcing financial statements in a transparent and understandable manner.

Priority 1: Fiscal decentralisation

Objective

Strengthened, stable and responsible financial operations of the municipalities.

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

Measure 1:	**Improving fiscal capacity and increasing municipal revenues**
Activity 1:	New/revision of the Law on Financing Local Government Units;
Activity 2:	Increasing the own revenues of the municipalities, increasing the funds allocated to the municipalities from the Central Budget and introducing criteria for good performance and equalization;
Activity 3:	Revision of the criteria for allocation of block and earmarked grants and determination of criteria for allocation of capital grants.
Measure 2:	**Regional and local development**
Activity 1:	Establishment of the Agency for Regional and Local Development and achieving balanced regional development.

Outcome

Improved fiscal capacity and increased municipal revenues.

Outcome indicators

1) Percentage of increase in municipal revenues compared to 2020;

2) Percentage of VAT, which is transferred to the municipalities as a grant;

3) Percentage of the collected personal income tax which is transferred to the municipalities.

Measure 1: Improving fiscal capacity and increasing municipal revenues

Measure objective

Increase of the funds distributed to the municipalities from the collected revenues in the Central Budget, increase of the own revenues of the municipalities and determination of criteria for distribution of the revenues from the Value Added Tax (VAT) for better financial operations a, as well as reduction of the disparities between the municipalities. In this regard, legal amendments have already been proposed to increase the percentage that is distributed from the collected VAT, as well as to determine the criteria in the methodology for distribution of funds to municipalities. In fact, it is planned for municipalities showing positive results and higher own revenue collection to be awarded funds from the Performance Fund, while municipalities with lower revenues, to be awarded funds from the Equalization Fund.

It is planned to gradually increase the percentage that the municipalities receive from the personal income tax revenues, collected from individuals with permanent or temporary place of residence in the respective municipality.

Activities will be also undertaken towards increased municipal own revenues by improving the efficiency of the administration, as well as finding new local revenues according to the EU best practices

In the next period, in cooperation with the competent ministries that finance the transferred competencies in the field of education, child care, elderly homes and firefighting, the existing methodologies for earmarked and block grants will be revised. Efforts will be made to introduce criteria that would determine, in a realistic way the necessary amount of funds that would cover all costs for the transferred competencies, as well as improve the quality of services.

Determining the criteria for distribution of capital grants from the Central Budget, which will distribute the funds by municipalities in a transparent manner.

Reference to findings from external assessments:

WB:	**WORLD BANK - Republic of North Macedonia Overview of Public Finance - Sowing the seeds of a sustainable future - March 2019** **<u>Chapter 3: Fiscal Decentralization and Service Delivery</u>** Although North Macedonia has made progress in many aspects of intergovernmental finance, its 81 local governments still have difficulty providing adequate and efficient coverage of social services. Municipalities are responsible for many public services, including primary education, but their spending as a share of GDP accounts for modest 5% thereof. Practice of delegated functions influenced incentives for LGUs to spend their own resources on services; Ambiguous spending tasks have undermined the accountability, and since there is still no effective methodology for calculating the spending needs, some communities do not receive sufficient services. Municipal revenues are insufficient, whereby LGUs fail to fully utilize the small autonomy of the revenues at their disposal. Lack of revenue autonomy leads to vertical imbalance and dependence on transfers, thus reducing the efficiency of spending and accountability of municipal authorities. Differences in the quality of basic services are still present. While VAT transfers provide certain degree of equalization between municipalities, their role may increase. However, current inequalities cannot be resolved by transfers and increased revenue autonomy alone. Balanced actions are needed in several dimensions, such as capacity building of LGUs for absorption and use of funds, as well as cooperation for virtual consolidation of municipalities. Finally, municipal debt remains a concern, not because of excessive borrowing - in fact, borrowing is limited - but rather because of a lack of discipline as regards arrears in the municipal budget, some of which have been transferred since the start of the decentralization. 3.7 Reform options In the short term 1. Strengthen the clarity of functional tasks, especially delegated services currently funded through block grants, by better defining the responsibility for adopting rules - the role of line ministries - and the responsibility for funding, which should be the responsibility of the whole Government. 2. Consider measures to increase local own revenue capacity — such as introducing new tax sources and measures to better collect current taxes. 3. Investigate revenue to improve the effectiveness of conditional block grants, such as more transparent calculation and selection of municipalities as regards the respective transfers. In the medium term 4. Clearly define the objectives of the overall strategy for reforming intergovernmental fiscal transfers. 5. Given the size of North Macedonia, two levels of government meet its needs for decentralization. 6. Improve the measurement of spending needs arising from functional tasks and better understand the need for higher transfers and allocate more revenue to LGUs. 7. Improve the LGU revenues by increasing the amount of PIT collection distributed to the municipalities, also including the other options for increasing the revenues and the institutional capacity of the LGUs. 8. Increase the capacity to equalize the general grant by reforming the current formula to better meet spending needs and by providing greater revenue collection capacity to various LGUs.

	9. Restructure the system of capital grants. 10. Reform the Development Fund, by which it has a greater impact on the broader goal as regards the regional economic convergence. 11. Control the debt of the local government and reduce the unpaid liabilities.

Context/Background

Some of the municipalities face issue related to the lack of financial resources to perform their competencies, while they mostly rely on transfers from the central government. This situation in the municipalities leads to insufficient and uneven regional development, inefficient provision and delivery of services to citizens and insufficient democratization of society as a whole. At the same time, due to the insufficient staff capacity in some of the municipalities, there is a low level of collection of own revenues.

Activity 1: New/revision of the Law on Financing Local Government Units

Law on Financing Local Government Units regulates the financial operations of municipalities, i.e. it includes: sources of financing, determination and collection of revenues, procedure and conditions related to borrowing, budget process - budget planning and execution, annual account of the municipal budget, accounting, control and auditing, actions in case of financial instability, implementation of fiscal decentralization and supervision.

In the past period, numerous amendments were made to the Law on Financing Local Self-Government Units and having in mind that the new Draft Organic Budget Law, is in parliamentary procedure for adoption, there is a need for harmonization with the provisions of the new Organic Budget Law. Taking into account that the provisions of the Organic Budget Law also refer to the operations of the municipalities, the need to adopt a new or amend the existing Law on Financing Local Government Units inevitably arises.

Therefore, there is a need for:

- Identifying the provisions of the Law on Financing Local Government Units, which should be harmonized with the provisions in the draft Organic Budget Law;
- Consultations with the municipalities, the Association of Local Government Units, ministries, experts and the broader public about the amendments that would be proposed;
- Preparing a comprehensive analysis of the need for additional amendments and harmonization of the Law with other laws;
- Preparing a new or modifications and amendments to the existing Law on Financing Local Government Units;
- Determining the need for adoption or modifications and amendments of the bylaws arising from the new Law on Financing Local Government Units;
- Strengthening the capacities of the employees in the Ministry of Finance and conducting trainings for the municipal administration, pertaining to the new amendments to the Law.

Activity 2: Increasing the own revenues of the municipalities, increasing the funds allocated to the municipalities from the Central Budget and introducing criteria for good performance and equalization

In line with the Law on Financing Local Government Units, the municipality has its own sources of revenues, as well as revenues that are transferred from the Central budget, as follows:

- Local taxes determined by law: property tax, inheritance and gift tax, tax on sales of real estate and other local taxes determined by law;

- Local fees determined by law: utility fees, administrative fees and other local fees determined by law;
- Local fees: fees for arranging construction land, fees for communal activity, fees for spatial and urban plans and other local fees;
- Property income: rental income, interest income and income from the sale of property, the sale of which does not violate public functions and the competence of the municipality;
- Income from donations, fines determined by law, income from self-contribution and other income;
- Personal income tax; and
- Value Added Tax revenues.

With respect to the carried out analysis and research on the municipal collected revenues, a small share of own revenues in the total revenues of the municipalities is determined. It is still considered that the municipalities have not sufficiently used the opportunities provided by law, not reaching the maximum as regards the revenue collection. Own revenues participate with around 20% of the total revenues, being collected. In order to increase the municipal revenues and improve the fiscal capacity of the municipalities, under the modifications and the amendments to the Law on Financing Local Government Units, it is proposed to increase the funds transferred from the Central Budget to the municipalities. In order to ensure a higher degree of realization of own revenues, there is a need for:

- Analyzing the collection of the own revenues of the municipalities and identifying the key reasons for reduced / incomplete revenue collection;
- Undertaking measures and activities by the municipalities in order to increase the collection of their own revenues;
- Determining the fiscal capacity of the municipalities and determining the performance indicators;
- Finding new local revenues according to the EU best practices;
- Revision of the existing Law on Property Taxes, especially as regards the tax exemptions and the possibility for increasing the tax base, regulation of the property tax on illegally constructed buildings and revision of the status of tax inspectors;
- Analysis of other laws, regulating the own revenues of the municipalities and proposals for improving the legislation;
- Strengthening the staff capacities of the employees in the municipalities by conducting trainings;
- Strengthening the capacity of councilors and mayors, especially the use of the opportunity for trainings realized through the Project "Management of Municipal Councils" implemented by UNDP, in cooperation with the Swiss Embassy;
- Increase in the percentage from personal income tax from 3% to 6% and this provision will be applied as of 1st January 2024, and until then, it will account for 4% in 2022 and 5% in 2023. The municipalities receive this income from the personal income tax on earnings from salaries of natural persons collected in the municipality, wherein they are registered with permanent or temporary place of residence;
- Increase in the municipal revenues through gradual increase of the VAT grants from 4.5% to 6%. In fact, VAT revenues will be provided, accounting for 6% of the collected VAT generated in the previous fiscal year starting from 2024. Thereby, the provided funds will be distributed into three parts: Basic Part - 4.5% of the collected Value Added Tax generated in the previous fiscal year, Performance Part - 0.75% of the collected Value Added Tax generated in the previous

fiscal year and Equalization Part - 0.75% of the collected Value Added Tax generated in the previous fiscal year, starting from 2024. Until then, the VAT revenues in 2022 will be provided in the amount of 5% of the collected Value Added Tax and distributed in the following ratio: Basic Part - 4.5%, Performance Part - 0.25% and Equalization Part - 0.25%. In 2023, VAT revenues will be provided in the amount of 5.5% of the collected Value Added Tax and distributed in the following ratio: Basic Part - 4.5%, Performance Part - 0.5% and Equalization Part - 0.5%;

- Preparation of a new formula that will be used in the methodology for distribution of funds from VAT revenues, determination of performance criteria and equalization with UNDP technical assistance;
- Adoption of a new Decree on the Distribution of Value Added Tax Revenues.

Activity 3: Revision of the criteria for distribution of block and earmarked grants and determination of criteria for distribution of capital grants

Grants from the Budget of the Republic of North Macedonia, as well as the budgets of the Funds provide additional revenues in the municipal budget for financing its competencies determined by law. Under the Budget of the Republic of North Macedonia, the following is distributed: block grants for the transferred competencies in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grant for firefighting, as well as capital grants from the Central Budget.

Competent Ministries and Funds develop a methodology for determining the criteria for distribution of the block grants, which is based on a formula using appropriate indicators of the needs for each program. Government of the Republic of North Macedonia adopts a Decree on the Methodology for Determining the Criteria for Distribution of Block Grants upon proposal by the competent ministry upon prior consent by the Ministry of Finance and the Committee for Monitoring the Development of the Municipal Financing System. In the past period, certain difficulties have been identified with respect to certain transferred competencies, especially insufficient amount of funds from block grants that would cover all operating costs. For the purpose of more equal distribution of grants by municipalities, it is necessary to make a comprehensive analysis of the criteria and to determine a new model of distribution of funds as per the needs, which will offer higher quality services.

Through the competent ministries and other state institutions, funds are distributed to the municipalities in the form of capital grants for the implementation of capital infrastructure projects in the municipalities. Distribution is carried out in accordance with the Program, which upon proposal by the competent ministry, is adopted thus, there are generally no criteria for the distribution of capital grants that would be previously adopted by the Government. This imposes the need to establish criteria for the distribution of capital grants by municipalities. Therefore, there is a need for:

- Analyzing the existing criteria for block and earmarked grants in cooperation with the competent ministries;
- Determining criteria that will provide for more equitable distribution of block and earmarked grants by municipalities;
- Analysis of capital grants to LGUs that are transferred by the competent ministries and institutions to the municipalities;
- Determining the criteria for distribution of capital grants;
- Redefining existing Decrees for block and earmarked grants;
- Preparation and adoption of Decrees by the competent ministries for distribution of capital grants.

Implementation

Completed in year:	2025
Deliverables:	- New Law on Financing Local Government Units; - New Methodology for Distribution of Value Added Tax Revenues; - Revised Decrees on Block and Earmarked Grants; - Decree on Distribution of Capital Grants.
Costs:	EUR 86,000
Responsible entity:	Budget and Funds Department; Tax and Customs Policy Department
Risk:	Insufficient human capacity to carry out the activities.

Measure 2: Regional and local development

Measure objective

Under this measure, Agency for Regional and Local Development will be established, which would have broader competencies than the ones of the Bureau for Regional Development, particularly with respect to providing additional financial resources for financing capital investments. The work will be coordinated by the Ministry of Local Government, and the legal solutions for its establishment would result from a working group that would include representatives from Ministry of Justice, Ministry of Local Government, Ministry of Finance, Cabinet of the Deputy Prime Minister for Economic Affairs, Ministry of Political System and Community Relations, Ministry of Information Society and Administration, Bureau for Balanced Regional Development and Association of the Local Government Units of the Republic of North Macedonia.

Context/Background

Municipalities receive a large portion of the funds intended for local and regional development from the State Budget through the Line Ministries, receive donations from various sources, resources from IPA Funds and credit lines for financing infrastructure projects. Therefore, the municipalities do not always have insight into the possibilities for financing capital infrastructure projects, and at the same time, due to the limited staff capacities, they are not able to provide financial resources for realization of capital investments in the municipality. By establishing this Agency, the funds that would be provided from different sources, and are intended for regional and local development, would be distributed in line with the established criteria, as well as in accordance with the needs of the municipalities and the region.

Activity 1: Establishment of the Agency for Regional and Local Development and achieving balanced regional development

By establishing the Agency for Regional and Local Development, which would have broader competencies than the previous ones of the Bureau for Regional Development, the municipalities will be given the opportunity to provide additional funding from various sources for financing capital investments, which will improve the local and the regional development. The work of the Agency will be coordinated by the Ministry of Local Government, and the legal solutions for its establishment would result from a working group that would include representatives of Ministry of Justice, Ministry of Local Government, Ministry of Finance, Bureau for Balanced Regional Development and Association of t Local Government Units of the Republic of North Macedonia.

The establishment of the Agency for Regional and Local Development requires:

- Establishment of a working group composed of representatives of various ministries and stakeholders;
- Determining the competencies of the Agency;
- Preparation of legal and operational solutions for the establishment of an Agency, which as a result of further decentralization of the government, will aim to provide additional funds for financing capital investments that will directly contribute to accelerated local and regional growth and development of the country, better-quality services to the population and better quality of life in all local areas. This activity will be realized with the USAID technical assistance;
- Establishment of the Agency for Regional and Local Development.

Implementation

Completed in year:	2024
Deliverables:	Established Agency for Regional and Local Development
Costs:	EUR 2,000
Responsible entity:	Ministry of Local Government
Risk:	- Insufficient interest of the top management.

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

Objective

Strengthened financial discipline, greater transparency and accountability of local government.

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

Measure 1:	**Increasing the financial discipline**
Activity 1:	Realistic planning of revenues and expenditures of the municipalities;
Activity 2:	Rationalization of operations and reduction of unnecessary expenses;
Activity 3:	Analysis of the liabilities of the municipalities, declaring financial instability and taking measures for financial consolidation.
Measure 2:	**Increasing the transparency and accountability throughout the operations of the municipalities**
Activity 1:	Increasing control by the state;
Activity 2:	Improving the transparency and timely informing the broader public about the operations of the municipality.

Outcome

1) Increased financial discipline;

2) Increased transparency and accountability of municipalities.

Outcome indicators

1) Percentage of reduction of the amount of due unpaid liabilities in the current year compared to 2020 (the year taken as a baseline);

2) Reduction of the number of municipalities with blocked account in the current year compared to 2020 (the year taken as a bseline)compared to the base year 2020;

3) Percentage of municipalities out of the total number of municipalities (81) that have published financial documents (annual, semi-annual and quarterly reports) on their websites.

Measure 1: Increasing the financial discipline

Measure objective

Realistic planning of revenues and expenditures of municipalities, rationalization of operations and reduction of unnecessary expenditures, regular servicing of liabilities, greater financial discipline, procedures for declaring financial instability, issuance of financing instruments to overcome the financial instability of municipalities and analysis of existing liabilities of municipalities and public enterprises.

Reference to the external assessments findings:

WB:	**WORLD BANK - Republic of North Macedonia Overview of Public Finance - Sowing the seeds of a sustainable future - March 2019** **<u>Chapter 3: Fiscal Decentralization and Service Delivery</u>** Although North Macedonia has made progress in many aspects of intergovernmental finance, its 81 local self governments still have difficulties providing adequate and efficient coverage of social services. Municipalities are responsible for many public services, including primary education, but their spending as a share of GDP accounts for modest 5% thereof. Practice of delegated functions influenced incentives for LGUs to spend their own resources on services; Ambiguous spending tasks have undermined the accountability, and since there is still no effective methodology for calculating spending needs, certain communities do not receive sufficient services. Municipal revenues are insufficient, whereby LGUs fail to fully utilize the small autonomy of the revenues at their disposal. Lack of revenue autonomy leads to vertical imbalance and dependence on transfers, thus reducing the efficiency of spending and accountability of municipal authorities. Differences in the quality of basic services are still present. While VAT transfers provide certain degree of equalization between municipalities, their role may increase. However, current inequalities cannot be resolved by transfers and increased revenue autonomy alone. Balanced actions are needed in several dimensions, such as capacity building of LGUs for absorption and use of funds, as well as cooperation for virtual consolidation of municipalities.

Context/Background

Unrealistic budget projecting of local government units, i.e. the over-optimistic revenue planning is one of the reasons due to which the local government units accrued outstanding liabilities in the previous years. In order to overcome this situation, under the amendments to the Law on Financing LocalGovernment Units as of November 2018, fiscal rule has been set out for planning own revenues of the core budget of localgovernment units, i.e. the planning of own revenues of the core municipal budget is limited with the performance of the collected revenues. Acccording to the amendments to the Law, the own revenues of the muncicipal core budget in future will be projected with an increase of up to maximum 10% of the averagely collecteted revenues in the last three years, according to the data from the Treasury records. At the same time, exceptions have been envisaged only if the municipality has provided document for transfer of funds from the respective institution. During 2019, another amendment to the Law on FinancingLocal Government Units was adopted, according to which, upon request by the municipalities, and to the end of greater flexibility when planning the municipal budgets, and thus improving the fiscal position of municipalities, the previouforecast of 10% of revenue growth has been revised to 30%. Under the latest amendment to the Law, the 2021 forecast of revenue growth has been revised to 50%.

Activity 1: Realistic planning of the revenues and expenditures of the municipalities

Law on Financing Local Government Units stipulates that the municipal own revenues can be projected with an increase of 30% of the averagely collected revenues in the last three years, according to the data in the Treasury records. Municipality may exceed the maximum determined amount if it provides document for transfer of funds from the relevant institution or in case of changes related to the amount and type of own revenues of thec corebudget. In order to more realistically project the revenues and the expenditures, Ministry of Finance has prepared amendments to the Law on Financing Local Government Units, which is in a parliamentary procedure, which envisages:

The percentage of 30% is again reduced to 10%, however, an opportunity is thereby given, in case the collection of own revenues of the core budget of the municipality, as of the third quarter, accounts for over 75% to further increase the projected revenues to a maximum of 20%. Provisions will start to apply as of 1st January 2024, and until the these provisions start to apply,:

In 2022, the municipal own revenues of the core budge can be projected with an increase of up to maximum 20%, and if the collection of the own revenues of the core budget of the municipality, as of the third quarter, accounts for over 75%, the municipality can project its own revenues with additional increase of up to 10% at the most.

In 2023, the own revenues of the core budget of the municipality can be projected with an increase of up to maximum 15%, and if the collection of the own revenues of the core budget of the municipality, as of the third quarter, accounts for over 75%, the municipality can project its own revenues with additional increase of up to 15% at the most.

In order to implement the changes, Ministry of Finance will undertake the following activities:

- Under the Budget Circular, it will inform the municipalities about the maximum allowed amount of the projected revenues;
- Control of the municipal budgets and the amendments to the budget during the year, i.e. whether the projected revenues are within the maximum allowed amounts;
- Monitoring the muncipal revenue collection.

Activity 2: Rationalization of operations and reduction of unnecessary expenses

In order to rationalize operations and reduce unnecessary expenditures, the Government of the Republic of North Macedonia adopted Fiscal Sustainability and Economic Growth Support Plan, which proposes measures and activities for fiscal consolidation and reduction of non-productive expenditures. In that regard, Ministry of Finance will, in the following period:

- as regards revenues, recommend to the municipalities:
- Use of surplus funds on the municipal accounts;
- Greater use of available own funds and implementation of activities in accordance with the requirements and needs of the local population;
- Greater degree of use of the funds from the block grants for the purpose of rendering better-quality services, improving the execution of the transferred competencies and timely settling the due liiiabilities.
- with respect to expenditures, recommend to the municipalities:
- Maintaining the level of expenditures for salaries and allowances;
- Considering the possibility for rationalization of the existing number of employees in order to maximize the use of available capacities and improve the level of service delivery to the local population;
- Reduction of non-productive expenses (travel and per diem costs, entertainment costs, etc.);
- Increasing the share of capital expenditures in total expenditures;
- Reduction of the payment of additional fees in the municipalities, having blocked accounts on the basis of enforcement orders.
- In the following period, Ministry of Finance will continue:
- to monitor the financial operations of the municipalities;
- to notify the municipalities if there is an increase in non-productive expenditures;
- to propose measures and activities in order to increase productive expenditures.

Activity 3: Analysis of the liabilities of the municipalities, declaring financial instability and taking measures for financial consolidation

In order to overcome the poor financial situation, the high amount of arrears, blocking the account of the municipality, the Law on Financing Local Government Units provides an opportunity for the municipality to declare financial instability and take measures to overcome it. Financial instability of the municipality occurs if: the account of the municipality is blocked for more than six months or in a period of six months, continuously every month, as of the end of the month, the total amount of unpaid liabilities within a period longer than 60 days, exceeds 80% of the collected revenues of thecore budget of the municipality in the previous year. Having in mind that during the past period, no municipality has declared financial instability, the amendments to the Law on Financing Local Government Units stipulate that:

- The procedure and conditions for declaring financial instability are further regulated;
- It is concluded that the financial instability of the municipality occurs by fulfilling one of the conditions, i.e. if the account of the municipality is blocked for more than six months or for a period of six months, continuously every month, at the end of the month, the total amount of unpaid liabilities, within a period longer than 60 days, exceeds 60% of the collected revenues of the core budget of the municipality in the previous year. This provision should be applied as of 2024, with the percentage accounting for 70% for 2023;
- A plan of measures for overcoming the financial instability is proposed.

For the the purpose of realizing this activity, in addition to the amendments to the Law with USAID suuport, activities will be realized, which will provide for a greater degree of realization of this measure:

- Monitoring the arreas of of the municipalities through the Electronic System for Reporting and Recording of Liabilities - ESRRL.
- Strengthening the capacities of the competent Departments in the Ministry of Finance, by increasing the number of employees and additional trainings for monitoring the municipal obligations;
- Preparation of internal procedures for coordination between the departments for budget, public debt, treasury, collection of receivables, financial inspection, as regards the procedure for declaring financial instability, i.e. determining the competence of each department. By supplementing the existing procedures and internal acts, timely and efficient monitoring, analysing, reporting and control of municipal financial performance in terms of debt management and financial instability will be provided, by clearly indicating the obligations and responsibilities of each of the involved departments;
- Preparation of a Manual (Guide) for municipalities, which are fianncialy unstable in order to present to the municipalities, in a clear, simple and understandable way, the innovations arising from the amendments to the Law on Financing LocalGovernment Units, with special reference to the liabilities and the responsibilities of the municipality regarding the preparation of the plan for overcoming the instability, undertaking specific activities for debt servicing (application of the instruments for financing the financial instability of the municipalities), monitoring the situation and reporting, by preparing appropriate copies of documents.

Development of informative tools for reporting on municipal debts, through which, we would, in an understandable and innovative way, present the way of filling in the reports/forms /documents for the municipal debt resulting from the legal solutions.

Implementation

Completed in year:	2025
Deliverables:	- Increasing the percentage of collection of projected revenues; - Reducing non-productive expenditures; - Internal procedures for declaring financial instability; - Manual (Guidelines) for declaring financial instability.
Cost implications:	EUR 119,000
Responsible entity:	Budget and Funds Department, Treasury Department, international Financial Relations and Public Debt Management Department
Risk:	Insufficient human capacity to carry out the activity.

Measure 2: Increasing the transparency and accountability throughout the operations of the municipalities

Measure objective

Increased control by the state, in partocular by the Department for Public Sector Financial Inspection in terms of compliance with the provisions of the Law on Reporting and Recording of Liabilities, the Law on Financial Discipline and the Law on Financing Local Government Units, increasing the transparency of municipalities by publishing financial statements in a transparent and understandable manner, as well as greater accountability for the use of budget funds.

Reference to the external assessments findings:

WB:	Finally, municipal debt remains to be a concern, not because of excessive borrowing - in fact, borrowing is limited - but rathere due to the lack of discipline regarding the unpaid liabilities, some of which have been transferred since the start of decentralization.

Context/Background

For the purpose of increasing transparency and accountability, i.e. promoting fiscal decentralization, the control by the state will increase, in particular by the Department for Public Sector Financial Inspection in terms of the Law on Reporting and Recording Liabilities and reporting non-compliance with the Law on Financial Discipline, measures will be adopted in with respect to increased transparency at the municipalities by publishing the financial statements in a transparent and understandable way, and action will be taken towards greater accountability for the use of budget funds.

Based on the previous analyzes and official records of the Ministry of Finance, as well as the reports submitted to the Department for Public Sector Financial Inspection in the Ministry of Finance, it was determined that a substantial part of the municipalities and theirspending untits fail to act in line with the Law on Financial Discipline, the Law on Financing Local Government Units and the Law on Reporting and Recording Liabilities. In fact, no municipality that met the conditions for declaring financial instability, failed to act in accordance with the legal obligation, thus failing to declare financial instability, part of the municipalities and their spending units do not report liabilities in the Electronic System for Reporting and Recording Liabilities, as per the Law on Reporting and Recording Liabilities, also failing to settle their liabilities on time, in line with the Law on Financial Discipline. On the other hand, the Department for Public Sector Financial Inspection, due to a signficant lack of human resources, within its competences failed to act sufficiently in terms of supervising the compliance with the provisions referred to in the aforementioned laws. This imposed the need for an immediate increase in the number of employed financial inspectors.

Activity 1: Increasing the supervision by the state

Increased control of municipalities and spending units by the Department for Public Sector Financial Inspection, by conducting supervision of compliance with the provisions of the Law on Financial Discipline, the Law on Financing LocalGovernment Units and the Law on Reporting and Recording of Liabilities, for which is urgently needed to strengthen the capacities of the Financial Inspection in the public sector, following a previous amendment to the Rulebooks on organization and systematization of MoF job posts. This activity includes:

- conducting supervisions over compliance with the provisions of the Law on Reporting and Recording of Liabilities, the Law on Financial Discipline and the Law on Financing Local Government Units.

Activity 2: Improving the transparency and timely informing the broader public about the operations of the municipality

Increased transparency throughout the operations of the municipalities is one of the preconditions for ensuring legal, earmarked and expedient use of public funds to the end of achieving the goals for growth and development of municipalities, as well as efficiently providingservices to the citizens and improving the quality of life in the respective municipalities.

Increasing the transparency throughout the operations of the municipalities primarily refers to strengthening the fiscal responsibility of the municipalities, timely involvement of the broader public in creating municipal policies and informing about the work done. In fact, under the amendments to the legislation that follow, it is expected to increase the transparency and accountability in the operations of the municipalities, by which, the municipalities are obliged to publish financial data and reports on their websites in a transparent manner.

At the same time, Ministry of Finance, under its competencies, will publish financial data and reports related to the financial operations of the municipalities. Thus, the aim will be to get a clear picture of public spending of municipalities.

This activity includes:

- Publishing monthly and periodic reports on the execution of the municipal budget on the website of the municipality;
- Publication of the Annual Report and the Annual Municipal Budget Report on the website of the municipalitity;
- Publication of data on revenues and expenditures of municipalities on a quarterly basis;
- Publication of data on due and unpaid liabilities from the Electronic System for Reporting and Recording Liabilities of the municipalities;
- Publication of financial statements for the operations of the municipalities;

- Publication of financial indicators of the municipalities on the websites of the Ministry of Finance and the municipalities with UNDP support.

Implementation

Completed in year:	2025
Deliverables:	- Conducted inspections by the Department for Public Sector Financial Inspection; - Financial indicators; - Data on revenues and expenditures of municipalities; - Report on Municipal Arrears.
Costs:	EUR 6,000
Responsible entity:	Department for Public Sector Financial Inspection and Coordination for Combating Fraud against EU Funds, Budget and Funds Department
Risk:	- Insufficient human capacity to carry out the activity; - Failure to adopt Rulebooks for Organization and Systematization of Working Positions of the Ministry of Finance; - Failure to conduct examinations for obtaining a inancial inspector license.

Chapter III: Roles and Responsibilities for Implementing, Monitoring and Reporting

The responsibility for coordinating the implementation of and reporting about the reform lies with the Ministry of Finance through the PFM Sector Working Group, while the Programme oversight is performed by the PFM Council.

PFM Reform Programme and PFM strategies involve the entire government sector, including line ministries, public enterprises and local governments.

PFM management and coordination framework for the period 2022-2025 comprises the following bodies, established under the PFM Reform Programme 2018-2021:

- PFM Council;
- PFM Sector Working Group;
- Priority Coordinators;
- Coordination Unit within the Ministry of Finance;

PFM Council

The Government established the Public Financial Management Council on 12th February 2018 ("Official Gazette of Republic of Macedonia", no. 28/2018), as the highest-level coordination body, the primary goal of which is to ensure full political commitment in achieving the reform goals under the PFM Reform Programme 2018-2021.

PFM Council comprises the following members:

- Minister of Finance - Chairman
- Deputy Prime Minister for European Affairs
- Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments
- Minister of Economy
- Minister of Information Society and Administration
- Customs Administration Director
- Public Revenue Office Director
- Public Procurement Bureau Director
- State Statistics Office Director
- President of the State Appeals Commission
- Auditor General

PFM Council oversees the Programme implementation, undertakes the necessary activities while fulfilling the reform goals under the Programme, jointly deliberates on the critical points or bottlenecks in further implementation of the Programme, proposes and undertakes corrective actions to resolve the identified problems, holds high-level policy dialogue with the donors and other stakeholders on the implementation, financing and scope of the PFM reform. It approves the annual action plans and reports on monitoring the Programme implementation, which are submitted for adoption to the Government of North Macedonia.

PFM Council term of office will be extended for the period 2022-2025.

Tasks and obligations, as well as PFM Council composition, will be additionally determined under new decision on establishment of PFM Council under PFM Reform Programme 2022-2025.

PFM Sector Working Group

PFM Sector Working Group is a technical working body established by the Minister of Finance for the purpose of preparing, monitoring and reporting on the PFM Reform Programme. It comprises members and observers nominated by the relevant institutions included in activities related to PFM sector (ministries and other public entities, civil society organisations, donor community). The Working Group was initially established under a Decision adopted by the Minister of Finance on 10th June 2015, and it has been modified and amended several time since, with the recent amendment made on 29th October 2021. New decision of appointment of WG members and observers will be adopted in line with the new structure of the PFM Reform Programme 2022-2025.

Minister of Finance, or in his absence, Deputy Chairman appointed by him, chairs the PFM Sector Working Group.

Following institutions participate in the operations of the PFM SWG: Ministry of Finance, Customs Administration, Public revenue Office, Public Procurement Bureau, Ministry of Economy, State Audit Office, State Statistics Office, Secretariat for European Affairs, Ministry of Information Society and Administration, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments, representatives of the donor community and civil society organisations in the field of PFM.

Under the Decision, Priority Coordinators are appointed for the priorities within the Programme Pillars, assigning them tasks and duties related to the monitoring and reporting system.

PFM SWG will continue its operations in order to ensure support in the implementation of PFM Reform Programme 2022-2025.

The Working Group is the main coordination body at technical level to debate on the national PFM reform documents, as well as inter-sector and sector strategies and development programmes (planning documents) related to PFM reforms. It is an inter-institutional coordination forum with a mandate to implement expert-level tasks related to formulation, monitoring and evaluation of PFM reform policies, including those relevant for the EU integration.

PFM SWG tasks and obligations are regulated in more details with a decision on its establishment.

It prepares annual action plans on Programme implementation, coordinates and monitors the implementation of activities within each priority and prepares reports on progress monitoring.

PFM SWG will convene a plenary session at least twice a year to monitor the reform progress and, if necessary, any other stakeholders may be invited to participate in its work.

It should, annually, assess the risks of relevance to the achievement of the set goals and propose measures to overcome them.

Meetings of the PFM SWG are held at policy and technical level.

At policy level, the meetings are held in a form of high-level PFM policy dialogues with all relevant stakeholders (civil society, academia, EC and other donors, IFI's and other international partners active in the sector).

At technical level, SWG meetings are held with its members, discussing concrete PFM issues, including IPA programming and implementation.

Priority Coordinator

On the basis of nominations submitted by the relevant institutions, Minister of Finance appoints Priority Coordinator for each priority within the respective Pillar. Priority Coordinator coordinates and monitors the implementation of the activities within each priority measure, monitors the fulfilment of the priority indicators and reports on the progress achieved. He/she prepares reports on the implementation of the reforms under each priority and proposes annual action plans on Programme implementation.

Coordination Unit within the Ministry of Finance

Coordination Unit within the Ministry of Finance acts as a technical secretariat to support the functioning of the PFM Working Group and the PFM Council. In general, its tasks comprise preparation of the meetings of both the PFM Council and the PFM Working Group at policy level and at technical level, as well as preparation of compiled reports on the progress in the implementation of the reforms under each priority and compiled annual action plans, based on the input provided by the Priority Coordinators.

Reporting process for implementation of the PFM Reform Programme 2022 - 2025

Program implementation will be monitored by means of semi-annual and annual reports. By way of exception, the reporting period may be longer than 6 months. Upon prior approval by the PFM Council, the Government considers the reports and adopts respective conclusions with assignments for the institutions in charge. Adopted reports are published on the Ministry of Finance website.

Link with the Public Administration Reform Strategy

Public financial management reform is one of the key pillars of the public administration reform (PAR), accordingly being incorporated in the PAR Strategy and the Action Plan for Implementation of PAR Strategy. Given that modern public administration is basis for efficient and effective public financial management, when preparing the PFM Reform Programme and the PAR Strategy, full coherence and harmonisation of both strategic documents is ensured. Particular attention has been paid to the human resources capacity, policy planning capacity, e-services, provision of services and orientation towards results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, link between these two strategic document has been further strengthened with the Minister of Information Society and Administration participating in the process of managing and coordinating the PFM Reform Programme, as a member of the PFM Council, and its representatives in the PFM Sector Working Group, thus ensuring consistency and complementarity in the implementation of both documents. Furthermore, PFM reforms are put on the agenda of the SAA monitoring process, in particular, the progress in implementation of the reforms is discussed during the meetings of the Special Group for Public Administration Reform. In addition, agendas of the PFM policy dialogue and the Special Group for Public Administration Reform are harmonised.

Under IPA Project “Support to State Reorganisation”, implemented by the Ministry of Information Society and Administration, new Law on Organisational Setup and Operations of State Administration Bodies has been prepared, aimed at streamlining the institutional framework, eliminating the overlapping competencies and improving the efficiency of the administration, strengthening the public services, as well as the ethics, integrity, transparency and accountability of the public administration.

Organisational setup of the new Departments has been defined with a functional analysis made by the Ministry of Finance In order to commence performing the new functions related to public investment management, concession registry, carrying out training in the area of public finances, etc., Ministry of Finance is to amend the organisation and systematisation acts by establishing and staffing new organisational units.

PFM Donor Coordination

PFM donor coordination is carried out at two levels:

1. Policy level - PFM Council and PFM policy dialogue One of the main tasks of the PFM Council is to facilitate the policy dialogue with relevant institutions and donors. Members of the PFM Council participate in the PFM policy dialogues with all relevant stakeholders.
2. Technical level - PFM Sector Working Group PFM Sector Working Group is the main interinstitutional coordination body at technical level to debate on the national PFM reform documents, as well as inter-sector and sector strategies and development programmes (planning documents) related to PFM reforms, including those of importance for the EU integration, all to the end of providing a sustainable and long-term planning of national priorities and financial support from the donors.

   Also, separate donor coordination meetings at operational level are organised with regard to the implementation of specific PFM sub-areas measures.

Public Consultation with External Partners

Process of public consultations for the preparation and implementation of the PFM reform program 2022-2025 will be carried out within the activities of the PFM SWG upon prior publication of the draft documents on MoF website.

Preparation and implementation of the new PFM Reform Programme 2022-2025 is based on a sectoral dialogue with all stakeholders - external partners, introduced with the previous PFM Reform Programme. The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public finance management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Important input and dialogue orientation is received from the external technical reviews, such as IMF Article IV consultations, Public Finance Review and other relevant reviews of the World Bank, SIGMA monitoring reports, PEFA assessments, EU Annual Reports, other assessment missions for specific PFM sub-sectors. Key findings from the latest assessments of different international institutions for various PFM area are presented in each measure of the respective priority in Chapter II.

Public Financial Management Report Programme 2022-2025 was published on the Ministry of Finance website on __________________________, in Macedonian and English. Public consultation was held in a form of policy dialogue on _________2022, with all stakeholders taking part (donor community, civil society organisations, IFIs, local authorities and other stakeholders), in order to actively contribute to the process of determining and implementing the reform priorities.

Chapter IV: Financing of the PFM Reform Programme

The PFM Reform Programme will be funded through two main sources: state Budget and donors' fund.

Each priority and measure has developed its estimated costs analysis for the activities. Costs calculation is based on a general assumption that only additional costs will be estimated, in order to ensure full and successful implementation of the planned activities, as well as to present the sources of funds for the additional costs in order to determine the financing gap. Activities carried out with the existing human resources, i.e. activities for which no additional costs for new employment are envisaged should not be estimated, such as for instance administrative tasks - preparation of draft laws and bylaws (unless need for external expert assistance arises).

Thereby, basic categorisation of the estimated additional costs has been made in order to ensure better overall estimates on the type of needed resources.

Government of the Republic of North Macedonia will strive for securing funds from external sources/donors for closing the determined financing gap, committing to ensure funds from the state Budget for the activities for which such funds will not be provided, all in line with the planned dynamics for implementation of the activities.

The Table below summarises the known estimated costs for the Programme at the time of its preparation. Given that the Programme is mainly financed from the state Budget, current costs implications are directly taken into account during the planning process and will be reflected in the annual budgets.

PFM Reform Programme 2022-2025	Costing for the full period of the PFM PR 2022-2025	Source of funding		
		Domestic Financing	External Financing	Financing gap
Pillar I. Economic Analysis,Macroeconomic and Fiscal Framework	**1,174,000**	**424,000**	**750,000**	**0**
Priority 1. Revenue forecasting and reporting	**330,000**	**0**	**330,000**	**0**
Measure 1. Improving tax and customs reporting in accordance with EU best practices	165,000	0	165,000	0
Measure 2. Enhancing tax and customs modelling capacity	165,000	0	165,000	0
Priority 2. Economic analysis and Macroeconomic forecasting	**720,000**	**300,000**	**420,000**	**0**
Measure 1. Capacity building for economic analyses	100,000	0	100,000	0
Measure 2. Developing new macroeconomic models	200,000	0	200,000	0
Measure 3. Fiscal risks	65,000	0	65,000	0
Measure 4. Establishing Fiscal Council	355,000	300,000	55,000	0
Priority 3. Strengthening Debt management	**124,000**	**124,000**	**0**	**0**
Measure 1. Reducing of operational risks at public debt management	124,000	124,000	0	0
Measure 2. Increasing public debt transparency	0	0	0	0
Measure 3. Introducing new debt instruments	0	0	0	0
Pillar II. Revenue mobilization	**22,256,000**	**10,840,000**	**1,916,000**	**9,500,000**
Priority 1. Tax and customs policy	**1,916,000**	**0**	**1,916,000**	**0**
Measure 1. Improved revenue legislation framework, harmonized with the EU acquis	1,916,000	0	1,916,000	0
Priority 2. Tax administration	**10,840,000**	**10,840,000**	**0**	**0**

Measure 1. Strengthen administrative capacity for better revenue collection and tax compliance	2,340,000	2,340,000	0	0
Measure 2. Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)	8,500,000	8,500,000	0	0
Priority 3. Customs	**9,500,000**	**0**	**0**	**9,500,000**
Measure 1. Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime	4,000,000	0	0	4,000,000
Measure 2. Modernization of customs services and their digitalization	5,500,000	0	0	5,500,000
Pillar III. Planning and budgeting	**58,873,000**	**31,243,000**	**135,000**	**27,495,000**
Priority 1. Budget planning	**220,000**	**140,000**	**80,000**	**0**
Measure 1. Improving medium-term planning	5,000	0	5,000	0
Measure 2. Improved Budget Planning and Development of Measurable Performance Indicators	165,000	140,000	25,000	0
Measure 3. Fiscal consolidation for gradual and sustainable reduction of budget deficit	50,000	0	50,000	0
Priority 2. Strengthened public investment management	**951,000**	**401,000**	**55,000**	**495,000**
Measure 1. Planning Sustainable Levels of Investment	581,000	401,000	15,000	165,000
Measure 2. Improved project appraisal, selection and allocation of resources for capital investments	255,000	0	40,000	215,000
Measure 3. Efficient and effective monitoring of capital investments	115,000	0	0	115,000
Priority 3. Effective instruments under the Growth Acceleration Plan	**57,702,000**	**30,702,000**	**0**	**27,000,000**
Measure 1. Establishment of different funds in the state institutions and development of different financial instruments	**57,702,000**	30,000,000	0	27,000,000
Measure 2. Strenghtening the capacities of various institution	702,000	702,000	0	0
Pillar IV. Public Procurement	**1,370,000**	**190,000**	**0**	**1,180,000**
Priority 1. Public procurement policy	**190,000**	**190,000**	**0**	**0**
Measure 1. Strengthening the institutional capacity	185,000	185,000	0	0
Measure 2. Improvements in statistical data and analysis of the open data	5,000	5,000	0	0
Priority 2. Public private partnership (PPP)	**1,096,000**	**0**	**0**	**1,096,000**
Measure 1. Establishment of the Unique Electronic Public Private Partnership System (UEPPP)	1,000,000	0	0	1,000,000
Measure 2. Completion of the legal and regulatory framework in the field of public-private partnership	0	0	0	0
Measure 3. Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership	96,000	0	0	96,000
Priority 3. Appeal mehanisam	**84,000**	**0**	**0**	**84,000**
Measure 1. Strengthening the legal and regulatory framework of legal protection in the public procurement process	0	0	0	0
Measure 2. Strengthening the administrative capacity of the SAC and increasing the transparency, efficiency and effectiveness of the SAC	84,000	0	0	84,000
Pillar V. Integrated public finances	**11,014,000**	**162,000**	**10,642,000**	**210,000**
Priority 1. Implementation of an Integrated Financial Management Information System (IFMIS) to Support the implementation of Public Financial Management Reforms and Organic Budget Law	**10,500,000**	**0**	**10,500,000**	**0**

Measure 1. IFMIS is fully operational to support the implementation of OBL reforms	10,500,000	0	10,500,000	0
Priority 2. Strengthen the accounting of budgets and budget users	**120,000**	**0**	**120,000**	**0**
Measure 1. Strengthening the accounting system by applying new accounting practices	60,000	0	60,000	0
Measure 2. Capacity building of public sector accountants	60,000	0	60,000	0
Priority 3. Public finance academy	**394,000**	**162,000**	**22,000**	**210,000**
Measure 1. Establishment of an Public Finance Academy	116,000	104,000	12,000	0
Measure 2. Development and implementation of a curriculum	278,000	58,000	10,000	210,000
Measure 3. Inter-institutional cooperation	0	0	0	0
Pillar VI. Public Internal Financial Control	**1,407,000**	**956,000**	**451,000**	**0**
Priority 1. Financial management and control	335,000	59,000	276,000	0
Measure 1. Establishment of a comprehensive system of controls in financial management based on risk management	335,000	59,000	276,000	0
Priority 2. Internal audit	**846,000**	**710,000**	**136,000**	**0**
Measure 1. Strengthening the quality of work of the internal audit units in the ministries	750,000	614,000	136,000	0
Measure 2. Centralization of the powers and the capacities for advanced types of internal audits (performance audit and IT audits) in the Ministry of Finance	96,000	96,000	0	0
Priority 3. Financial inspection	**226,000**	**187,000**	**39,000**	**0**
Measure 1. Strenghtening the institutional base of the function of the financial inspection	211,000	187,000	24,000	0
Measure 2. Strengthening the capacity of financial inspection human resources	15,000	0	15,000	0
Pillar VII. External control and parliamentary oversight	**5,487,000**	**0**	**655,000**	**4,832,000**
Priority 1.External audit	**5,053,000**	**0**	**561,000**	**4,492,000**
Measure 1. Strengthen legislative framework for external audit	21,000	0	21,000	0
Measure 2.Strengthen the institutional capacity and human resource capacities of the SAO	5,032,000	0	540,000	4,492,000
Priority 2. Parliamentary Oversight	**434,000**	**0**	**94,000**	**340,000**
Measure 1.Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM	146,000	0	46,000	100,000
Measure 2.Strengthening institutional capacities for reviewing audit reports by the Assembly of RNM	288,000	0	48,000	240,000
Pillar VIII. PFM at Local Level	**213,000**	**213,000**	**0**	**0**
Priority 1. Fiscal decentralization	**88,000**	**88,000**	**0**	**0**
Measure 1. Improving fiscal capacity and increasing municipal revenues	86,000	86,000	0	0
Measure 2.Regional and local development	2,000	2,000	0	0
Priority 2.Financial discipline, transparency and accountability at local level	**125,000**	**125,000**	**0**	**0**
Measure 1. Increasing the financial discipline	119,000	119,000	0	0
Measure 2. Increasing the transparency and accountability throughout the operations of the municipalities	6,000	6,000	0	0
TOTAL:	**101,794,000**	**44,028,000**	**14,549,000**	**43,217,000**

Annex I – Time Frame of Implementation of the PFM Reform Programme

PFMPR 2022-2025			2022				2023				2024				2025			
			I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
Pillar I - Economic Analysis, Macroeconomic and Fiscal Framework																		
Priority 1.		**Revenue forecasting and reporting**																
Measure 1.		**Improving tax and customs reporting in accordance with the EU best practices**																
	Activity 1.	Reviewing availability of data needed for revenue analysis and preparation of Action Plan for submission of the required data	■	■	■	■												
	Activity 2.	Preparation of reports in line with the EU best practices	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Measure 2.		**Enhancing tax and customs modelling capacity**																
	Activity 1.	Trainings in open-source programming languages (Python and R)	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Activity 2.	Implementation of models developed in the Twinning Project “Improving Revenue Collection and Tax and Customs Policy”	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Priority 2.		**Economic analysis and macroeconomic forecasting**																
Measure 1.		**Capacity building for economic analysis**																
	Activity 1.	Increasing the scope of economic analyses		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Activity 2.	Economic policy impact assessment					■	■	■	■	■	■	■	■	■	■	■	■
Measure 2.		**Developing new macroeconomic models**																
	Activity 1.	Developing macroeconomic forecasting tools		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Measure 3.		**Fiscal risks**																
	Activity 1.	**Strengthening the capacity for fiscal risk assessment**		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Activity 2.	Preparing consolidated Fiscal Risk Statement, as part of the draft Budget					■	■	■	■	■	■	■	■	■	■	■	■
Measure 4.		**Establishing Fiscal Council**																
	Activity 1.	Legal framework – preparation of bylaws for establishment and operationalization of Fiscal Council		■	■	■	■	■	■	■								
	Activity 2.	Building administrative capacity		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Priority 3.		**Strengthening Debt management**																
Measure 1.		**Reducing operational risks at public debt management**																
	Activity 1.	Introducing e-banking with NBRNM for external debt repayment	■	■	■	■	■	■	■	■	■	■	■	■	■			
	Activity 2.	Strengthening public debt management capacities	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Activity 3.	Reconciling the debt stock with the creditors									■	■	■	■	■	■	■	■
Measure 2.		**Increasing public debt transparency**																
	Activity 1.	Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria									■	■	■	■	■	■	■	■
	Activity 2.	Incorporating debt data in the Budget document									■	■	■	■	■	■	■	■
Measure 3.		**Introducing new debt instruments**																
	Activity 1.	Issuing new financing instruments	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Pillar II - Revenue Mobilisation																		
Priority 1.		**Tax and customs policy**																
Measure 1.		**Improved revenue legislation framework, harmonized with the EU acquis**																
	Activity 1.	Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Activity 2.	New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted on the basis of the EU legislation in force	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Priority 2.		**Tax administration**																
Measure 1.		**Strengthen administrative capacity for better revenue collection and tax compliance**																
	Activity 1.	Strengthening the institutional capacity of the tax administration, especially in management of the overdue tax debt and the tax compliance	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Measure 2.		**Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)**																
	Activity 1.	Implementation of the activities envisaged in the Strategic Plan of the PRO related to the completion of the Integrated Tax Information System	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

Priority 3.		**Customs**
Measure 1.		**Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime**
	Activity 1.	Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade
Measure 2.		**Modernization of customs services and their digitalization**
	Activity 1.	Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware.
Pillar III - Planning and Budget		
Priority 1.		**Budget Planning**
Measure		**Improving medium-term planning**
	Activity 1.	Medium-Term Fiscal Strategy based on a sectoral approach
	Activity 2.	Improving planning through tools- baseline scenario and new initiatives
	Activity 3.	Strengthening medium-term planning at public enterprises and companies at central level
Measure 2.		**Improved Budget planning and developing measurable performance indicators**
	Activity 1.	Preparing and implementing bylaws and several types of classifications - administrative/organizational, economic, Program, functional classifications, as well as classification of sources of financing
	Activity 2.	Developing and monitoring of performance indicators in the implementation of budget policies
	Activity 3.	Increasing the staff in MoF and the budget users in the process of providing comprehensive information by volume and contents, when preparing the Budget, as well as harmonizing the processes with the international methodologies and the good practices
Measure 3.		**Fiscal consolidation for gradual and sustainable reduction of budget deficit**
	Activity 1.	Reducing the current expenditures in the total expenditure structure by determining spending standards and defined allocation criteria
	Activity 2.	Improving capital expenditure structure and execution
Priority 2.		**Strengthened public investment management**
Measure 1.		**Planning sustainable levels of investment**
	Activity 1.	Improve sectoral plans by aligning them with the strategic planning system
	Activity 2.	Strengthen the coordination of investment plans between the central government and the LSGUs
	Activity 3.	Strengthen the role, the supporting legal framework and the institutional set up of MoF in the PIM system
	Activity 4.	Strengthen the central oversight of alternative infrastructure financing sources
	Activity 5.	Increase the comprehensiveness of medium-term fiscal planning and budget documentation in relation to public capital investment spending
Measure 2.		**Improved project appraisal selection and allocation of resources for capital investments**
	Activity 1.	Develop a single pipeline of appraised capital projects
	Activity 2.	Include detailed information on individual projects in the budget documentation
	Activity 3.	Provide training to MoF professionals on project appraisal and review of preinvestment studies
	Activity 4.	Develop general project appraisal methodology and determine shadow prices
	Activity 5.	Establish standard criteria for project selection
	Activity 6.	Provide training to budget users/SoEs/LSGUs professionals on project formulation appraisal and selection
Measure 3.		**Efficient and effective monitoring of capital investments**
	Activity 1.	Introduce risk-based centralized monitoring
	Activity 2.	Introduce rules for fundamental review of problem projects, irrespective of funding source
	Activity 3.	Develop an IT system functional requirements for comprehensive physical and financial monitoring of projects being implemented
	Activity 4.	Develop guidelines and iintroduce a formal requirement for ex-post review of completed projects
Priority 3.		**Effective instruments under the Growth Acceleration Plan**
Measure 1.		**Establishment of different funds in the state institutions and development of different financial instruments**

	Activity 1.	Establishment of Hybrid National Green and Digital MSME Fund for start-ups and innovative enterprises;
	Activity 2.	Establishment of “Greening Business” Facility;
	Activity 3.	Establishment of Guarantee Fund;
	Activity 4.	Establishment of Energy Efficiency Fund
	Activity 5.	Establishment of Research and Development Fund
	Activity 6.	Establishment of Local and Regional Development Fund
Measure 2.		**Strenghtening the capacities of various institution**
	Activity 1.	Establishment of a Delivery Unit for infrastructure project coordination
	Activity 2.	Establishment of Project Monitoring Unit
	Activity 3.	Establishment of a Capacity Building and Training Unit for strengthening management and institutional capacities
Pillar IV - Public Procurement		
Priority 1.		**Public procurement policy**
Measure 1.		**Strengthening the institutional capacity**
	Activity 1.	Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026
	Activity 2.	Improving the coordination among the key institutions in the public procurement system
	Activity 3.	Introducing new system for education within PPB
Measure 2.		**Improvements in statistical data and analysis of the open data**
	Activity 1.	Improving the statistical database
Priority 2.		**Public Private Partnership (PPP)**
Measure 1.		**Establishment of the Unique Electronic Public Private Partnership System (UEPPP)**
	Activity 1.	Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership
	Activity 2.	Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts
Measure 2.		**Completion of the legal and regulatory framework in the field of public-private partnership**
	Activity 1.	Preparation of bylaws that will arise from the Law on Public Private Partnership
	Activity 2.	Adoption of the bylaws that will arise from the Law on Public Private Partnership
Measure 3.		**Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership**
	Activity 1.	Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership
Priority 3.		**Appeal mehanisam**
Measure 1.		**Strengthening the legal and regulatory framework of legal protection in the public procurement process**
	Activity 1.	Preparation of a special law on legal protection in the field of public procurement
Measure 2.		**Strengthening the administrative capacity of the SAC**
	Activity 1.	Increasing the number of employees in the SAC
	Activity 2.	Development of a new WEB page of the SAC
Pillar V - Integrated Public Finances		
Priority 1.		**Implementation of an Integrated Financial Management Information System (IFMIS) to Support the implementation of Public Financial Management Reforms and Organic Budget Law**
Measure 1.		**IFMIS is fully operational to support the implementation of OBL reforms**
	Activity 1.	Development of IFMIS as an integrated centralized web-based system supporting decentralized operations.
	Activity 2.	Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS.
	Activity 3.	Capacity strengthening (OBL Reform Unit), training and change management to support OBL reforms and countrywide IFMIS operations.
Priority 2.		**Strengthen the accounting of budgets and budget users**
Measure 1.		**Strengthening the accounting system by applying of new accounting practices**
	Activity 1.	Preparing a Strategy for Improvement of the Budget Institutions’s Accounting with a gap analysis, setting priorities and goals and action plan
	Activity 2.	Adopting a new regulatory framework on accounting of budgets and budget users and bylaws

	Activity 3.	Harmonizing budget information systems and budget users with the new accounting requirements
Measure 2.		**Capacity building of public sector accountants**
	Activity 1.	Preparing training and exam curriculum for public sector accountants
	Activity 2.	Train-the-trainer for persons who will carry out the training of public sector accountants
	Activity 3.	Training and examination for certified accountants at the budget institutions
Priority 3.		**Public Finance Academy**
Measure 1.		**Establishment of an Public Finance Academy**
	Activity 1.	Creating a legal basis for the establishment and functioning of the Public Finance Academy
	Activity 2.	Strengthen the human resources capacities of the Public Finance Academy, through staffing, training and equipping
Measure 2.		**Development and implementation of a curriculum**
	Activity 1.	Preparation of methodological tools for implementation of the activities of the Public Finance Academy
	Activity 2.	Preparation of an Annual Work Program
Measure 3.		**Inter-institutional cooperation**
	Activity 1.	Establishment of cooperation with domestic and foreign institutions
Pillar VI - Public Internal Financial Control		
Priority 1.		**Financial management and control**
Measure 1.		**Establishment of a comprehensive system of financial management controls based on risk management**
	Activity 1.	Preparation of Financial Management and Control Manual and its publication on the Ministry of Finance's website
	Activity 2.	Adoption and publication of Guidelines on the Manner of Checking the Quality of Financial Management and Control
	Activity 3.	Strengthen the capacity of the CHU to check the quality of financial management and control
	Activity 4.	Establishment of a network of institutions' financial affairs units in coordination with the CHU, for exchange of experiences, best practices and raising awareness at public sector entities about responsibilities for the quality of financial management and control
Priority 2.		**Internal audit**
Measure 1.		**Strengthening the quality of work of the internal audit units at the Ministries**
	Activity 1.	Preparation and approval of "Internal Audit Organization Plan" for all Ministries by the Government
	Activity 2.	Modifying and amending the Ministries' internal acts for organization and systematization in accordance with the "Internal Audit Organization Plan"
	Activity 3.	Strengthening CHU's capacities for checking the quality of operations of the internal audit units
	Activity 4.	Establishment of a network of institutions' internal audit units in coordination with the CHU, for exchange of experience and best practices
Measure 2.		**Centralization of the powers and the capacities for advanced types of internal audits (performance audit and IT audits) in the Ministry of Finance**
	Activity 1.	Establishment of a Department for Centralized Conducting of IT Audits and Performance Audits
	Activity 2.	Signing a Charter for Conducting IT Audits and Performance Audits with the Ministries
Priority 3.		**Financial inspection**
Measure 1.		**Strengthening the institutional basis of the financial inspection function**
	Activity 1.	Improving the legal framework
	Activity 2.	Introducing a system of performance-based annual remuneration for financial inspectors
	Activity 3.	Improved methodologies and systematization (increasing the value added of the financial inspection function)
Measure 2.		**Strengthening the capacity of financial inspection human resources**
	Activity 1.	Designing a concept for obtaining a license for financial inspector
	Activity 2.	Preparing an annual training program for financial inspectors
Pillar VII - External Control and Parliamentary Oversight		
Priority 1.		**External audit**
Measure 1.		**Strengthen legislative framework for external audit**
	Activity 1.	Initiating constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI

	Activity 2.	Strengthening external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines
Measure 2.		**Strengthen the institutional capacity and human resource capacities of the SAO**
	Activity 1.	Preparation of new and improved strategic, planning and methodological acts of the SAO
	Activity 2.	Strengthen the capacity to conduct audits
	Activity 3.	Increasing the visibility of the SAO and communication with the stakeholders
Priority 2.		**Parliamentary oversight**
Measure 1.		**Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM**
	Activity 1.	Signing of a Memorandum of Cooperation between the Assembly and the SAO
	Activity 2.	Preparation of procedures in the SAO and the Assembly of RNM for submission and review of audit reports and other documents
	Activity 3.	Preparation of summary reports of final audit reports from certain areas and their submission to the Assembly of RSM
Measure 2.		**Strengthening institutional capacities for reviewing audit reports by the Assembly of RNM**
	Activity 1.	Preparation of Amendments to the existing Manual "Introduction to Audit Reports"
	Activity 2.	Preparation of a Training Plan for the Members of Parliament and Administration in the Assembly of the RNM in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports
	Activity 3.	Conducting trainings in accordance with the Training Plan for the Members of Parliament and administration in the Assembly of RNM in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports
	Activity 4.	Implementation of activities for strengthening the cooperation with the Finance and Budget Committee, the Parliamentary Institute at the Assembly of RNM, and the Parliamentary Budget Office of the Assembly of RNM
Pillar VIII - PFM at Local Level		
Priority 1.		**Fiscal decentralization**
Measure 1.		**Improving fiscal capacity and increasing municipal revenues**
	Activity 1.	New/revision of the Law on Financing Local Government Units
	Activity 2.	Increasing the own revenues of the municipalities, increasing the funds allocated to the municipalities from the Central Budget and introducing criteria for good performance and equalization
	Activity 3.	Revision of the criteria for allocation of block and earmarked grants and determination of criteria for allocation of capital grants
Measure 2.		**Regional and local development**
	Activity 1.	Establishment of the Agency for Regional and Local Development and achieving balanced regional development
Priority 2.		**Financial discipline, transparency and accountability at local level**
Measure 1.		**Increasing the financial discipline**
	Activity 1.	Realistic planning of revenues and expenditures of the municipalities
	Activity 2.	Rationalization of operations and reduction of unnecessary expenses
	Activity 3.	Analysis of the liabilities of the municipalities, declaring financial instability and taking measures for financial consolidation
Measure 2.		**Increasing the transparency and accountability throughout the operations of the municipalities**
	Activity 1.	Increasing control by the state
	Activity 2.	Improving the transparency and timely informing the broader public about the operations of the municipality

Annex II – Logframe table for the PFM Reform Programme 2022 - 2025

LOGICAL FRAMEWORK							
PILLAR I: Economic Analysis, Macroeconomic and Fiscal Framework							
PRIORITY 1. Revenue forecasting and reporting							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I) The variance in revenue composition between planned and actual figures is reduced, indicating in particular improved forecasting of income and profit tax, VAT and excise and social security contributions	Variance in revenue composition between planned and actual figures (as used in PEFA PI3)	Ministry of Finance	To be calculated	To be defined based on past trends and pace of the reform(Separately for each tax with the following metrics: MAPE[1], MAE [2]and RMSE[3] on a monthly basis)	To be defined based on past trends and pace of the reform(Separately for each tax with the following metrics: MAPE, MAE and RMSE on a monthly basis)	To be defined based on past trends and pace of the reform(Separately for each tax with the following metrics: MAPE, MAE and RMSE on a monthly basis)	To be defined based on past trends and pace of the reform(Separately for each tax with the following metrics: MAPE, MAE and RMSE on a monthly basis)
[1] Mean absolute percentage error [2] Mean absolute error [3] Root mean square error							
MEASURE 1: Improving tax and customs reporting in accordance with the EU best practices							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of published reports per year	Web page of MoF	Draft of Tax Expenditures report preparedwithTwinning project “Improving revenue collection and tax and customs policy,,	Prepared and published 5 reports (Tax Expenditures,VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity,Income inequality report and C-Efficiency)	Prepared and published 6 reports(Tax Expenditures,VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity,Income inequality report and C-Efficiency,Impact assessment of the alignment of the Customs tariff MFN rates with the EU Common External Tariff)	Prepared and published 7 reports(Tax Expenditures,VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity,Income inequality report, C-Efficiency, Impact assessment of the alignment of the Customs tariff MFN rates with the EU Common External Tariff and Cost-of-collection ratio Report)	Prepared and published 8 reports(Tax Expenditures,VAT-GAP Report, Coefficients for tax buoyancy and tax elasticity,Income inequality report and C-Efficiency, Impact assessment of the alignment of the Customs tariff MFN rates with the EU Common External Tariff,Cost-of-collection ratio Report and Report for estimated EMTRs and EATRs)
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Reviewing availability of data needed for revenue analysis and preparation of Action Plan for submission of the required data	First quarter of 2022	MoF	CA,PRO,SSO and others	82,500	Twinning project “Improving revenue collection and tax and customs policy,,	

	2. Preparing reports in line with EU best practices	2022-2025	MoF	CA,PRO,SSO and others	82,500	Twinning project “Improving revenue collection and tax and customs policy,,	
MEASURE 2:Enhancing tax and customs modelling capacity							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of provided tailor-made training	Expert Mission Report of Twinning project “Improving revenue collection and tax and customs policy,,	Implemented trainings for R and micro-simulation	6-Trainings for open-source programming languages (Python and R), T-SQL, Power Bi, R Markdown and Shinyetc.) and implemented 3-models in day-to day workmodels developed by Twinning project “Improving revenue collection and tax and customs policy,,	6-Trainings for open-source programming languages (Python and R), T-SQL, Power Bi, R Markdown and Shiny etc.) andimplemented 4-models in day-to day workmodels developed by Twinning project “Improving revenue collection and tax and customs policy,,	6-Trainings for open-source programming languages (Python and R), T-SQL, Power Bi, R Markdown and Shinyetc.) and implemented 5-models in day-to day workmodels developed by Twinning project “Improving revenue collection and tax and customs policy,,	6-Trainings for open-source programming languages (Python and R), T-SQL, Power Bi, R Markdown and Shinyetc.) and implemented 6-models in day-to day workmodels developed by Twinning project “Improving revenue collection and tax and customs policy,,
	Activities	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Trainings in open-source programming languages (Python and R)	2022-2025	MoF	PRO and CA	82,500	Twinning project “Improving revenue collection and tax and customs policy,, or World Bank	
	2. Implementation of models developed in the Twinning project ,, Improving Revenue Collection and Tax and Customs Policy”	2022-2025	MoF	PRO and CA	82,500	Twinning project “Improving revenue collection and tax and customs policy,, or World Bank	
PILLAR I: Economic Analysis, Macroeconomic and Fiscal Framework							
PRIORITY 2. Economic analysis and Macroeconomic forecasting							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
1) Impact assessment of certain economic policies, reforms or measures and carrying out of additional economic analyses.	Impact assessments and economic analyses published in the Ministry of Finance's reports	MoF	Analysis of current macroeconomic trends and indicators				Increased scope of economic analyses and impact assessments (from the area of labor market, the informal economy, the assessment of the productivity and the competitiveness of the

							economy, etc.)
2) Improved quality and coverage of projections for macroeconomic indicators.	New macroeconomic models used during the preparation of the budget documents and Economic Reform Program.	MoF	Nowcasting tool and a structural macroeconomic model PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+				PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) > = B
3) Increased scope of fiscal risk analysis (for all types of fiscal risks determined in line with the good international practices).	Comprehensive reporting (Fiscal Risks Statement) on: liabilities of central and local governments; PPP associated risks; summary of risks identified by the biggest SoEs; comparison of macro-fiscal forecast scenarios	MoF PEFA	Fiscal risks/Sensitive analyses in Fiscal Strategy (2021-2023) PEFA scorePI-10. Fiscal risk reporting C+				Procedure for comprehensive Fiscal Risks Statement PEFA score
4) Independent, objective and professional opinions on issues related to fiscal policy.	Operational Fiscal Council and a body for expert administrative and technical support.	EU IMF WB	/ PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) C+	Elected members of the Fiscal Council and established body for professional and administrative-technical support l	Fiscal Council publishes its independent report on macro-fiscal sustainability		Independent, objective and professional opinions on issues related to fiscal policy PEFA score PI-14. Macroeconomic and fiscal forecasting (M2) >= B
MEASURE 1: Capacity building for economic analyses							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Impact assessment of certain economic policies, reforms or measures and additional economic analyses conducted	MoF strategic documents and reports	ERP's sensitivity analysis and alike	Trainings provided	Trainings provided	Trainings provided	New economic analyses and impact assessments conducted
	Activities	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Increasing the scope of economic analyses	2022-2025	MoF	IMF, EU, WB	50,000	External	

	2. Economic policy impact assessment	2023-2025	MoF	IMF, EU, WB	50,000	External	
MEASURE 2:Developing new macroeconomic models							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	New macroeconomic models used during the preparation of the budgetary documents and Economic Reform Programme	MoF strategic documents and reports	Nowcasting and a structural macroeconomic model	Trainings provided	Trainings provided	Trainings provided	New macroeconomic forecasting tools developed
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs (in EUR)**	**Source of financing**	
	1.Developing macroeconomic forecasting tools	2022-2025	MoF	IMF, EU, WB	200,000	External	
MEASURE 3: Fiscal Risks							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Comprehensive reporting (Fiscal Risks Statement) on: liabilities of central and local governments; PPP associated risks; summary of risks identified by the biggest SoEs; comparison of macro-fiscal forecast scenarios	MoF IMF PEFA score for indicator PI-10. Fiscal risk reporting	C+				PEFA Score: $\geq$B
	Activities	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Strengthening the capacity for fiscal risk assessment	2022-2025	Ministry of Finance	BU/SoEs/LSGU	45,000	External	
	2. Preparing consolidated Fiscal Risk Statement, as part of the draft Budget	2023-2025	Ministry of Finance	BU/SoEs/LSGU	20,000	External	
MEASURE 4: Establishing Fiscal Council							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

	Established operational Fiscal Council and a body for professional administrative support	/		Elected members of the Fiscal Council and Established body for professional and administrative-technical support Prepared procedural regulations of the Fiscal Council			
	Activities	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Legal framework – preparation of bylaws for establishing and operationalization of Fiscal Council	2022-2023	Ministry of Finance, Assembly, Fiscal Council	IMF, WB, EU	10,000	External	
	1. Building administrative capacity	2022-2025	Fiscal Council, Ministry of Finance, Assembly	MANU, NBRNM, State Audit Office	300,000 45,000	National Budget External	
PILLAR I: Economic Analysis, Macroeconomic and Fiscal Framework							
PRIORITY 3: Strengthening Debt management							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Strengthened public debt management.	Improved debt refinancing risk indicators	Website of MoF - Document public debt management strategy	Debt refinancing indicator is ATM - average time of maturity which is 5.3 years			Introduction of new debt refinancing risk indicator that will measure the share of short-term debt in total debt	Increase in long-term debt within total debt. Target - Average time to maturity greater than 5.5 years
	Increased grade in SIGMA report	SIGMA report	SIGMA grade for quality of public debt management is 3				Improvement of the indicator in the SIGMA report for risk mitigation in the stock of public debt
MEASURE 1: Reducing operational risks at public debt management							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of external debt orders paid electronically		No electronic payment	50% of external debt orders to be realized electronically	70% of external debt orders to be realized electronically	80% of external debt orders to be realized electronically	100% of external debt orders to be realized electronically

Increased number of employees responsible for public debt management		12 employees for public debt management	13 employees for public debt management	15 employees for public debt management	16 employees for public debt management	17 employees for public debt management
Procedure for Quarterly debt reconciliation with foreign creditors		There is no procedure for Quarterly debt reconciliation with foreign creditors			Adopted procedure for Quarterly debt reconciliation with foreign creditors	
Activities	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Introducing e-banking with NBRNM for external debt repayment	2022-2025	MoF	NBRNM		Budget of MoF	
2. Strengthening public debt management capacities	2022-2025	MoF	Agency for administration	124,000	Budget of MoF	
3. Reconciling the debt stock with the creditors	2024-2025	MoF	Multilateral,bilateral and private creditors		Budget of MoF	
MEASURE 2: Increasing public debt transparency						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Calculation of general government debt in accordance with the statistical standard SDDS plus	Website of MoF	Government debt is displayed according to SDDS standard			Government debt is displayed according to SDDS plus standard	
Publication of general government debt in accordance with the Maastricht criterion	Website of MoF	The general government debt it is not harmonized with the Maastricht criterion			The general government debt is harmonized with the Maastricht criterion	
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Modifications and amendments to Public Debt Law to the end of aligning the debt definition with the Maastricht Criteria	2022-2025	MoF	EU, World bank		Budget of MoF	
2. Incorporating debt data in the Budget document	2022-2025	MoF			Budget of MoF	

MEASURE 3: Introduction new debt instruments							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Diversification of debt instruments			Structural bond issued for financing the municipalities	Issued bond that will be defined during the monitoring process	Issued bond that will be defined during the monitoring process	Issued bond that will be defined during the monitoring process
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Issuing new financing instruments	2022-2025	MoF	Development bank, municipilaties			
PILLAR II: Revenue mobilization							
PRIORITY 1. Tax and customs policy							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Legislation in the area of taxation and customs harmonized with the Union acquis, standards and best practices	Progress made toward fulfillment of EU accession criteria (steady progress in related Chapters 16 and 29)	EC progress report	Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Limited progress	Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Some progress	Ch.29: Good level of preparation Good progress Ch.16: Moderately prepared Some progress	Ch.29: Good level of preparation Very Good progress Ch.16: Moderately prepared Good progress	Ch.29: Good level of preparation Very Good progress Ch.16: Good level of preparation Good progress
MEASURE 1: Improved revenue legislation framework, harmonized with the EU acquis							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of legislative acts (regarding Ch.16 And Ch.29)	MoF and Twinning project “Improving revenue collection and tax and customs policy,,	Prepared 22 gap analysis, 9 written recommendations and new legal acts and/or amendments to the existing national tax and customs legislation	Not less then 4 legislative acts	Not less then 5 legislative acts	Not less then 5 legislative acts	Not less then 6 legislative acts
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	

	1. Gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation	2022-2025	MoF	CA and PRO	958,000	Twinning project “Improving revenue collection and tax and customs policy,,	
	2.New legal acts and/or amendments to the existing national tax and customs legislation (laws and by-laws) drafted on the basis of the EU legislation in force	2022-2025	MoF	CA and PRO	958,000	Twinning project “Improving revenue collection and tax and customs policy,,	
PILLAR II: Revenue mobilization							
PRIORITY 2. Tax Administration							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY21**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Improved stability, efficiency and quality of the revenue collection system (IT system)	% percentage of digitized tax services	PRO	83%	83%	86%	90%	100%
More effective and efficient management of the overdue tax debt	Improved rate of tax payment on time (VAT)	PRO	Rate on number of timely payments - 60% Rate on amount of timely payments - 70%	Rate on number of timely payments – 65% Rate on amount of timely payments - 75%	Rate on number of timely payments – 70% Rate on amount of timely payments - - 80%	Rate on number of timely payments – 80% Rate on amount of timely payments - 85%	Rate on number of timely payments – 90% Rate on amount of timely payments - - 90%
	Improved age structure of the tax debt (VAT) - reduced share of the debt older than 12 months in the total tax debt	PRO	Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 77%	Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 70%	Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 63%	Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 56%	Share of VAT debt (principal debt) over 12 months old in the total VAT debt at the end of FP - 50%
Measure 1. Strengthen administrative capacity for better revenue collection and tax compliance							
	Performance Indicator	**Data Source**	**Baseline FY21**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

Increasing the amount of the established tax guarantee	PRO	We do not have measurements so far, but based on data from Regional Directorates and Large Taxpayers Office we will identify the amount of determined tax guarantee on 31/12/2021. and the amount of collection in 2021.	Increase the amount of the established tax guarantee by 10% compared to 2021.	Increase the amount of the established tax guarantee by 10% compared to 2022.	Increase the amount of the established tax guarantee by 5% compared to 2023.	Increase the amount of the established tax guarantee by 5% compared to 2024.
Increasing the collection of tax debt based on an established tax guarantee	PRO		Increase in the amount of debt collected based on the established tax guarantee by 5% compared to 2021.	Increase in the amount of debt collected based on the established tax guarantee by 10% compared to 2022.	Increase in the amount of debt collected based on the established tax guarantee by 10% compared to 2023.	Increase in the amount of debt collected based on the established tax guarantee by 5% compared to 2024.
Value of collectible core tax arrears in FY end in percent of total core tax revenue collection for FY	PRO	VAT debt / VAT income ratio 18%%	VAT debt / VAT income ratio 16%	VAT debt / VAT income ratio 14%	VAT debt / VAT income ratio 12%	VAT debt / VAT income ratio 10%
Increase in the amount of additionally assessed tax with audit compared to the previous year	PRO	Additional tax assessed per audit program increased per 3% compared to the results from the previous year	Additional tax assessed per audit program increased per 3% compared to the results from the previous year	Additional tax assessed per audit program increased per 3% compared to the results from the previous year	Additional tax assessed per audit program increased per 3% compared to the results from the previous year	Additional tax assessed per audit program increased per 3% compared to the results from the previous year
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Strengthening the institutional capacity of the tax administration, especially in management of the overdue tax debt and the tax compliance	2022-2025	PRO	/	2,340,000	National budget	

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

Performance Indicator	Data Source	Baseline FY21	Target FY22	Target FY23	Target FY24	Target FY25
Number of institutions with which the Integrated Tax Information System exchanges information	PRO	15	20	25	28	at least 30

	Completion of modules for the new ITIS	PRO	/	at least 1 module in use	at least 1 module in use	/	Software and hardware are in use
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Implementation of the activities envisaged in the Strategic Plan of the PRO related to the completion of the Integrated Tax Information System	2022-2025	PRO	/	8,500,000	National budget	
PILLAR II: Revenue mobilization							
PRIORITY 3. Customs							
Outcome(s)	**Performance indicator**	**Data source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Availability of innovative equipment and training of staff for detection and control for the purpose of: control without disturbance, detection of hidden objects on persons, radiation detection, sampling and analysis of samples, manual search;	Percentage of physical controls that resulted in the detection of irregularities in relation to the total number of physical controls performed using the new equipment	Customs Administration	/	/	/	10% of the total number of performed physical controls using the new equipment	15% of the total number of performed physical controls using the new equipment
Introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multiannual Strategic Plan of the EU (MASP), compatible with the systems and procedures in the European Union; preparation for interconnection and interoperability with EU systems and implementation of systems compliant with EU systems (which may be established prior to EU accession) and staffing with appropriate hardware for those systems.	Implemented at least two (2) new IT systems / modules from the EU Multiannual Strategic Plan (MASP) at national level on appropriate hardware (ICS2 and e-commerce)	Customs Administration	0	/	/	/	2

Measure 1. Strengthening joint control mechanisms and capacities in order to combat illegal trade and organized crime							
	Performance indicator	**Data source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Percentage of staff employed in the corresponding units for customs control actively using the new equipment	Customs Administration	0	/	/	30%	70%
	Conducted appropriate professional trainings for the employees in the operational services for control and prosecution for fight against illicit trade and crime (number of events)	Customs Administration	0	/	0 (equipment is in the process of procurement)	3	15
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Equipping with modern and reliable control equipment and appropriate training for employees, in order to protect financial and economic interests, guarantee the safety and security of citizens, environmental protection and protection from unfair and illicit trade	2022-2025	Customs Administration	EU - and its institutions, UN, Bilateral Cooperation, relevant domestic institutions	4,000,000	Financing gap (IPA 3 and national budget (co-financing))	
MEASURE 2. Modernization of customs services and their digitalization							
	Performance indicator	**Data source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Average yearly technical availability of the new customs IT systems for interconnectivity with the EU systems	Customs Administration	0	/	/	90%	95%

	Conducted appropriate professional trainings for the employees of the Customs Administration and the economic operators for implementation of systems (number of events)	Customs Administration	10	10	12	15	20
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Implementation of modern systems in order to comply with the Multiannual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware.	2024-2025	Customs Administration	EU	5,500,000	Financing gap (IPA 3 and national budget (co-financing))	
PILLAR III: Planning and budget							
PRIORITY 1. Budget planning							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY21**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I. Fiscal policy aimed at consolidating public spending and reducing the budget deficit	Reduction of the budget deficit as% compared to the previous year	Medium-term fiscal strategy + annual budget	(-)5,4% од БДП	-4,3% of GDP	-3,5% of GDP	-2,9% of GDP	-2,5% of GDP
MEASURE 1: Improving medium-term planning							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Changes in relation to the initial projections /outturn on (Fiscal deficit)	Medium-term fiscal strategy	10-12%	10-11%	0.1	0.09	0.09
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Medium-Term Fiscal Strategy based on a sectoral approach	2022-2025	MoF/Budget Department	Budget users	5,000	EU - IPA twinning project	
	2. Improving planning through tools- baseline scenario and new initiatives	2022-2025	MoF/Budget Department	Budget users	0		

3. Strengthening medium-term planning at public enterprises and companies at central level	2022-2025	MoF/Budget Department	Budget users	0		
MEASURE 2: Improved Budget planning and developing measurable performance indicators						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Number of first level of budget users	Budget	around 100	around 100	around 100	less than 50	less than 50
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Preparing and implementing bylaws and several types of classifications - administrative/organizational, economic, Program, functional classifications, as well as classification of sources of financing	2022-2025	MoF	Budget user	20,000	EU - IPA twinning project	
2. Developing and monitoring of performance indicators in the implementation of budget policies	2022-2025	MoF/Budget Department	Budget user	5,000	EU - IPA twinning project	
3. Increasing the staff in MoF and the budget users in the process of providing comprehensive information by volume and contents, when preparing the Budget, as well as harmonizing the processes with the international methodologies and the good practices	2023-2025	MoF/Budget Department		116,000	National budget	
				24,000	EU - IPA twinning projec	
Measure 3: Fiscal consolidation for gradual and sustainable reduction of budget deficit						

Performance Indicator	Data Source	Baseline FY21	Target FY22	Target FY23	Target FY24	Target FY25
Share of capital in total expenditures	Budget	9,09%	14%	14,3%	15,8%	16,6%
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Reduction of current expenditures in the structure of total expenditures by establishing spending standards and defined allocation criteria	2022-2025	MoF, Gov.	Budget users/PE/JSC/LSGu	25,000	EU - IPA twinning project	
2. Improving capital expenditure structure and execution	2022-2025	MoF, Gov.	Budget users/PE/JSC/LSGu	25,000	EU - IPA twinning project	

Pillar III: Planning and budget

PRIORITY 2: Strengthened Public Investment Management

Outcome(s)	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
Efficient and effective planning, selection, budgeting and implementation of major public investment projects	PEFA score for indicator PI - 11.Public Investment Management	PEFA Assessment Report	PEFA Score D+	-	-	-	PEFA Score: ≥C
	11.1. Economic analysis of investment projects		C				>C
	11.2. Investment project selection		D				≥C
	11.3. Investment project costing		C				>C
	11.4. Investment project monitoring		C				>C

MEASURE 1: Planning Sustainable Levels of Investment

Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
Average effectiveness score of institutions 2, 3 and 6 of PIMA	PIMA	1.33	-			≥1.50
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Improve sectoral plans by aligning them with the strategic planning system.	2023 - 2025	Secretariat General	MISA, MoF, SEA, others	45,000	Financing gap	

	2. Strengthen the coordination of investment plans between the central government and the LSGUs.	2023 - 2025	MoF, LSGU	ZELS External expertise	45,000	Financing gap	
	3. Strengthen the role, the supporting legal framework and the institutional set up of the MoF in PIM system	2022 - 2025	MoF	External expertise	401,000 15,000	National budget External (IMF)	
	4. Strengthen the central oversight of alternative infrastructure financing sources	2023 - 2024	MoF, Ministry of Economy	External expertise	45,000	Financing gap	
	5. Increase the comprehensiveness of medium-term fiscal planning and budget documentation in relation to public capital investment spending.	2023 - 2025	MoF	External expertise	30,000	Financing gap	
MEASURE 2: Improved project appraisal selection and allocation of resources for capital investments							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Average effectiveness score of institutions 4 and 10 of PIMA	PIMA	1.16	-			≥1.38
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Develop a single pipeline of appraised capital projects	2023 - 2025	MoF	BU/SoEs/ LSGUs External expertise	50,000	Financing gap	
	2. Include detailed information on individual projects in the budget documentation	2023 - 2025	MoF	BU/SoEs/ LSGUs External expertise	20,000	Financing gap	
	3. Provide training to professionals of the MoF on project appraisal and review of preinvestment studies.	2022 - 2023	MoF	External expertise	20,000 30,000	External (IMF) Financing gap	

4. Develop general project appraisal methodology and determine shadow prices	2022 - 2023	MoF, Government	BU/SoEs/ LSGUs External expertise	20,000 50,000	External (IMF) Financing gap	
5. Establish standard criteria for project selection	2023 - 2024	MoF, Government	BU/SoEs/ LSGUs External expertise	25,000	Financing gap	
6. Provide training to professionals of the budget users/SoEs/LSGUs on project formulation appraisal and selection.	2023 - 2025	MoF	BU/SoE/ LSGU External expertise	40,000	Financing gap	
MEASURE 3: Efficient and effective monitoring of capital investments						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Average effectiveness score of institutions 13 and 14 of PIMA	PIMA	1.84				>1.84
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Introduce risk-based centralized monitoring.	2023 - 2024	MoF	External expertise	25,000	Financing gap	
2. Introduce rules for fundamental review of problem projects, irrespective of funding source.	2024 - 2025	MoF	BU/SoEs/ LSGUs External expertise	25,000	Financing gap	
3. Develop an IT system functional requirements for comprehensive physical and financial monitoring of projects being implemented.	2023	MoF	External expertise	30,000	Financing gap	
4. Develop guidelines and introduce a formal requirement for ex-post review of completed projects	2023 - 2024	MoF	External expertise	35,000	Financing gap	

PILLAR III: Planning and budget							
PRIORITY 3. Effective instruments under the Growth Acceleration Plan							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I. Increased public and private investments using new financial instruments	Accumulated public investments and private investments in millions of euros using the new instrument	GROWTH ACCELERATION PLAN	/	Public investments = 800 milion euros Private investments = 4039 milion euros			
Measure 1. Establishment of different funds in the state institutions and development of different financial instruments							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of established funds in the institutions	GROWTH ACCELERATION PLAN	/	6	/	/	/
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Establishment of Hybrid National Green and Digital MSME Fund for start-ups and innovative enterprises	2022 ≥2025	FITD	/	10,000,000	State budget	/
	2. Establishment of “Greening Business” Facility	2022 ≥2025	FEZ	/	27,000,000	Financing gap	/
	3. Establishment of Guarantee fund	2022 ≥2025	Development bank	/	5,000,000	State budget	/
	4. Establishment of Energy Eefficiency fund	2022 ≥2025	Development bank	/	5,000,000	State budget	/
	5.Establishment of Research and Development Fund	2022 ≥2025	Development bank	/	10,000,000	State budget	/
	6. Establishment of Local and Regional Development Fund	2022 ≥2025	Agency for local and regional development	/	/	/	/
MEASURE 2: Strenghtening the capacities of various institution							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

	Total number of staff employed by the 3 established units in different institutions	GROWTH ACCELERATION PLAN	/	15	15	15	15
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Establishment of a Delivery unit for infrastructure projects coordination	2022	Cabinet of the prime minister	/	234,000	State budget	/
	2. Establishment of Project Monitoring unit	2022	Cabinet of the deputy prime minister in charge of economic affairs,coordination of economic departments and investments	/	234,000	State budget	/
	3. Establishment of a Capacity Building and training unit for strengthening management and institutional capacities	2022	/	/	234,000	State budget	/
PILLAR IV: PUBLIC PROCUREMENT							
PRIORITY 1. PUBLIC PROCUREMENT POLICY							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Better implementation of the Public procurement law.	Percentage one bid tenders	ESPP	23,43%	-	-	-	≤ 22,5 %
	Percentage cancelled procedures	ESPP	20,34%	-	-	-	≤ 18,5 %
MEASURE 1. Strengthening the institutional capacity							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Established new system for education within PPB	PPB	-	Analysis of the system for education within PPB	Established new system for education within PPB	15 organized trainings according new established system for education within PPB	15 organized trainings according new established system for education within PPB
	Number of new methodological tools	PPB		-	-	-	≤5

Established an advisory group consisting of experts and/or officials from the key procurement institutions and communication on regular basis according the agreed schedule	PPB	Official cooperation among key institutions in the system is limited	Established an Advisory group	Held at least 1 meeting	Held at least 2 meetings	Held at least 2 meetings
Number of received requests for opinion in relation to implementation of the PPL	PPB	1636	≤ 1580	≤ 1530	≤ 1480	1430
Number of implemented Technical Dialogue (Preliminary market consultation)	ESPP	257	400	450	500	550
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Adopting an overall Strategy for improvement of the public procurement system in Republic of North Macedonia 2022-2026	2021-2022	PPB; MF; GoRNM	SAC; SAO; SCP Corruption, SCP Competition, ME; MF; MJ; SEA	/	/	
2. Improving the cooperation among the key institutions in the public procurement system	2022-2025	PPB	PPB, SA Commission, SA Office, SCP Corruption, SCP Competition, ME	/	/	
3. Introducing new system for education within PPB	2022-2025	PPB	/	185,000	National budget	
MEASURE 2: Improvements in statistical data and analysis of the open data						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

	Functional tool for downloading of the published information from the contract award notices in workable format for further analysis	ESPP	Data on concluded contracts are public and available, still in a format which does not allow easy further usage for analyses	-	Developed module in ESPP for downloading of the published information from the contract award notices in workable format for further analysis	-	-
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Improving the statistical database	2022-2023	PPB	/	4900	National budget	
PILLAR IV: PUBLIC PROCUREMENT							
PRIORITY 2: Public Private Partnership (PPP)							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Unification and digitalization of the process of awarding contracts for establishing public-private partnership, increased transparency and efficiency in the implementation of the Law on Public-Private Partnership and strengthening and developing the capacities of the Ministry of Economy for consistent realization of competencies according to law.	1)Number of concluded agreements for establishing a public-private partnership 2) Effective and consistent implementation of the obligations of the contracting parties in accordance with the agreements for establishment of public-private partnership.	ME	1) Five (5) concluded public-private partnership agreements registered in the Register of awarded public-private partnership agreements 2) 30% of the concluded agreements for establishing a public-private partnership in which certain legal obstacles in the realization occured	/	1) Potential increase in the number of concluded contracts for public-private partnership by 5% compared to the number of contracts concluded in the year as a basis for monitoring 2) Potential reduction by 20% of concluded contracts for public-private partnership in which certain legal obstacles in the realization occurred, compared to the percentage of contracts concluded in the year as a basis for monitoring	1) Potential increase in the number of concluded public-private partnership agreements by 5% compared to the previous year 2) Potential reduction by 10% of concluded public-private partnership agreements in which certain legal obstacles in the realization occurred, compared to the previous year	1) Potential increase in the number of concluded public-private partnership agreements by 5% compared to the previous year 2) Potential reduction by 10% of concluded public-private partnership agreements in which certain legal obstacles in the realization occurred, compared to the previous year
MEASURE 1: Establishment of the Unique Electronic Public Private Partnership System (UEPPP)							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

1) Commissioning of the UESPPP and the Register of awarded contracts for the establishment of a public-private partnership and its functionality 2)percentage of PPP contracts whose progress in implementation is regularly reported to the system within the deadlines provided by the law 3)percentage of initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed		2) 0% of the public-private partnership agreements whose progress in the implementation is regularly reported in the system within the deadlines provided by law 3)20% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed	1)Establishment of the UESPPP and start of implementation - The software solution for the establishment of the UESPP and the Register of awarded contracts for the establishment of a public-private partnership have been prepared	2) 50% of the public-private partnership agreements, which progress of the implementation is regularly reported in the system within the deadlines provided by law 3)Reduction by 10% of the initiated procedures for awarding a contract for establishing a public-private partnership, which are not completed, compared to the percentage of initiated but not completed procedures in the year as a basis for monitoring	2) 70% of the public-private partnership agreements, which progress of implementation is regularly reported in the system within the deadlines provided by law 3) Reduction by 5% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed, compared to the previous year	2) 100% of the public-private partnership agreements, of which progress in the implementation is regularly reported in the system within the deadlines provided by law 3) Reduction by 5% of the initiated procedures for awarding a contract for establishing a public-private partnership, which have not been completed, compared to the previous year
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Selection of an IT company for preparation of the Improving and upgrading the UESPPP and a Register of awarded contracts for the establishment of public-private partnership	2022	MoE		N/A	N/A	
2. Preparation and implementation of the software solution for the establishment of public-private partnership and a Register of awarded contracts the establishment of public-private partnership	2023-2024	MoE	PPB	1,000,000	Financing gap	

MEASURE 2: Completion of the legal and regulatory framework in the field of public-private partnership							
	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
	Adoption of the bylaws by the Minister of Economy and their publication in the Official Gazette of RNM	MoE	Seven (7) bylaws published in the Official Gazette of the Republic of Macedonia in 2012 which specify the provisions of the existing legislation governing the rules for: Register of awarded contracts for establishing public-private partnership, Feasibility study, PPP contract, announcement for award, the manner of functioning of the electronic auction system	Publication of 12 bylaws in the Official Gazette of RSM which prescribe in more detail the rules for: Register of awarded contracts for establishing public-private partnership, UESPPP, criteria for preparation of PPP projects, Feasibility study, PPP agreements, planning reporting e.t.c	Implementation of the bylaws	Implementation of the bylaws	Implementation of the bylaws
	Activities:	Implementation period	Responsible institution	Other partners	Costs	Source of financing	
	1. Preparation of the bylaws that will arise from the Law on Public Private Partnership	2022	MoE	Working group for preparation of the bylaws	N/A		
	2. Adoption of the bylaws that will arise from the Law on Public Private Partnership	2022-2023			N/A		
MEASURE 3:Strengthening and developing the capacities of the Ministry of Economy in the field of public-private partnership							
	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25

	Increasing the capacity and efficiency of the Public Private Partnership and Concessions Unit			Employment of 2 new civil servants - ratio of approved financial resources for employment from the Ministry of Finance versus the real employment needs in the Department for Public Private Partnership and Concessionsand their training in the area of public private partnership	Employment of 1 new civil servant - ratio of approved financial resources for employment from the Ministry of Finance versus the real employment needs in the Department for Public Private Partnership and Concessionsand their training in the area of public private partnership	Development and improvement of the capacities of the employees in the Department for Public Private Partnership and Concessions	Development and improvement of the capacities of the employees in the Department for Public Private Partnership and Concessions
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Increasing the number of employees in the Ministry of Economy and professional training for public-private partnership	2022-2025	MoE	MoF	96,000	Financing gap	
PILLAR IV: PUBLIC PROCUREMENT							
PRIORITY 3: Appeal mechanism							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I. Improved implementation of the LPP, strengthening the capacities of SAC and increased transparency and efficiency in the decision-making process	1) Number of appeals;	electronic public procurement system	Total number of received complaints before the SAC - 1076 resolved 1037 or 96.38% cases of which: -rejected - 31.85% annulled decision -27.71% - annulled procedure - 24.76% -rejected - 6.11% -withdrawn complaints - 5.35% - Administrative control - 1.28% -stopped procedure - 2.66%	Reduction by 0.5% of appeals	Reduction by 1% of appeals as well as reduction by 5% of the annulled Decisions of the State Commission	Reduction by 1.5% of appeals	Reduction by 2% of appeals

	2) Number of appeals before both the Administrative Court and the Higher Administrative Court.	SAC	Lawsuits filed before the Administrative Court - 10.61% Judgments of the Administrative Court - 34 Appeals before the High Administrative Court - 40	as well as reduction by 5% of the annulled Decisions of the State Commission		as well as reduction by 5% of the annulled Decisions of the State Commission	as well as reduction by 5% of the annulled Decisions of the State Commission
MEASURE 1: Strengthening the legal and regulatory framework of legal protection in the public procurement process							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Preparation of a special law on legal protection in the field of public procurement which by regulating the legal protection in public procurement, public-private partnerships and concessions, issues for the work of the SAC, the number of members, the conditions for their appointment, the appointment procedure and the rights and the obligations of the members and the professional service of the SAC should be subject to a separate law, in accordance with EU best practices				drafting a special law		
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Preparation of a special law on legal protection in the field of public procurement	2023	SAC/Assembly of the N.R. of Macedonia				
MEASURE 2: Strengthening the administrative capacity of SAC and increasing the transparency, efficiency and effectiveness of SAC							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**

	Strengthening the administrative capacity of the SAC through the employment of a sufficient number of qualified experts to work on the tasks of the core competence of the SAC is considered one of the preconditions not only for achieving the required level of efficiency of the SAC, but also for proper functioning of the public procurement in general.				Employment of 5 civil servants	Additional employment of 5 civil servants	
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Increasing the administrative capacities of the SAC	2023-2024	SAC		84,000	Financing Gap	
	2. Development of a new WEB page of the SAC	2022	SAC			Twinning	
PILLAR V: Integrated public finances							
PRIORITY 1: Implementation of an Integrated Financial Management Information System (IFMIS) to Support the implementation of Public Financial Management Reforms and Organic Budget Law							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Improved operational efficiency and transparency through IFMIS in line with the new OBL.	Annual budget, including climate and gender tagging, prepared and executed through new IFMIS	PFM Reform Program Annual Progress Reports, Project reports	No climate and gender tagging in annual budget	Indicators defined	New IFMIS is supporting climate and gender tagging	2025 budget prepared by using climate and gender tags	2025 budget executed/reported using climate and gender tagging
	The required time for the processing of payments through IFMIS and Treasury Single Account interface was reduced	PFM Reform Program Annual Progress Reports, Project reports	Several days	Several days	Several days	Half a day or less	Same day

	Ratio of budget coverage and comprehensiveness (central government budget managed and reported through IFMIS, %) improved	PFM Reform Program Annual Progress Reports, Project reports	60%	65%	75%	90%	95%
	Open Budget Index Score (transparency) increased	Open Budget Survey Results	41 out 100 (2019)	/	50 (2023)	/	60 (2025)
MEASURE 1: IFMIS is fully operational to support the implementation of OBL reforms							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	The stage of IFMIS development and implementation	Project Reports	No IFMIS	IFMIS procurement initiated / completed	IFMIS development mostly completed	First operational year of IFMIS to prepare 2025 budget	IFMIS in use for budget execution & reporting
	Dedicated OBL Reform Unit established	Project Reports	No OBL Reform Unit	OBL Reform Unit key staff (4) recruited	OBL Reform Unit (12 staff) fully established	OBL Reform Unit takes over IFMIS mgmt. role	OBL Reform Unit is sustained within the MoF structure
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Development of IFMIS as an integrated centralized web-based system supporting decentralized operations.	2022-2024	Ministry of Finance	World Bank, EU	4,500,000	MoF Budget, WB Projects (including EU contribution)	
	2. Expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS.	2022-2024	Ministry of Finance	World Bank, EU	3,500,000	MoF Budget, WB Projects (including EU contribution)	
	3. Capacity strengthening (OBL Reform Unit), training and change management to support OBL reforms and countrywide IFMIS operations.	2022-2024	Ministry of Finance	World Bank, EU	2,500,000	MoF Budget, WB Projects (including EU contribution)	
PILLAR V: Integrated public finances							

PRIORITY 2: Strengthen the accounting of budgets and budget users							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Improved financial reporting by establishing new accounting practices.	Percentage of budget users applying new accounting practices.	MoF		0	0	50% of budget users apply new accounting practices	100% of budget users apply new accounting practices
MEASURE 1. Strengthening the accounting system by applying new accounting practices							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Adoption of new accounting standards	MoF		Adopted Strategy for improvement of the accounting of budgets and budget users and adopted New Law on accounting of budgets and budget users	New accounting rulebook		
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Preparing a Strategy for Improvement of the Budget Institutions's Accounting with a gap analysis, setting priorities and goals and action plan	2022	MoF		60,000	UNDP	
	2. Adopting a new regulatory framework on accounting of budgets and budget users and bylaws	2022	MoF		0	MoF	
	3. Harmonizing budget information systems and budget users with the new accounting requirements	2023-2025	all budget institutions		0	Budget institutions	
MEASURE 2. Capacity building of public sector accountants							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Number of certified public sector accountants	MoF		0	100 certified accountants	220 certified accountants	350 certified accountants
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	

	1. Preparing training and exam curriculum for public sector accountants	2022-2023	MoF	Universities	60,000	UNDP	
	2.Train-the-trainer for persons who will carry out the training of public sector accountants	2023-2025	MoF	CEF	-		
	3. Training and examination for certified accountants at the budget institutions	2023-2025	MoF	CEF	-		
PILLAR V: Integrated public finances							
PRIORITY 3. Public Finance Academy							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Provided continuing education in the field of Public Financial Management	Management's perception of whether the Academy adds value to their employees (low, medium or high level of value added perception)	Internal survey of the Ministry of Finance	/	/	medium	high	high
MEASURE 1: Establishment a Public Finance Academy							
	Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
	Established functional Public Finance Academy in the Ministry of Finance	Ministry of Finance	0	- Total amended 3 (three) laws in the field of PFM	- Total amended 3 (three) laws in the field of PFM	- Total amended 3 (three) laws in the field of PFM	/
				- Total amended 3 (three) laws in the field of PFM	- Total amended 3 (three) laws in the field of PFM	- Total amended 3 (three) laws in the field of PFM	/
	Staffed and equipped Public Finance Academy	Ministry of Finance		Organized 2 (two) trainings / workshops for the employees of the Academy	Organized 2 (two) trainings / workshops for the employees of the Academy	Organized 2 (two) trainings / workshops for the employees of the Academy	Organized 2 (two) trainings / workshops for the employees of the Academy
	Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs (in EUR)**	**Source of financing**	
	1. Creating a legal basis for the establishment and functioning of the Public Finance Academy	2022-2025	Ministry of Finance	/	/	/	

2. Strengthen the human resources capacities of the Public Finance Academy, through staffing, training and equipping	2022-2025	Ministry of Finance	Twinning project	12,000	National budget	
				104,000	EU twinning project	
MEASURE 2: Preparing and implementing a curriculum						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Prepared manuals and instructions for work and bylaws	Ministry of Finance	/	Prepared Manual for organizing and developing trainings Three bylaws prepared	Prepared detailed instruction for the work of the academy or internal work procedure Three bylaws prepared	Three bylaws prepared	
Prepared annual work program and curricula	Ministry of Finance	/	Work program and curricula prepared for 2023	Work program and curricula prepared for 2024	Work program and curricula prepared for 2025	Work program and curricula prepared for 2026
Satisfaction of the participants from the conducted trainings (low, medium or high level of satisfaction)	Ministry of Finance	/	/	medium	high	high
Number of organized trainings	Ministry of Finance	0	0	20	30	36
Activities:	**Implementation period**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Preparing methodological tools for implementation of the activities of the Public Finance Academy	2022-2023	Ministry of Finance	Twinning project	10,000	EU twinning project	
			/	10,000	Fianacial GAP	
2. Preparing Annual Work Program	2022-2025	Ministry of Finance	Twinning project	58,000	National budget	
				200,000	Financial GAP	
MEASURE 3: Inter-institutional cooperation						
Performance Indicator	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Signed cooperation agreements with domestic and foreign institutions	Ministry of Finance	/	3 contracts	3 contracts	2 contracts	2 contracts
Activities:	**Implementation**	**Responsible**	**Other partners**	**Costs**	**Source of financing**	

		period	institution				
	1. Establishing cooperation with domestic and foreign institutions	2023-2025	Ministry of Finance	/	/	/	
PILLAR VI: Public Internal Financial Control							
PRIORITY 1: Financial management and control							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Prepared and applied procedures for key financial management processes based on risk management	percentage of implemented recommendations given during quality checks	MF	0	0	60	70	80
MEASURE 1 : Establishment of a comprehensive system of financial management controls based on risk management							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Prepared Manual for financial management and control	MF	/	Prepared and published on the MF website Manual for financial management and control		/	/
	Adopted and published Guidelines for manner to conduct a review of the quality of financial management and control	MF	/	Adopted and published Guidelines for manner to conduct a review of the quality of financial management and control	/	/	/
	Strengthen the capacities of CHU	MF	Employed a total of 5 people Trainings 6	Employed a total of 7 people Trainings 8	Employed a total of 8 people Trainings 8	Employed a total of 9 people Trainings 8	Employed a total of 10 people Trainings 8
	Number of institutions in which quality checks have been performed	MF	0	6	7	8	10
	Number of institutions member of the web platform	MF	0	0	100	140	175
	Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of funding**	

1. Preparation of Financial Management and Control Manual and its publication on the Ministry of Finance's website	2022-2023	MoF	Twinning project	10,000	Twinning project	
2: Adoption and publication of Guidelines on how to conduct a review of the quality of financial management and control	2022-2023	MoF	Twinning project	10,000	Twinning project	
3: Strengthen the capacity of the CHU to review the quality of financial management and control	2022-2025	MoF	Twinning project	44,000	National budget	
				256,000	Twinning project	
4. Establishment of a network of institutions of financial issues units in coordination with the CHU, for exchange of experiences, best practices and raising awareness among public sector entities about responsibilities for the quality of financial management and control	2023-2025	MoF		15,000	National budget	

PILLAR VI: Public Internal Financial Control

PRIORITY 2: Internal audit

Outcome(s)	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
Strengthened internal audit units that operate in line with the standards and that contributes to achievement of the goals of the public sector institutions	Percentage of implemented recommendations given during quality checks	MF	0	0	60	70	80
	Number of internal auditors in the ministries	MF	33	50	60	70	80

	Percentage of realized recommendations	MF	59	66	69	71	73
MEASURE 1 : Strengthening the quality of work of the internal audit units in the ministries							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Number of ministries with an approved plan for organisation of internal audit	MF	/	16 ministries	/	/	/
	Reorganized and staffed Internal Audit Units in the ministries	MF	33 Internal auditors	50 internal auditors	60 Internal auditors	70 Internal auditors	80 Internal auditors
	Strengthen the capacities of CHU	MF	Employed a total of 5 people	Employed a total of 7 people	Employed a total of 8 people	Employed a total of 9 people Trainings 8	Employed a total of 10 people
	Number of institutions in which quality checks have been performeded	MF	0	6	7	8	10
	Number of institutions member of the web platform	MF	0	0	80	100	120
	Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of funding**	
	1. Preparation and approval of “Internal Audit Organization Plan” for all Ministries by the Government	2022			8,000		
	2. Modifying and amending the Ministries’ internal acts for organization and systematization in accordance with the “Internal Audit Organization Plan”	2022-2023	Ministries		426,000	Budget funds	
	3. Strengthening CHU’s capacities for checking the quality of operations of the internal audit units	2022-2025	MF	Twinning project	301,000	Twinning project and budget funds	

	4. Establishment of a network of institutions of internal audit units in coordination with the CHU, for exchange of experiences and best practices	2023-2025	MF		15,000	budget funds	
MEASURE 2: Centralization of the powers and the capacities for advanced types of internal audits (performance audit and IT audits) in the Ministry of Finance							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Number of conducted performance audits and IT audits	MF	0	0	4	6	10
	Signed Charter for conducting IT audits and performance audits with the ministries	MoF and ministries	0	16	/	/	/
	Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of funding**	
	1. Establishment of a Department for Centralized Conducting of IT Audits and Performance Audits	2022-2025	MF		96,000	budget funds	
	2. Signing a Charter for Conducting IT Audits and Performance Audits with the Ministries	2023	MoF and ministries		/		
PILLAR VI: Public Internal Financial Control							
PRIORITY 3: FINANCIAL INSPECTION							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I. Professionalized and advanced function of financial inspection	Number of employment / promotion of financial inspectors who can independently perform financial inspection	Records of the Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	6	6	4	4	/

	Number of conducted inspections to control compliance with the provisions of the laws under the jurisdiction of the financial inspection	Records of the Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	364	546	820	1000	1100
	Number of received applications	Records of the Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	214	300	350	400	450
	Amount of funds returned in the Budget of RNM in EUR	Records of the Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	600,000	610,000	620,000	630,000
MEASURE 1: Strengthening the institutional basis of the financial inspection function							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Adopted new Law on financial inspection in the public sector	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	Current Law on financial inspection in the public sector	Adopted new Law on financial inspection in the public sector	/	/	/

Granted award for the best inspector in accordance with legally established criteria	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	Granted award for the best inspector in accordance with legally established criteria	Granted award for the best inspector in accordance with legally established criteria	Granted award for the best inspector in accordance with legally established criteria	Granted award for the best inspector in accordance with legally established criteria
Prepared methodological tools for application of analytical and inspection techniques and techniques for financial inspection in public sector	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	Procedure for conducting financial inspection with annexes to the procedure Authorization letter and report for conducted financial inspection	Adopted Procedure for conducting financial inspection with annexes to the procedure	/	/	/
Adopted methodology for gathering and processing of statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	Adopted methodology for gathering and processing of statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector	/	/	/
Adopted Rulebooks on organization and systematization of MoF job posts	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	Adopted Rulebooks on organization and systematization of MoF job posts	/	/	/
Number of employment / promotion in financial inspection in public sector	MoF-Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	6	6	6	4	2

Conducted exam for obtaining a license for financial inspector	MoF- Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	1	1	1	1
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Improving the legal framework	2022	Ministry of Finance	EU Twinning Project	2,000	EU Twinning Project	
2. Introducing a system of annual remuneration of financial inspectors based on results	2022 - 2025	Ministry of Finance	/	4,000	Budget of RNM	
3. Improved methodologies and systematization (increasing the added value of the financial inspection function)	2022 - 2025	Ministry of Finance	EU Twinning Project	183,000	Budget of RNM	
				22,000	EU Twinning Project	

MEASURE 2: Strengthening the capacity of financial inspection human resources

Performance indicators	Data source	Baseline FY20	Target FG22	Target FG23	Target FG24	Target FG25
Adopted Program for theoretical training and practical work	MoF- Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	Adopted Program for theoretical training and practical work	/	/	/
Adopted Program for taking the exam and manner of conducting the exam for obtaining a license for financial inspector	MoF- Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	Adopted Program for taking the exam and manner of conducting the exam for obtaining a license for financial inspector	/	/	/

Adopted Program for trainings for conducting financial inspection	MoF- Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	Program for training in the field of financial inspection 2021-2022	Adopted Program for trainings for conducting financial inspection for 2022	Adopted Program for trainings for conducting financial inspection for 2023	Adopted Program for trainings for conducting financial inspection for 2024	Adopted Program for trainings for conducting financial inspection for 2025

Activity	Period of realization	Responsible institution	Other partners	Costs	Source of financing	
1. Designing a concept for obtaining a license for financial inspector	2022	Ministry of Finance	EU Twinning Project	15,000	EU Twinning Project	
2. Preparation of a training program for financial inspectors on an annual basis	2022 - 2025	Ministry of Finance	/	/	/	

PILLAR VII: External control and parliamentary oversight

PRIORITY 1: External audit

Outcome(s)	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
I. Reduced tax evasion and increasing fiscal discipline / increasing revenues in the Budget of RNM	Established amount of funds that have not been paid in the Budget of RNM	SAO Annual report on the performed audits and operation	9,500 Eur	≥ 8,100 Eur	≥ 7,300 Eur	≥ 6,500 Eur	≥ 5,700 Eur
II. Adhered principles in awarding public procurement contracts	Established amount of funds in awarding public procurement contracts where irregularities have been identified with the audits;	SAO Annual report on the performed audits and operation	10,900 Eur	≥ 9,800 Eur	≥9,000 Eur	≥ 8,100 Eur	≥ 7,300 Eur

MEASURE 1: Strengthen legislative framework for external audit

Performance indicators	Data source	Baseline FY20	Target FG22	Target FG23	Target FG24	Target FG25
Strengthen constitutional, financial and operational independence of the SAO	Draft amendment to the Constitution of the RNM for regulation of SAO as a constitutional category	The legal framework includes satisfactory provisions on the independence and mandate of the SAO, but its independence is not yet guaranteed in the Constitution.	Draft amendment to the Constitution of the RNM for regulation of the SAO as a constitutional category prepared and submitted to the authorized proposer of the constitutional amendment	Adopted amendments to the Constitution of RNM for regulation of SAO as a constitutional category		

	submitted;		to be submitted to the Parliament of the RNM;			
	New draft State Audit Law submitted for strengthening SAO financial and operational independence.		New draft State Audit Law for strengthening SAO financial and operational independence submitted to and adopted by the Assembly of the RNM.			
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Initiating constitutional changes to achieve constitutional independence of the SAO in accordance with the principles, standards and guidelines of INTOSAI	2022-2025	SAO	Authorized proposer of the constitutional amendment; Assembly of RNM	7,000	Ongoing EU-funded Twinning project	
2. Strengthening external audit legal framework aimed at strengthening financial and operational independence of SAO in line with INTOSAI principles, standards and guidelines	2022	SAO	Ministry of Finance, Government of RNM and Assembly of RNM	14,000	Ongoing EU-funded Twinning project	
MEASURE 2: Strengthening the institutional capacity and human resource capacities of the SAO						
Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
Percentage of implementation of the SAO Development Strategy 2022-2026	SAO Annual report on the performed audits and operation		Percentage of implementation of the SAO Development Strategy 2022 - 2026 -20%	Percentage of implementation of the SAO Development Strategy 2022 - 2026 -40%	Percentage of implementation of the SAO Development Strategy 2022 - 2026 -60%	Percentage of implementation of the SAO Development Strategy 2022 - 2026 -80%
Percentage of audit scope of total public expenditures	SAO Annual report on the performed audits and operation	59%	≥59%	≥59%	≥59%	≥60%

Perception of stakeholders on SAO value added	Results from stakeholder surveys on the added value of the SAO	Progress has been made in raising public awareness of the SAO's activities, increasing media interest, as well as in implementing the Communication Strategy for the period 2020 - 2023	Perception of stakeholders on SAO value added - 70%	Perception of stakeholders on SAO value added -75%	Perception of stakeholders on SAO value added -78%	Perception of stakeholders on SAO value added -80%
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Preparation of new and improved strategic, planning and methodological acts of the SAO	2022 - 2025	SAO		160,000	Project "Promotion of Gender Responsive Policies and Budgets: Towards Transparent, Inclusive and Accountable Governance in the Republic of North Macedonia" (SECO and SIDA, implemented by UN Women);	
				340,000	Financing Gap	
2. Strengthen the capacity to conduct audits	2022 - 2025	SAO		354,000	Ongoing EU-funded Twinning project; Project "Promotion of Gender Responsive Policies and Budgets: Towards Transparent, Inclusive and Accountable Governance in the Republic of North Macedonia",(SECO and SIDA, implemented by UN Women)	
				3,178,000	Financing Gap	

	3. Increasing the visibility of the SAO and communication with the stakeholders	2022 - 2025	SAO	Stakeholders (Assembly, Government, Ministry of Finance, Public Prosecutor's Office, Ministry of Interior, State Commission for Prevention of Corruption, audited entities, the public).	26,000	Ongoing EU-funded Twinning project and Project "Increasing Accountability and Transparency in Macedonia through Improved Implementation of the SAO Recommendations", UK Good Governance Fund, implemented by the Westminster Foundation for Democracy (WFD);	
					974,000	Financing Gap	
PILLAR VII: External control and parliamentary oversight							
PRIORITY 2: Parlamentary oversight							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
I. Enhanced effects of audit	Percentage of external audit recommendations for which corrective measures have been taken	SAO Annual report on the performed audits and operation	84%	≥70%	≥71%	≥72%	≥74%
MEASURE 1: Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Number of audit reports that are scrutinized by the Assembly	SAO Annual report on the performed audits and operation	The individual audit reports are not reviewed in the Assembly and no discussions are held with the audited entities.		Number of audit reports that are scrutinized by the Assembly -1	Number of audit reports that are scrutinized by the Assembly -1	Number of audit reports that are scrutinized by the Assembly -1
	Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Signing of a Memorandum of Cooperation between the Assembly of RNM and SAO	2022	SAO	Assembly of RNM	0		

2. Preparation of procedures in the SAO and the Assembly of RNM for submission and review of audit reports and other documents	2022	SAO	Assembly of RNM	46,000	Ongoing EU-funded Twinning project	
3. Preparation of summary reports of the final audit reports from certain areas and their submission to the Assembly of RNM	2023 - 2025	SAO	Assembly of RNM	100,000	Financing Gap	
MEASURE 2: Strengthening the institutional capacities for reviewing the audit reports in the Assembly of RNM						
Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
Number of MPs trained on the role of the SAO	SAO Annual report on the performed audits and operation	Cooperation between the SAO and the Assembly has improved, but parliamentary oversight of budget preparation and implementation needs to be further strengthened.	Number of MPs trained on the role of the SAO -5	Number of MPs trained on the role of the SAO -5	Number of MPs trained on the role of the SAO -5	Number of MPs trained on the role of the SAO -5
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
1. Preparation of amendments to the existing Manual "Introduction to Audit Reports"	2022	SAO	Assembly of RNM	17,000	Ongoing EU-funded Twinning project	
2. Preparing Training Plan for the Members of Parliament and Administration in the Assembly of RNM in order to facilitate the understanding of the audit reports and preparation for a debate on the audit reports	2022	SAO	Assembly of RNM	11,000	Ongoing EU-funded Twinning project	

	3. Conducting trainings in accordance with the Training Plan for the Members of Parliament and the administration in the Assembly of the RNM in order to facilitate the understanding of the audit reports and preparation for the debate on the audit reports	2022 - 2025	SAO	Assembly of RNM	20,000	Ongoing EU-funded Twinning project	
					120,000	Financing Gap	
	4. Implementation of activities for strengthening the cooperation with the Committee on Finance and Budget, the Parliamentary Institute at the Assembly of RNM and the Parliamentary Budget Office of the Assembly of RNM	2022 - 2025	SAO	Committee on Finance and Budget, Parliamentary Institute at the Assembly of the RNM and Parliamentary Budget Office of the Assembly of the RNM	120,000	Financing Gap	

PILLAR VIII: PFM at Local Level

PRIORITY 1. Fiscal decentralisation

Outcome(s)	Performance Indicator	Data Source	Baseline FY20	Target FY22	Target FY23	Target FY24	Target FY25
Improved fiscal capacity and increased municipal revenues	Percentage of increased municipal revenues compared to 2020	MoF - Budget and Funds Department	36.455 million denars	15%	20%	25%	30%
	Percentage of VAT, which is transferred to the municipalities as a grant	MoF - Budget and Funds Department	4.5% of the VAT collected in the previous year	5%	5.50%	6%	6%
	Percentage of the collected personal income tax, which is transferred to the municipalities	MoF - Budget and Funds Department	3% of the collected personal income tax	4%	5%	6%	6%

MEASURE 1: Improving fiscal capacity and increasing municipal revenues

	Performance indicators	Data source	Baseline FY20	Target FG22	Target FG23	Target FG24	Target FG25

New law on financing of local self-government units and New bylaws that arise from the new Law	MoF - Budget and Funds Department	Law on Financing of Local Self-Government Units / Rulebook on the form and content of the periodic financial reports of the municipalities	New law on financing of local self-government units	50% new bylaws	50% new bylaws	/
Revised Property Tax law	MoF - Tax and Customs Policy Department	Property Tax Law	Report for amendments to the Property tax law	Modified Property Tax Law	/	/
Number of new own revenues	MoF - Budget and Funds Department	Report from internal analysis and analysis by foreign experts	Analysis of the proposed new own revenues	1	2	/
Number of revised decrees on block grants, earmarked grant and New Decree/s for distribution of capital grants	MF - Budget and Funds Department, Ministry of education and science, Ministry of labor and social policy, Ministry of culture, Ministry of defense, Other competent ministries and institutions from where capital grants are transferred	Existing decrees for block grants and earmarked grant	Two new decrees for block grants	New Decree on distribution of grant for firefighters and Two new decrees for block grants	One new decree for block and one Decree of capital grants	Two new decrees for capital grants
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	

1. New / revision of the Law on Financing Local Government Units	2022-2024	MoF - Budget and Funds Department	MoF - Tax and Customs Policy Department MoF- International Financial Relations, and Public Debt Management MoF - Department for Public Sector Financial Inspection and Coordination for Combating Fraud against EU Funds Municipalities USAID UNDP	10,000	National budget	
2. Increasing the own revenues of the municipalities, increasing the funds distributed to the municipalities from the Central Budget and introducing performance and equalization criteria	2022-2025	MF - Budget and Funds Department	MoF- International Financial Relations, and Public Debt Management	30,000	National budget	
3. Revision of the criteria for distribution of block and earmarked grants and determination of criteria for allocation of capital grants	2022-2025	MoF - Budget and Funds Department Ministry of Education and Science Ministry of Labor and Social Policy Ministry of Culture Ministry of Defense Other competent ministries and institutions, fwherefrom capital grants are transferred	MoF - Tax and Customs Policy Department MoF- International Financial Relations, ooperation with the EU and Public Debt Management Department for Public Sector Financial Inspection and Coordination for Combating Fraud against EU Funds Municipalities USAID UNDP	46,000	National Budget	
MEASURE 2: Regional and local development						
Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**

	Established Agency for regional and local development	Ministry of Local Government, Ministry of Finance, Bureau for Regional Development, Cabinet of the Deputy Prime Minister for Economic Affairs, Ministry of Justice, Ministry of political System and Community Relations, Ministry of Information Society and Administration	/	Established working group composed of representatives of different ministries and stakeholders and analysis of the legal possibilities for establishing the Agency	Report with legal and operational solutions for the establishment of the Agency	Established Agency for Regional and Local Development	/
	Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	
	1. Establishment of the Agency for Regional and Local Development and achieving balanced regional development	2022-2024	Ministry of Local Government	Bureau for Regional Development, Ministry of Finance, Cabinet of the Deputy Prime Minister for Economic Affairs, Ministry of Justice, Ministry of Political System and Community Relations, Ministry of Information Society and Administration	2,000	National Budget	
PILLAR VIII: PFM at Local Level							
PRIORITY 2. Financial Discipline, Transparency and Accountability at the Local Level							
Outcome(s)	**Performance Indicator**	**Data Source**	**Baseline FY20**	**Target FY22**	**Target FY23**	**Target FY24**	**Target FY25**
Increased financial discipline	Percentage of reduction of the amount of due unpaid liabilities in the current year compared to 2020 (the year taken as a baseline)	Quarterly Reports ESRRL.	Denar 3,698 million	10%	20%	30%	40%

	reduction of the number of municipalities with blocked account in the current year compared to 2020 (the year taken as a baseline)	MoF - Budget and Funds Department MoF - Treasury Department	11 municipalities (average of the number of municipalities with blocked accounts by months, in 2020)	2	3	4	5
Increased transparency and accountability of municipalities	Percentage of municipalities out of the total number of municipalities (81) that have published financial documents (annual, semi-annual and quarterly reports) on their websites	Websites of municipalities	/	70%	80%	90%	100%
MEASURE 1: Increasing the financial discipline							
	Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
	Percentage of realized revenues in relation to the planned ones during the current year	Budgets of municipalities	70%	75%	80%	85%	90%
	Percnetage of share of capital expenditures in relation to the total expenditures in the current year	Budgets of municipalities	20%	25%	30%	33%	35
	Percentage of share of local revenues in gross domestic product (GDP)	Final accounts of municipalities	5.60%	5.80%	5.90%	6%	6.20%
	Internal procedures for declaring financial instability	MoF - Budget and Funds Department	/	Internal procedures for declaring financial instability	/	/	/
	Manual (Guidelines) for declaring financial instability	MoF - Budget and Funds Department USAID	/	Manual (Guidelines) for declaring financial instability	/	/	/
	Number of additional employments in the Unit for LGU Budgets, monitoring the financial operations of the municipalities	MoF - Budget and Funds Department	4 current employees	2	2	1	1

Activity	Period of realization	Responsible institution	Other partners	Costs	Source of financing	
1. Realistic planning of the revenues and expenditures of the municipalities	2022-2025	MoF - Budget and Funds Department	Municipalities	5,000	National Budget	
2. Rationalization of operations and reduction of unnecessary expenses	2022-2025	MoF - Budget and Funds Department	Municipalities	5,000	National Budget	
3. Analysis of the liabilities of the municipalities, declaring financial instability and taking measures for financial consolidation	2022-2025	MoF - Budget and Funds Department MoF - International Financial Relations and Public Debt Management Department	Municipalities	109,000	National Budget	
MEASURE 2: Increasing the transparency and accountability throughout the operations of the municipalities						
Performance indicators	**Data source**	**Baseline FY20**	**Target FG22**	**Target FG23**	**Target FG24**	**Target FG25**
Number of supervisions conducted by the Financial Inspection in public sector entities at local level	MoF- Department for Public Sector Financial Inspection and Coordination for Combating Fraud against EU Funds	182	273	410	500	550
Number of reports with data on revenues and expenditures of 81 municipalities on a quarterly basis	MoF - Budget and Funds Department	Reports with data on revenues and expenditures of 81 municipalities on a quarterly basis	4	4	4	4
Number of reports with data on due and unpaid liabilities from the ESPEO system of 81 the municipalities	MoF - Budget and Funds Department	Reports of data on due and unpaid liabilities from the ESPEO system for 81 municipalities	4	4	4	4
Activity	**Period of realization**	**Responsible institution**	**Other partners**	**Costs**	**Source of financing**	

	1. Increasing control by the state	2022-2025	MoF- Department for Public Sector Financial Inspection and Coordination for combating fraud against EU Funds	/	/		
	2. Improving the transparency and timely informing the broader public about the opeartions of the municipality	2022-2025	MoF - Budget and Funds Department	Municipalities	6,000	National budget	

Annex III - Risk Management

Risk assessment regarding the implementation of reform measures envisaged in the PFM Reform Programme 2022-2025 will be based on PFM SWG - Priority Coordinators and PFM Council actively monitoring the implementation of the activities, as well as the lessons learned in the period 2018-2021. Like in the previous programme period, risk monitoring under the new Programme will be incorporated in the monitoring and reporting framework, i.e. it will be an integral part of the progress monitoring reports. Risk assessment will be updated yearly in the Risk Assessment Plan. Priority Coordinators will monitor the implementation of the Annual Action Plan on regular basis, assess the risk level and define adequate measures to mitigate them, which are to be undertaken by the competent institutions within the set deadlines. The assessment should be updated whenever a significant change in the risk exposure occurs or when a new decision on mitigating or reducing the risk is adopted by the person in charge.

PFM SWG and PFM Council manage the risks in order to monitor the implementation and the progress of the undertaken corrective activities

Key risks to implementation of each measure under a given priority identified in the Programme preparatory stage are presented in Chapter II: Pillars, Priorities, Measures and Results.

The Table below summarises the key risks identified in the preparatory stage, to be the basis for further risk management:

List of risks			
No.	**Pillar/Priority**	**Risk trigger event, situation or factor**	**Responsibility**
PILLAR I - Economic Analysis, Macroeconomic and Fiscal Framework			
1	**Priority 1:** Revenue Forecasting and Reporting	Lack of awareness and commitment from high-level officials	Ministry of Finance and PRO
		Lack of data availability	
		Internal resistance to modernization processes	
		Excessive staff turnover	
		Due to the complexity of the model, it is not fully operational	
		Lack of data availability	
		Internal resistance to modernization processes	
2	**Priority 2:** Economic Analysis and Macroeconomic Forecasting	Externalities, as in the case of a resurgence of Covid, disrupt economic forecasting	Ministry of Finance
		Political pressure towards over-optimistic growth forecast	
		Shortage of funds	
		Change of staff	
		Certain sectors may not be able to provide data and analysis relevant to the preparation of the Fiscal Risk Statement	Ministry of Finance (relevant departments)
		Untimely implementation of the Fiscal Council election procedures as well as prolongation of the election of members of the Fiscal Council	Fiscal Council, Ministry of Finance, Assembly of the Republic of North Macedonia
		Difficulties in recruiting suitable staff who will be able to participate in the work of the Fiscal Council	
		Lack of adequate capacity in the Ministry of Finance and the Fiscal Council to implement the activities for implementation of the fiscal rules provided by the Law	
		Inadequate and incomplete training of employees in the MoF and Fiscal Council	
3	**Priority 3:** Debt Management	Externalities which can cause a deterioration of the international standing of the Government's debt	Ministry of Finance

		Insifficient human capacity to carry out the activity Outflow of educated staff Political factors, as by amending government debt definition, general government debt stock will be increased Limited demand for the new instruments	
PILLAR II - Revenue mobilization			
4	**Priority 1:** Tax and Customs Policy	Lack of awareness and commitment from high-level officials Internal resistance to modernization processes Continuous outflow of staff	Ministry of Finance
5	**Priority 2:** Tax Administration	Untimely implementation of all phases in the process of adopting legal changes Non-introduction to introduce compliance risk management Process of adopting legal changes is delayed Failure to introduce compliance risk management Insufficient commitment of senior management Lack of finances Lack of capacity and commitment of PRO employees, especially IT staff Major changes in legal provisions	PRO
6	**Priority 3:** Customs	Different levels of customs staffing can be an incentive for organized crime networks to redirect their operations to border points with weaker customs control Timely and quality implementation of trainings for handling the new sophisticated control equipment Untimely implementation of all phases in the process of harmonization with EU systems	Customs Administration
PILLAR III - Planning and Budget			
7	**Priority 1:** Budget Planning	Human potential for implementation	Ministry of Finance
8	**Priority 2:** Strengthened Public Investment Management	Lack of political will to support reforms, insufficent staff and lack of capacities, poor coordination between institutions Insufficient staff, lack of capacities, lack of coordination between institutions and lack of data	Ministry of Finance, BUs/SoEs/LSGUs Government Cabinet, Municipal Council
9	**Priority 3:** Effective Instruments under the Growth Acceleration Plan	Insufficient human capacity to carry out the activity	Ministry of Finance, Cabinet of the Prime Minister, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Departments and Investments
PILLAR IV - Public procurement			
10	**Priority 1:** Public Procurement Policy	Adoption of Law Amending the Law on Public Procurement Impossibility to engage appropriate trainers Impossibility to participate in trainings Leaving of competent PPB employees Inappropriate detecting of the weaknesses in the system and the issues for improvement Possible impact on the implementation of the measure as a result of the previous analysis of ESPP in relation to performance and stability of	PPB

		the system and data base	
11	**Priority 2:** Public Private Partnerships (PPPs)	Inability to provide financial and technical assistance, breach of deadlines for implementation	Ministry of Economy
		Extension of deadlines for adoption of bylaws	
		Difficult functioning and execution of the determined competencies in accordance with the law	
12	**Priority 3:** Appeal Mechanism	Inability to decide within the legal deadlines, possibility for outflow of professionally qualified staff	Government of RNM/ Assembly of RNM
		Possibility of outflow of professional staff and bringing in a situation of difficult functioning of the Commission	Ministry of Finance / SAC
		System failure	
PILLAR V - Integrated Public Finances			
13	**Priority 1:** Implementation of an Integrated Financial Management Information System (IFMIS) to Support the implementation of Public Financial Management Reforms and OBL	Insufficient staffing and insufficient training of human resource	Ministry of Finance
		Postponing in adoption of OBL might postpone the implementation of the IFMIS	
		Staff turnover	
		Insufficient commitment of senior management	
14	**Priority 2:** Strengthen the Accounting of Budgets and Budget Users	Insufficient human capacities for realization of this activity	Ministry of Finance
15	**Priority 3:** PFM Academy	Insufficient staffing and training of human resources	Ministry of finance
		Delays in the adoption of amended laws	
PILLAR VI - Public Internal Financial Control - PIFC			
16	**Priority 1:** Financial Managemnet and Internal Control	Insufficient staffing and training of human resources	Ministry of Finance
17	**Priority 2:** Internal Audit	Lack of internal auditors in the labor market	
		Insufficient IT technical support for a web platform	
		Insufficient number of auditors to work in this Department	
18	**Priority 3:** Financial Inspection	Insifficient human capacity	Ministry of Finance
		Law on Public Sector Financial Inspection not being adopted	
		Rulebook on Organizational Set-Up and Rulebook on Systematization of Work Posts in the Ministry of Finance not being modified and amended	
		Exam for obtaining a license for financial inspector not being conducted	
		Annual Training Programmes for Financial Inspection not being adopted	
PILLAR VII - External Control and Parliamentary Oversight			
19	**Priority 1:** External Audit	The proposal for amending the Constitution of RNM for regulating the SAO as a constitutional category was not submitted by the authorized proposer of the constitutional amendment and was not adopted by the Assembly	State Audit Office in cooperation with the authorized proposer of the constitutional amendment and the Assembly of RNM
		New draft State Audit Law for strengthening SAO financial and operational independence not submitted and not adopted by the Assembly	
		Limited opportunities for modernization of audit processes and presentation of audit results	SAO
		Insufficient interest of stakeholders for	

		cooperation with SAO	
		Lack of funds provided for full financing of the activities for the period 2022 - 2025	State Audit Office in cooperation with stakeholders
		Lack of support from relevant experts for drafting new or improved methodological acts and audit tools	
		SAO institutional and HR capacities not strengthened to satisfactory level	
		Limited opportunities for modernization of audit processes, optaining modern equipment and improved working conditions	
20	**Priority 2:** Parliamentary Oversight	Inability to sign a Memorandum of Cooperation between the Assembly and the SAO	State Audit Office in cooperation with the Assembly of RNM
		Inability to prepare and adopt Procedures of the Assembly for the mechanism for review of audit reports	
		Inability to submit summary reports of the final audit reports from certain areas to the Assembly	
		Inability to prepare amendments to the existing Manual "Introduction to Audit Reports"	
		Inability to prepare a training plan	
		Lack of funds provided for conducting trainings	
		Insufficient interest in conducting trainings	
PILLAR VIII - PFM at Local Level			
21	**Priority 1:** Fiscal Decentralisation	Insufficient human capacity to carry out the activities	Ministry of Finance
		Insufficient interest of the top management	Ministry of Local Self-Government
22	**Priority 2:** Fiscal Discipline, Transparency and Accountability on Local Level	Insufficient human capacity to carry out the activity	Ministry of Finance
		Insufficient human capacity to carry out the activity	Ministry of Finance
		Failure to adopt Regulations for organization and systematization of MoF workplaces	
		Failure to conduct examinations for obtaining a license for a financial inspector	