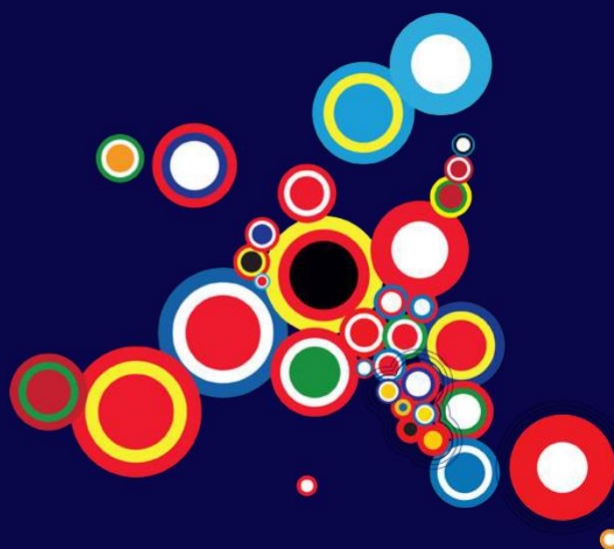




## **INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020**

### **THE REPUBLIC OF MACEDONIA EU SUPPORT TO PUBLIC FINANCE MANAGEMENT**



#### **Action summary**

The Action supports the implementation of the Public Finance Management (PFM) Reform Programme 2018 – 2021. It will significantly improve the strategic framework and address key challenges identified in the PFM system, such as strengthening the fiscal consolidation and discipline, improving revenue collection, enhancing budget control and accountability.

Since PFM is crucial horizontal issue, the Action is expected to have significant impact on all sector reforms.

<b>Action Identification</b>	
<b>Action Programme Title</b>	Annual Action Programme for the Republic of Macedonia for the year 2018
<b>Action Title</b>	EU Support to Public Finance Management (PFM)
<b>Action ID</b>	IPA 2018/040-860/01.03/MK/PFM
<b>Sector Information</b>	
<b>IPA II Sector</b>	Democracy and governance
<b>DAC Sector</b>	15111 Public Finance Management
<b>Budget</b>	
<b>Total cost</b>	22,270,588 EUR
<b>EU contribution</b>	18,600,000 EUR
<b>Budget line(s)</b>	22.02.01.01
<b>Management and Implementation</b>	
<b>Management mode</b>	Direct management
<i>Direct management:</i> <b>EU Delegation</b>	EU Delegation to the Republic of Macedonia
<b>Implementation responsibilities</b>	EU Delegation to the Republic of Macedonia
<b>Location</b>	
<b>Zone benefiting from the action</b>	The Republic of Macedonia
<b>Specific implementation area(s)</b>	Nation-wide activities
<b>Timeline</b>	
<b>Final date for concluding Financing Agreement(s) with IPA II beneficiary</b>	At the latest by 31 December 2019
<b>Final date for concluding delegation agreements under indirect management</b>	NA
<b>Final date for concluding procurement</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article

<b>and grant contracts</b>	189(2) of the Financial Regulation		
<b>Final date for operational implementation</b>	6 years following the conclusion of the Financing Agreement		
<b>Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)</b>	12 years following the conclusion of the Financing Agreement		
<b>Policy objectives / Markers (DAC form)</b>			
<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	X
Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Main objective</b>
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>

## ACRONYMS AND ABBREVIATIONS

AEO	Authorised Economic Operators
AMS	Audit management system
CARM	Customs Administration
CHU	Central Harmonisation Unit within Ministry of Finance
EC	European Commission
ERP	Economic Reform Programme
ESPP	Electronic System for Public Procurement
EU	European Union
FMC	Financial management and control
GDP	Gross domestic product
IA	Internal audit
ICT	Information and communications technology
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
ISSAI	The International Standards of Supreme Audit Institutions
IT	Information technology
MoF	Ministry of Finance
MTBF	Medium-term budget framework
MTEF	Medium-term expenditure framework
MTFF	Medium-term fiscal framework
MTFS	Medium-term fiscal strategy
PAR	Public administration reform
PEFA	Public Expenditure Financial Accountability
PER	Public Expenditure Review
PFM	Public finance management
PIFC	Public internal financial control
PPB	Public Procurement Bureau
PPL	Public Procurement Law
PRO	Public Revenue Office
SACPP/ SAC	State Appeal Commission upon Public Procurement
SAO	State Audit Office
SIGMA	Support for Improvement in Governance and Management
TADAT	Tax Administration Diagnostic Assessment Tool
UCC	European Union Customs Code
VAT	Value added tax

## **1. RATIONALE**

### **PROBLEM AND STAKEHOLDER ANALYSIS**

Significant progress has been achieved by the Republic of Macedonia as regards the public finance management (PFM) in the last years, notably in the area of budget transparency and fiscal discipline, alignment with the EU *acquis* and standards as regards taxation and customs, internal control, introduction of e-procurement, strengthening of the state audit function. The main driver behind this progress has been the EU accession process and the support of the EU and Member States ensuring a massive investment in human resources and internal management systems.

While there have been improvements in all PFM sub-system, lack of a comprehensive PFM strategy, addressing in a systematic and coherent manner the weaknesses in public finance, has decreased the synergetic effect of the measures undertaken and the impact of the reforms. Thus in 2015, the country acknowledged the need of preparing a comprehensive PFM Reform Programme. Number of assessments completed in this period by international institutions (PEFA, WB, IMF, SIFMA/OECD) supported the national authorities to prioritise measures with impact on the whole PFM system.

Political change and the entry into power of the new government in June 2017 has reinvigorated the reform process by launching in September 2017 a high-level policy dialogue on PFM involving all national and international stakeholders. This crucial step allowed the country to establish a credible PFM Reform Programme for the period 2018-2021 in a transparent and inclusive manner, gaining also the societal support for the planned PFM reforms. The new PFM Reform programme aims primarily at improving the transparency, efficiency and effectiveness of public spending and at strengthening the fiscal discipline and debt sustainability. The new Government demonstrated strong political commitment to implement PFM reforms as outlined in the PFM Reform Programme.

The present Action reflects the objectives and key priorities of the PFM Reform Programme and has been designed to support the implementation of the programme itself. In line with the measures outlined in the PFM Reform programme, it will address some key weaknesses as identified in the recent PFM assessments of the IMF (Country Report 2016), WB (Public Expenditure Review: Fiscal Policy for Growth 2015), PEFA 2015 Report and SIGMA Report (The Principles of Public administration Country Report 2016 and annual monitoring reports).

### ***FISCAL CONSOLIDATION AND DISCIPLINE***

#### **Fiscal framework and budget process:**

The Budget Law is the basic legal act regulating the overall budget process, covering all budget users, the procedure for preparation, adoption, execution of the budget and Final Account, management of the budget allocations and preparation of a Medium-Term Fiscal Strategy (MTFS).

The medium-term planning is reflected in the Fiscal Strategy, which is adopted for a three-year period. The last adopted MTFS covers the period 2018-2020. It proposes the objectives and frame of the fiscal policy, the basic macroeconomic projections and indicators; it determines the main categories and relevant budgetary allocations of the estimated revenues and appropriations for that period, as well as projections for the public debt.

The fiscal strategy projections are indicative (fluctuating) and non-binding, which leaves room to revise them every year. Simultaneously, despite the fact that the Ministry of Finance determines limits on the expenditures for budget users, most of the budget users when proposing the draft budgets to the Ministry of Finance do not adhere to the given limit.

In general, the budget users when preparing the budget requests are guided by the realised funds in previous periods, and insufficient attention is given to the interconnection of sector priorities, undertaken and planned activities for the next period with proper funds' allocations.

The current budget planning process does not make a distinction between the existing (basic) mandatory expenditures and the new initiatives. Programme budgeting is not efficiently implemented. Shift towards the medium-term expenditure planning, including the adoption of decisions on implementation of programmes and projects, would provide for better link between budget and policy/decision-making process. Hence, the annual budget preparation should also be in compliance with the provisions of the MTBF.

Currently, the fiscal framework suffers from a number of weaknesses: an absence of detailed budgetary estimates for central government institutions, a lack of reconciliation between the medium-term budget framework and the annual budget process, and over-optimistic growth projections which tend to produce revenue over-projections. These weaknesses underscore the importance of including effective oversight and corrective measures in the enabling legislation for the new fiscal rules. (IMF CR 2016)

As to the medium term, although the Government has published aggregate projections of revenue and expenditure for three years ahead, and Ministries and other budget users have been required to prepare forward plans for this period, no consolidated Medium-Term Budget Framework has been produced to anchor the plans of budget users within the overall envelope of available resources set out in the fiscal strategy. (PEFA p.8)

The timing of the issuance of MTFS needs to be reconsidered in order to be more functional in the budget preparation process. Including an explanation for any macro and fiscal framework targets compared to the previous MTFS could improve the credibility of the document. (PER p.29).

Currently, a new draft Organic Budget Law is under preparation which will cover the Medium Term Budgetary Framework (MTBF), improved budget classifications, streamlining of budgetary process, new fiscal rules and measures for enhanced fiscal consolidation.

Despite the fact that Citizens' Budget is published regularly on the web side of the Ministry of Finance, further efforts are needed in order to improve the transparency, accountability and efficiency in PFM. In this regard, the PFM Policy Dialogue should be used as a tool to ensure continuous political commitment to the reforms and active public consultations. Ensuring efficient implementation of these reforms will remain a major challenge for the national authorities in the next budgetary cycle.

### **Capital investment management:**

It is crucial that capital investment decisions be taken as part of the policy framework, which should be linked into the MTFF and the development of the Annual Budget. Capital investment projects need to be subject to mandatory national rules for the economic analysis, readiness and prioritization in the context of sector strategies and budget processes. (PER p 32)

### **Budget execution:**

Country's tax productivity and efficiency are low compared with regional peers, particularly for the VAT which contributes one third of tax revenues and social contributions (IMF).

Since 2009, realized revenues have been below the budget target by 9.4 percent on average, largely due to lower VAT and import duties. Government also undershot on the spending side: expenditures amounted to 92 percent of the budget plan on average between 2009 and 2014, largely due to lower capital spending (PER p.4)

In each of the three years over the period 2012-14 revenue fell short of budgeted target, resulting in a need to hold back expenditure during the year; the largest shortfall of about 12 percent occurred in the recession year 2012. (PEFA p.6) There is no agreement in the various assessments about the exact performance of revenue collection.

## **Public procurement:**

In the area of public procurement up to 2010 Law on Public Procurement was aligned with the EU *acquis*. More recently, however, further elements have been introduced into the legislation which are not consistent with the *acquis*. (PEFA p.51) In addition, a number of weaknesses in the public procurement system has been identified in the last assessments, particularly as regards transparency and effectiveness.

Considering the need to address the challenges in the public procurement system, the country started in November 2017 the preparation of a new Public Procurement Law, which is expected to ensure the transposition of the 2014 package of EU directives concerning public procurement (directive on procurement in the defense area will be covered with a separate law), to bring significant improvements in the remedies system, and to improve the effectiveness of the public purchase as well as to introduce modern procurement concepts such as green procurement and strengthen the value-for-money selection criteria. The new Law is being prepared with the support of SIGMA and is supposed to be adopted before the end of 2018 while the implementation is expected to start in 2019.

Therefore, the efforts need to be focused on the proper implementation of the law through the adoption of the necessary implementing legislation and preparation of the stakeholders, including contracting authorities, business operators as well as the two key institutions in the system: the Public Procurement Bureau and the State Appeals Commission.

In this aspect, a key challenge is the preparation of the procurement officers to implement the new law in a transparent, efficient and effective manner. More generally, the whole system for continuous upgrade of the skills of the procurement officers needs to be redressed.

The new provisions as regards remedies need to be properly implemented as well. This requires a significant upgrade of the implementation capacity of the State Appeals Commission as well as preparation of the contracting authorities and economic operators. Focus needs to be put on improving of decision-making procedure itself by enhancing its efficiency and transparency with a view to increase the confidence of the economic operators in the public procurement system.

The new law is expected also to better address the need to prevent the irregularities, fraud and corruption in public procurement. Planned measures include strengthening of the competences of the Public Procurement Bureau, particularly as regards introduction of ex-ante control, monitoring and oversight of implementation of the awarded contracts (and possibly as regards concessions and public-private partnerships). Particular focus needs to be put on integrity assessments, conducted in cooperation with other institutions/bodies such as Commission for fight and prevention of corruption. The introduction of good practices from EU Member states along with building the capacities of the PPB to monitor, analyze and propose measures to strengthen the state purchase will be vital for the health of the procurement system in the country.

Further on, the upgrade of the e-procurement system needs to be envisaged to allow full traceability from planning and publication of the annual public procurement plans through tendering up to contracting and contract amendments, including also appeals and claims. The country has already significantly improved the e-procurement system ensuring electronic access to all procurement-related data (from contract notice to contract award) and publishes concluded contracts and annexes. Yet, the system is not user-friendly for the public and does not allow availability of real-time data regarding the public spending. Contract management phase is not covered, data mining facilities are limited and data are not available for important infrastructure procurement not covered by the PPL. (SIGMA). The new Public Procurement Law is expected to make the publication of the procurement plans obligatory, which will allow linking of the procurement plans to the implementation of the procurement procedures through the e-Procurement platform. The completion of the e-procurement system will then allow generating richer electronic data necessary to properly monitor and analyze the procurement market and the performance of the contracting authorities. In its turn, good quality data and analysis is expected to support the sector policy-making.

At the same time, the procurement system needs to be improved in terms of efficiency and effectiveness. In particular, the competition at the procurement market needs to be increased and the access of small and medium enterprises to public tenders needs to be ensured while respecting the procurement principles. The overall transaction cost for submission bids by economic operators needs to be decreased as well. The upgrade of the e-Procurement system with e-Catalogue and e-Market could be an adequate response to the efficiency challenges, providing also for more transparency in state purchase.

## **REVENUE MOBILIZATION**

Establishing an efficient revenue system is the basis for sound management of public funds. Such a system introduces citizens'-oriented services and decreases the risks for corruption and fraud. In times of economic difficulties, it is of vital importance for every government to improve the revenue system of the country based on the principles of transparency and accountability. The major reforms in the revenue system should serve the interests of the citizen. This mainly means the establishment of sound legal basis as per EU best practices, building up administrative capacities of revenue authorities, simplifying and digitalising of revenue procedures, and increasing the public trust in the transparency and efficiency of the tax and customs administrations. The efficient implementation of the new Tax System strategy would contribute sufficiently to the implementation of these challenging reforms.

### **Legislation in line with EU *acquis* and best practices**

The harmonisation of legal framework in the field of direct and indirect taxes and in the area of administrative cooperation and mutual assistance is not yet completed and due to the blocked negotiation process – the level of harmonisation is difficult to be established. Addressing this issue passes through the development of detailed tables of concordance based on reviews of existing legal acts and by-laws vis-a-vis the latest EU *acquis*, followed by the development of new and amendment of the existing country legislation. Also, the necessary methodological tools need to be elaborated in order to support the effective implementation of the new legal provisions and the understanding and knowledge of administration and economic operators needs to be well upgraded.

In the area of customs, the country has not yet started the transposition of the new European Union Customs Code (UCC) which came into force on 1st May 2016. At the same time, the alignment of the customs procedures with the EU standards, especially in the part of the procedures with economic impact and the simplified procedures and the Authorised Economic Operators (AEO) as higher form of simplifications concept, is an obligation undertaken with the SAA and will enhance the competitiveness and facilitate economic activities.

Those simplifications, however, require further enhancement of the capacities for control of the legal compliance and protection, regarding revenue fraud and smuggling, and effective customs authorities to ensure the correct and uniform application of customs rules. In particular, the country has to put in place appropriate control techniques and measures that on one hand, minimise the costs, data and documentation requirements and decrease the time to complete customs and other border formalities and on the other hand - increase the security of the supply chain. In other words, the relevant controls need to take place at the right time and the right place. To ensure this, significant improvements are required in the skills of the customs officers, the definition of the customs procedures and the use of the technical control means.

### **Capacities of revenue administration, efficiency and quality of tax and customs services**

Organisational structure and functions as well as co-ordination and monitoring mechanisms of revenue bodies should be further enhanced following modern EU practices. The administrative capacities of both Tax (PRO) and Customs (CARM) authorities to provide quality services to citizen have to be strengthened. Knowledge and skills of tax and customs officers needs to be improved



through continuous training. The main efforts of the revenue bodies should be focussed on the simplification of the tax and customs procedures, including those for declaring and payment and on reducing the administrative procedures and costs. The introduction of paperless work (e-customs and e-tax) for the operations of customs clearance and tax operations, and increasing the quality of services which are completely dependent on IT support is identified as a strategic objective. Ensuring their non-stop (24/7) availability is of fundamental importance. In view of the increased dependence of the customs and tax operations on information and communication technologies, consolidation and improved functionality and interoperability of the different customs and tax IT systems, as well as ensuring their continuous functioning and sustainability is a priority.

The IMF Tax Administration Diagnostic Assessment Tool (TADAT) outlines also the need to increase the integrity of the registered taxpayer base, improve the quality assurance of data processing, ensure effective risk management and audit, and improve the accountability and transparency.

The PRO also faces a difficulty to balance between tax and nontax responsibilities. A new approach to funding of PRO's operations and any additional resource requirements is needed. The PRO needs to establish a formal management and governance structure. A fundamental shift is required to balance service engagement and enforcement activities by the PRO.

Further on, there is a need for complete reorganisation of the business processes in PRO to serve as a framework for development of simple, user-friendly, cost-efficient procedures aligned with the taxpayer's requirements and EU standards. Upgrading PROs staff capacities to manage business processes and deal with unforeseen (risk) events and changes needs to be addressed as a matter of priority

The current PRO's Information System, consisting of applications implemented during the last 20 years, provides fragmented support to core business processes with no automatic links between them. The key weakness of the current system is too many modules for the same nature of processes (for example filing) while some of processes are not supported at all (case management) causing difficulties in taxpayer compliance management. In this state the IT system does not meet the requirements for interconnectivity and interoperability with the EU and its upgrading is a current priority.

Therefore, in the area of taxation, the country needs a comprehensive and clearly defined modernization agenda, covering: institutional strengthening through reorganization and establishment of a change management structure, improvement of staff qualifications and skills; building of a new IT system and implementation of the modernization of the business processes, full automation of the in-house processes and taxpayer services, interoperability and connection with other institutions in country and with the EU institutions.

In the area of customs, the needs are dictated by the challenges of the international trade relations, particularly in an improving EU accession perspective. The country has already established interconnectivity and interoperability with the ICT systems of EU, which enhances the cooperation in fighting customs-related fraud. At the same time, methods and techniques of customs fraud and smuggling become more sophisticated and complicated. The effective response requires major improvements in the efficiency and effectiveness of the customs controls and better detection of customs fraud and illegal trafficking of goods and humans without putting barriers to trade facilitation. Hence, on one hand, the priority is to enable traders conduct customs procedure faster and cheaper and to continuously encourage voluntary compliance of business operators. This process passes through the improvement of the quality of services in line with EU standards and ensuring the correct, uniform application of customs rules and other provisions applicable to goods subject to customs supervision. On the other hand, the efficiency of the customs controls needs to be dramatically improved. In this aspect the use of modern technical control means, which improves the

CARM performance, becomes equally important in the context of constant increase in illegal movement of goods, vehicles and human beings.

### **Sustainability of the PFM business systems in situations of crisis**

With a view to ensuring long-term stability of the national budget, it is necessary to enable uninterrupted functioning of the tax and customs systems administered by the Public Revenue Office and the Customs Administration. This is equally important for other state institutions dependent on the data managed by revenue collection authorities as well as for economic operators and taxpayers, for whom the continuity of the services and security of the data need to be guaranteed. Moreover, this has to be done in line with the complex international and EU requirements and in particular: enabling the implementation of all legal standards prevailing in the national and international movement of goods, facilitating legal trade (simplification of customs and tax procedures), collection of taxes, customs duties, excises, social contributions and other public duties, collection and analysis of data regarding the tax and customs systems and maintenance. Therefore, the country needs to establish a Disaster Recovery Mechanism to serve as a back-up for the continuity of service under the PRO and CARM Systems in case of service disruptions due to natural or other disasters.

### ***INTERNAL CONTROL AND EXTERNAL AUDIT, TRANSPARENCY AND OVERSIGHT***

Following the adoption of the PFM Reform Programme and the launch of the PFM policy dialogue, major reform activities have been initiated by the government. A new Public Internal Financial Control (PIFC) Policy Paper and a new Public Internal Control (PIC) Law have been elaborated. However, the efficient and coherent implementation of the legal framework as well as relevant by-laws and methodological tools in Financial Management and Control (FMC) and Internal Audit (IA) still remains a challenge for the national authorities. Improved internal control over public funds and effective follow-up of audit recommendations has yet to be pursued.

Main problems in PIFC that need to be addressed by the government are: insufficient coherent implementation of the PIFC legislation across public administration; better co-ordination in PAR and PFM priorities' implementation; insufficient managerial accountability, transparency and sound financial management; limited capacities of internal auditors and financial controllers in budget users on central and local level to carry out efficiently their tasks as per best EU practices. The PFM legal framework, harmonised with international standards, is not yet fully implemented at central and local level. Rulebooks and manuals in internal control need to be further updated and applied coherently by budget users. Risk management strategies and quality assurance measures are not embedded in the organisations' management processes. Capacities of internal auditors to carry out various types of audits remain limited. The Central Harmonisation Unit (CHU), Ministry of Finance should significantly step up its monitoring and supervision activities. The quality of external audit and follow-up of SAO recommendations by the government and Parliament is inefficient.

### **Internal Control**

The regulatory framework for Financial Management and Control (FMC) is well established but many budget organisations have not taken action to apply the rules and have not reported to the MoF on progress made. The common weaknesses in ensuring internal control include the following: key positions required by the FMC regulation are not filled; FMC action plans are not always developed; risk management procedures are not implemented; and lack of delegation of decision making authority in financial management beyond the level of the minister and the state secretary. (SIGMA Baseline Assessment 2015 p. 84-85)

The arrangements in a number of large Ministries, whereby the Minister continues to sign all payment orders, are not consistent with the separation of functions required by the PIFC Law or with the arrangements prescribed in the 2010 Rulebook for General Financial Processes. (PEFA 2015 p.10)

## **Internal Audit**

The IA requirements of the PIFC Law apply to: users of the state budget, budgets of municipalities and state funds; independent regulatory bodies; shareholder companies and other legal entities in which the Government or municipalities have a controlling stake. Even small organisations (with an annual budget of more than EUR 1 million) are required to establish IA. Overall, 186 organisations have established an IA function, but only a few of them meet minimum staffing levels. (SIGMA Baseline Assessment 2015 p.87)

Most of the IA work focused on basic system-based audits; in practice, these are mostly compliance-oriented, testing if the procedures are applied rather than challenging the rules and procedures themselves. Currently, no systematic quality assurance is undertaken either by the IA units or by the CHU. (SIGMA Baseline Assessment 2015 p. 87, 89)

## **External audit**

Audit reports are published by the SAO in their original form and also submitted to Parliament; however the Committee on Budget and Finance only reserves time to discuss its Annual Report. The Committee drafts conclusions on this report, which are discussed at a plenary session of parliament. While individual audit reports are submitted to Parliament, they are not dealt with in a systematic way, although completed audit reports are published on the SAO website. (PER p.39)

While the SAO law complies with international standards, the Constitution does not protect the legal status and the independence of the SAO (SIGMA Baseline Assessment 2015 p.79). The Finance and Budget Committee of the Assembly does not consider individual audit reports received from the State Audit Office during the year. The SAO annual report does not include clear information on achievements regarding the implementation of the strategic development plan that the SAO has published. State Audit Office does not pro-actively communicate with the media, the Parliament or the wider public through press conferences, press releases or other means. Efficiency and quality of audit work is expected to be improved with the application of software for audit management system (AMS), developed with technical assistance of the Office of the Auditor General of Norway.

## OUTLINE OF IPA II ASSISTANCE

The Action will support the implementation of the country's PFM Reform Programme 2018-2021 and will contribute to improved governance, fiscal sustainability and sound use and management of the public funds. The objective is to raise the stability, efficiency, effectiveness and transparency of the public finance management through achieving the following direct results:

Improved budget system based on a new organic budget law.

The action will ensure sound fiscal planning in short and medium term through improving both the annual and multi-annual budget process and reinforcing the compliance among them. It will support the transformation of the budget process from a financial planning activity into a policy planning tool which will enable Government to make priority choices among programme objectives rather than among organisations and categories of expenses. The action will complete the shift towards a medium-term expenditure planning and management, based on policy and programme objectives thus ensuring the link between the budget system and the policy decision-making. On one hand, this approach will improve the quality of the budget process which will be linked to priorities visible for the citizens. On the other hand it will raise the quality of the policy-making, by improving its financial viability. The action will also support the reorganisation of the annual budget process in compliance with the provisions of the medium-term budget framework. As a result, the improved budget planning in annual and multi-annual aspect will make the costs of programmes and government actions more comprehensible and transparent for the citizens and Parliament, which will enhance the public scrutiny over the public finance.

Improved stability, efficiency and quality of revenue collection system

The Action will enhance the legal compliance of the national revenue collection system with the EU *acquis*. It will invest in considerable improvement in the quality of the services to tax and customs payers. Modernisation and automation of many business processes will reduce the transaction costs for the state and will increase the speed and quality of service delivery, thus facilitating the declaration and payment processes. Along with promotion of voluntary compliance, the Action will upgrade the methodologies, the tools and the skills for controls. In addition, through the establishment of a PFM Disaster recovery centre, the EU support will ensure business continuity and long-term stability of the customs and tax-related data and business process in case of crisis.

Improved legal compliance, efficiency and transparency of the public procurement system

The action will support the implementation of the new Public Procurement law, transposing the 2014 EU package of public procurement directives and addressing key weaknesses of the procurement system, in particular its transparency and efficiency. Focus will be put on introduction of green procurement and strengthening of value-for-money selection criteria, enhancing the competition. Transparency and accountability in procurement process remain a priority which will be addressed through various measures: strengthened legal obligation for publication of procurement plans, bids, contract and annexes, completion of the e-procurement system to support the full traceability including the appeals, implementation of "red flags indicators" as a basis for further preparation of integrity-related reports in cooperation with other competent authorities. The action will invest in upgrading the capacities of the key bodies in the procurement system – the Public Procurement Bureau and the State Appeal Commission, to implement their enhanced functions. The knowledge and understanding of the contracting authorities and the economic operators on the new law will also be improved. The Action will also upgrade the e-Procurement system through creation of new electronic modules such as e-Market for small value procurements, e-Catalogue and e-Appeal. The planned measures will allow for closer monitoring of the procurement market, provision of analytical data to support the effective decision making process in line with the Better Regulation Approach.

Strengthened internal control in line with the new PIFC Policy Paper and improved external audit efficiency

The Action will improve the implementing legislation and administrative capacities for financial management and control and for internal audit at central and local level. It is expected to upgrade the methodological tools and the skills of the financial managers and internal auditors. A priority remains the managerial accountability and the action will further support the delegation of powers and responsibilities down the institutional hierarchies.

Further on, the Action will invest in strengthening of external audit and improvement of external audit efficiency. It will upgrade the capacities for financial and performance audits in the State Audit Office. Particular attention will be paid to increasing the interaction between SAO and the Parliament with the objective to improve the Parliamentary scrutiny over the public finance.

## **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

### ***IPA II Indicative Strategy Paper (ISP) 2014-2020***

The IPA II Indicative Strategy Paper 2014-2020<sup>1</sup> recognized the need to strengthen the country's economic governance and modernise public financial management based on well-designed, multi-annual reform programme, covering the reform needs in the relevant public finance sub-systems. Further on, the ISP identifies key areas of improvements such as revenue administration and collection, budget preparation and execution, public procurement, debt management, public internal financial control and external audit. Closer adherence to laws and rules and stronger compliance with the EU *acquis* in the relevant chapters<sup>2</sup>, higher efficiency in public finance and upgrading of IT interconnectivity and interoperability of customs and tax administrations with EU systems have also been identified as key priorities. The Action, and in more general terms the PFM reform programme, will support the country in aligning with the EU standards in the relevant accession/negotiation chapters by addressing the majority of the identified weaknesses. Thus the Action closely correlates with the ISP objectives of the Sector Democracy and Governance.

### ***Public Finance Management Reform Programme 2018 - 2021***

The Action will directly support the implementation of the PFM Reform Programme 2018-2021:

PFM Reform Programme	PFM 2018 Action
Priority 1: Improved Fiscal Framework is focused at the introduction of fiscal rules and strengthening the supervision on their implementation and reporting.	The Action will invest in improving the budget forecasting tools and data availability, necessary for the Fiscal Council to ensure its supervisory functions. (Activity 1.2 and 1.3)
Priority 2: Revenue Mobilization, aimed at improving country's performance in collecting revenues and ensuring the stability of the PFM IT systems in case of crisis	The Action will invest in the capacities of both Public Revenue Office and Customs to implement the tax policy of the country and exercise more efficient assessment, monitoring and control. (Activity 2.1-2.6)
Priority 3: Planning and Budgeting, focused	The Action will improve the tools and the capacities

<sup>1</sup>The IPA II Indicative Strategy Paper 2014-2020 (revised) guides the cooperation with the EU and allocation of resources to priority areas.

<sup>2</sup> Part II- Economic criteria, Chapter 5- Public procurement, Chapter 16- Taxation, Chapter 17- Economic and monetary policy, Chapter 29- Customs Union, Chapter 32- Financial Control.

on strengthening programme based budget approach and medium-term budget planning	for medium-term budget planning and programme-based budgeting and will support the implementation of the new Organic Budget Law and Medium-term Budget Framework (MTBF) and linking ERP preparation with MTBF – (Activitiy 1.1 and 1.3)
Priority 4: Budget Execution, aimed at improving the efficiency of budget execution and strengthening financial discipline.	The Action will primarily support the expenditure side by further strengthening of the public procurement system. (Activity 3.1-3.6)
Priority 6: Internal Control, which has been focused on strengthening the financial management and control system.	The Action will invest into an improved PIFC (FMC and IA) legislation and methodological framework and strengthened administrative capacities at central and local level. (Activity 4.1-4.5)
Priority 7: External Control and Parliamentary Oversight, which aims at enhancing public funds management and ensuring accountability and transparency in the use of public funds.	The Action will contribute to this objective by improving regularity and performance audits of SAO in line with ISSAI and SAO's Strategies, establishing mechanism for pro-active role in understanding and discussion of audit reports by the Parliament and strengthening the institutional and human resources capacity of SAO. (Activity 5.1-5.4)

### ***Anti-Corruption Programme***

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

### ***Public Administration Reform (PAR) Strategy***

Given that managing public finances is directly related and of extreme importance for effective and efficient public administration reform, during the preparation of PFM Reform Programme and PAR Strategy, full coherence and harmonization of both strategic documents is provided. Particular attention will be given to the human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, the link between these two strategies will be further strengthened by involving the Minister of Information Society and Administration in the process of monitoring and reporting on implementation of the PFM Reform Programme 2018-2021, as member of PFM Council, thus ensuring consistency in implementation of both strategies.

### ***Economic Reform Programme (ERP)***

The Government prepares an annual ERP as part of the light European Semester for candidate and potential candidate countries, which is evaluated by the Commission. The EU also provides guidance

on the reforms needed to achieve further progress towards meeting the economic accession criteria. The country has adopted the EU macro-economic criteria and is also invited to embark on a comprehensive and credible reform of its public financial management system, to enhance competitiveness of the local business and support job creation and employment.

ERP identifies PFM as an area that requires improvements in support for macro-economic stability and growth and also highlights the needs for PFM reform to be developed and implemented. It precise that fiscal planning, medium term budgeting should be improved.

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

## **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

Over 50 projects have been implemented with the support of the EU so far touching on different weaknesses of the PFM systems. Significant experience has been gained in both reform of various PFM subsystems and in managing EU assistance, which allows the formulation of key conclusions:

Reforms in areas without "hard" EU *acquis* take longer and need stronger political support, commitment from all layers of the administration and an effective coordination of the various stakeholders involved. Therefore, the country has paid a lot of attention to structuring a high-level PFM policy dialogue as a key instrument to ensure inclusive support of all stakeholders, to streamline the governmental commitment to the PFM reforms and to ensure governmental oversight on the PFM reform. This coordination/policy dialogue mechanism is included in the PFM reform programme.

Human resources are the backbone of any reform. At the same time in ever-changing environment, motivating, involving and bringing the capacity of human resource up to expectations becomes very challenging. High staff turnover and internal resistance can bring to failure any reform. That's why it is very important that the needs as regards the human resources are properly analysed very early in the reform process and appropriate motivation and capacity building measures are designed and integrated in the reform programme. The PFM Reform Programme and the current action address to a big extent this finding proposing an appropriate set of activities involving structured capacity building interventions, reorganisation of business processes and new IT support systems, allowing more efficiency in the daily operations with less focus on routine tasks and higher weight on data, result and policy analysis. This approach is further supported by the efforts for increased transparency which entail an increased light over and public attention to the results of the reforms rather than the mechanics of the reforms. The interest of the government and eventually of the Parliament is equally important to create a motivation force for the administration providing for clear steering of the reform and appraisal of the achievements.

In the same perspective, the success of the PFM reform programme is closely linked to the ongoing PAR reform. Improving the professionalization and the de-politicization of the civil service is a condition for any reform since on one hand, it ensures the stability of the reform process independently of the political conjuncture and on the other hand, it guarantees that the reform processes are being conducted by competent and committed staff not serving a particular political group. Therefore, it is very important that complementarity and synergy of PAR and PFM reform is achieved through a high-level coordination function (in the country set-up both Ministers are involved in steering of the two reforms) and a strong focus on elements with

potential to influence both reforms. In this aspect, promoting managerial accountability and strengthening the delegation powers has a strong potential (including a motivation one). Equally important is the linking of the budgeting process with the policy and programme making through improvements in the budget process in annual and multi-annual context. Finally, both reforms have an important service delivery aspect, which interrelates with the efficiency, effectiveness and transparency of the public service in general.

As regards implementation, it is important that this Action introduces different implementation instruments, well timed and well analysed in terms of sequencing, thus ensuring solid ground for the right expertise to be available at the right time. Timely delivery of assistance is essential. Long time lags between programme design and agreement and disbursement of funds result in mismatch between current problems and current solutions. Reform efforts require additional capacity if the ongoing commitments of the staff involved in the change process are to be covered.



## 2. INTERVENTION LOGIC

### LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To improve governance and ensure fiscal sustainability and sound use and management of the public funds	Progress made towards meeting accession criteria (economic and political criteria and steady progress in related Chapters 5,8,17,18,32 and 33) Budget deficit below 3%	European Commission	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
To raise stability, efficiency, effectiveness and transparency of the public finance management	No of indicators of the PFM Reform programme fully met Improvement in PEFA and SIGMA PFM indicators/assessment		Stable political and economic development (positive trend) Strong political commitment to apply "Good Governance" standards Significantly improved sector coordination
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
1. Improved budget system based on implementation of a new organic budget law	Percentage deviation between annual budget of year N+1 and N+2 with MTBF projections year N	Medium term fiscal strategy + annual budget	Commitment and good and continuous interaction of the PFM actors, including budgetary users and various stakeholders (Parliament, courts, business operators)
2. Improved stability, efficiency and quality of revenue collection system (tax system and policy and customs system)	Level of harmonization of the national legislation with the European <i>acquis</i> in the field of taxes and customs <del>Improved</del> tax efficiency coefficient Percentage of tax services digitalised Number of customs decisions to use simplified digitalised procedures Business continuity and stability of the PRO and Customs electronic systems in case of crisis	Tables of concordance Laws/Official Journal Tax IT system Reports PRO web-counter Tables of concordance Internal procedures of CARM Quarterly Reports	Political commitment to the PFM reforms indicated by ensuring the sufficient financial, human and administrative resources for the implementation of the PFM Reform Programme  Policy dialogue on PFM continues with the involvement of all stakeholders to ensure transparency of the reforms and monitoring of the achievements in the PFM sector
3. Improved legal compliance,	Competition rate (number of one bid tenders in electronic	Laws/Official Journal	

efficiency and transparency of the public procurement system	procedures / average No of tenderers per tender) Publication rate of procurement plans	Annual reports on Public Procurement system (available on web site of PPB)	Interest on behalf of the business entities to use the new IT tools in the area of taxation and public procurement  Infrastructure needs addressed (National Disaster Recovery Centre built, accommodation for the new equipment ensured)
4. Strengthened internal control in line with the new PIFC Policy Paper	No of budget users applying decentralised system for managing public funds Percentage of implemented internal audit recommendations	Annual report on quality of internal controls SIGMA baseline measurement report/assessment report	
5. Improved external audit efficiency and impact	Percentage of external audit coverage of the total public expenditure No of audit reports discussed by the Parliament	SAO Annual report	

## DESCRIPTION OF ACTIVITIES

### **Result 1 Improved budget system based on implementation of a new organic budget law**

This result supports the implementation of Priority 1: Improved Fiscal Framework and Priority 3: Planning and Budgeting of the PFM Reform Programme. It will be achieved through the following set of activities:

- Activity 1.1 Support in the implementation of the new Organic Budget Law and Medium-term Budget Framework (MTBF) and linking ERP preparation to MTBF. This activity involves the elaboration of methodological tools (guidelines, manuals, instructions) for budget users covering the whole budget cycle in order to ensure the efficient implementation of the new legal framework.
- Activity 1.2 Improvement of budget forecasting tools to improve the reliability of the medium term budget planning. This activity will include the development of a reliable medium term baseline scenario to allow that fiscal space for new initiatives for financing or possible cuts can be estimated. Support will be given to medium term budget projections in two categories: the baseline (compulsory/non-discretionary changes) and the new policies for financing (discretionary / new requests). The activity will also support the efficient implementation of programme-based budgeting and will better link policy-making and resource planning.
- Activity 1.3 Upgrading of the capacities of the employees in MoF and budget users in implementing efficiently the new methodological tools through a variety of capacity-building and training activities (seminars, workshops, on-the-job training, train-the-trainers', study visits, etc).

### **Result 2 Improved stability, efficiency and quality of revenue collection system (tax system and policy and customs system)**

This result supports the implementation of Priority 2: Revenue Mobilization, Measures 1 and 2 of the PFM Reform Programme as well as the implementation of the new Tax system strategy. It will be achieved through the following set of activities:

- Activity 2.1. Harmonisation of the revenue collection legislation with the EU *acquis*. This activity will involve analysis of the level of harmonisation of the current domestic legislative framework and preparation of detailed tables of concordance. On this ground, the national legislation will be aligned with relevant EU Directives.  
  
In the area of taxation, the activity will focus on direct and indirect taxation, and other legislation related to taxes (personal income tax, profit tax, VAT, excises tax procedure law and public revenue office law). In the area of customs, the activity will focus on the New Union Customs Code and related legislation which entered into force on 1 May 2016.
- Activity 2.2. Enhancing the capacities of the Ministry of Finance-Tax and Customs Policy Department, the Public Revenue Office and Customs Administration to implement the new legislation, to deliver high quality services and interact efficiently with citizens and business operators, to analyse the data gathered through provision of services and tax and customs controls and support the policy-makers in improving the revenue collection policies.
- Activity 2.3: Strengthening of tax collection operational capacities and business processes by

modernising the tax ICT system (hardware, software and technical support for quality assurance and implementation).

- Activity 2.4 Improving the business process in the customs area through introduction of Business Process Modelling, as applied in the EU Customs Union, and development of new simplified customs procedures for compliant and trustworthy economic operators (Authorised Economic Operators). This activity integrates a strong skills building component focused on training of customs officers.
- Activity 2.5 Improvement of the quality of customs controls through purchase of new multi-layer scanning/non-intrusive inspection equipment and training of customs officers on its proper and effective use.
- Activity 2.6 Establishment of a Disaster Recovery Centre to ensure full back-up of the data and business processes of PRO and CARM. Focus will fall on installing the necessary hardware and software, putting in place of operational and maintenance procedures, development of a Data Recovery Strategy and operational Plans for Development and Maintenance. This activity involves as well the preparation of the staff of the beneficiary institutions to maintain uninterrupted functioning of the ICT systems in case of crisis, as well as to do regular maintenance and management of the new Disaster Recovery Centre.

### **Result 3 Improved legal compliance, efficiency and transparency of the public procurement system**

This result supports the implementation of Priority 4: Budget Execution Measure 4, Strengthening public procurement system, of the PFM Reform programme. It will be achieved through the following set of activities:

- Activity 3.1 Support for the implementation of the new Law on Public Procurement harmonized with the 2014 EU Public Procurement Package. This activity includes development of implementing legislation, inclusive strategic and methodological documents, particularly with view to promotion of green procurement and innovations in public purchase, as well as strengthening the use of most economically advantageous (MEAT) criterion.
- Activity 3.2 Strengthening institutional and human capacities of the key institutions involved in the public procurement system, primarily the Public Procurement Bureau and the State Appeals Commission. Focus will fall on the new competencies planned to be introduced with the new Law, such as the monitoring and ex-ante control over public purchase, monitoring the implementation of awarded contracts, alternative penalties to be decided by the State Appeals Commission

- Activity 3.3. Strengthening of the accountability in public purchase. This activity will involve the development of integrity reports on the grounds of the governance “red flags indicators”. The red-flag indicators are currently being developed and will be further integrated in the e-Procurement system. The Action will develop methodological tools for the use and analysis of the indicators with the objective to strengthen the monitoring, prevention and suppression of irregularities and corruption in procurement. Internal audit function within the contracting authorities to improve contract implementation and monitoring will be also strengthened through trainings on integrity.
  
- Activity 3.4. Trainings for contracting authorities and economic operators on different aspects of the new Law for public procurement, such as the use of the MEAT criteria, new procurement procedures, green procurement, defence procurement, etc. The Action will also upgrade the system for continuous training of the procurement officers.
  
- Activity 3.5. Establishment of e-Marketplace for small value procurement and e –Catalogues to reinforce efficiency and effectiveness of the small value procurements. E-Market place and e-Catalogue facilities will be integrated in the e-Procurement system in line with the provisions of the new Law on Public Procurement which will create the legal ground for facilitate the access of SMEs to public contracts.
  
- Activity 3.6. Establishment of e-Appeal part of the e-Procurement system, which will allow for electronic submission and management of complaints. The e-complaint system will be a comprehensive module covering all contracting authorities and economic operators, as well as the State Appeals Commission. It will be linked to the e-Procurement system thus allowing for full traceability of procurements from public procurement plan through the tender up to contracts/annexes and appeals. Prospects to cover also concessions and public-private partnership contracts will be considered.

#### **Result 4 Strengthened internal control in line with the new PIFC Policy Paper and Public Internal Control (PIC) Law**

This result supports the implementation of Priority 6: Internal Control, Measure 1: Improved PIFC (FMC and IA) legislation and methodological framework and Measure 2: Strengthened administrative capacities on central and local level on FMC and IA, of the PFM Reform programme. It is also linked to the implementation of the new PIFC Policy Paper and Public Internal Control (PIC) Law.

This result will be achieved through the following set of activities:

- Activity 4.1. Further harmonization and improvement of the legislation and the methodological tools in the areas of financial management and control (FMC) and internal audit (IA) to ensure the implementation of the new PIFC Policy Paper and PIC Law. This activity will cover review and analysis of the implementation of the existing laws and by-laws and preparation of the necessary legislative amendments and new methodological tools (guidelines, instructions, and manuals).
  
- Activity 4.2. Development of the administrative capacities of the budget users on FMC and IA at central and local level through trainings, seminars, workshops, on-the-job training, study trips. This activity will also cover organisation and implementation

of pilot audits (incl. performance audits, compliance audits, IT audits, audit on public procurement etc.) as well as a horizontal audit covering targeted budget users and sectors based on risk assessment.

- Activity 4.3 Establishment of a Public Finance School/Academia under the Ministry of Finance taking into consideration proposals provided under previous programmes and projects (incl. bi-lateral assistance). This activity will cover the development of the model of the school/academia based on needs analysis and best EU practices as well as cost benefit analysis. In addition, curricula and training programmes (incl. training methodology for trainers) as well as other tools will be elaborated based on TNAs of budget users. Train-the-trainers courses will be implemented. A pool of core trainers with necessary skills and knowledge will be established. The training programmes developed for targeted budget users will be implemented.
- Activity 4.4 Preparation and implementation of a Communication strategy to promote the concept of Public Internal Control to the managers of the entities of the central and local level. A highlight of the strategy will be the organisation of an annual PIC Conferences and other visibility events through which positive examples in the implementation of the system of internal financial controls will be promoted.
- Activity 4.5 Strengthening of inter-institutional cooperation, communication and data sharing among key bodies in PFM system at central and local level through supporting networking of FMC managers and internal auditors across the public administration. This activity will also enhance the capacity of the Central Harmonisation Unit (CHU) at the Ministry of Finance to act as a network coordinator and mediator and will also strengthen the supervision function of the CHU.

## **Result 5 Improved external audit efficiency**

This result supports the implementation of Priority 7: External Control and Parliamentary Oversight, Measure 1: Improved strategic planning and external audit process in line with the ISSAIs and Measure 2: Improved scrutiny over the budget by the Parliament, of the PFM Reform programme.

- Activity 5.1. Elaboration and implementation a strategic planning process developed in line with  
SAO priorities and resources will improve the efficiency of the audit programming and planning process. Strategic planning of financial and performance audits is aimed at maximizing the overall impact of conducted audits, and increasing the efficiency through better utilization of available resources.
- Activity 5.2. Improvement of audit methodological acts and tools. This activity will promote and enhance the implementation of ISSAIs by way of analysing, setting priorities and harmonizing SAO methodology acts with ISSAIs, taking into consideration SAO relevant practice, as well as the experience of the other supreme audit institutions.
- Activity 5.3 Performance of pilot audits on EU Funds, ICT, public procurement and progress in implementing public internal financial control, will promote human resources capacity building of external auditors through a set of training, technical assistance

and other capacity building instruments and tools in relevant areas such as EU funds, ICT, public procurement, public financial internal control, leading to qualitative improvement of the audit process as such.

Activity 5.4 Further strengthening of the relations between SAO and Parliament through a set of training, promotion, technical assistance and other capacity building instruments and tools.

Act.5.5. Further improving the visibility of SAO and links with public (incl. presentations of audit findings, round-table discussions, conferences etc.) through the development and implementation of Communication strategy and visibility tools.

## **RISKS**

Strong Governmental commitment and political will for implementation of the PFM Reform Programme and the EU assistance is the key success factor for any horizontal and far-reaching reform process. In this particular case, the Government, on numerous occasions reiterated its support and commitment to the PFM reforms. Further on, the regular high level policy dialogue involving national and international stakeholders and partners is the key mitigation measure for this risk. There is also a strong donor commitment to support the reforms in the public finance and maintain the policy dialogue with the country.

The PFM reform is a comprehensive and medium-term investment that requires significant resources to be allocated from both national budget and through mobilising donors support. To mitigate the financial risks, a costs analysis has been completed as a part of the PFM Reform programme and discussions with all related donors were conducted. The funding gap will be covered by the Government through the national annual budget, per respective institution, in accordance with the planned dynamics of activities and results.

Insufficient human resources capacities in terms of staffing and training is also considered as general risk along with internal resistance to modernization processes and lack of commitment by management and staff. Therefore, it is crucial to ensure full commitment, awareness and support of all parties. Measures and activities under each priority of the PFM Reform Programme are defined taking into consideration current HR capacities of the PFM institutions, but also separate activities for further capacity building based on future recruitment plans are proposed, as part of the reform process. Hence, this risk will be partly overcome by implementation of the activities envisaged in this Action. Additional support will also be obtained through the regional programmes of IMF and World Bank, especially in the area of budgetary issues and tax administration.

Good coordination and communication among PFM institutions is crucial for the success of any horizontal reform involving all budget users (about 1500). Therefore deficiencies in coordination may represent a major risk for the flow of information, for implementation of the activities, achievement of the results and spending of the resources. Therefore, this risk will be mitigated through the reinforcement of the already established management and coordination sector framework, based on the PFM Sector Working Group, led by the Ministry of Finance and involving all key national stakeholders.

Recognising these risks as an important factor that could affect the success of the PFM reforms, a separate Risk Assessment Framework has been developed under the PFM Reform Programme, which explains and grades risks level, proposes mitigating measures to be taken by responsible

institutions within the deadlines set. All the risks related to the Action Document will be analyzed and followed up within this framework.

### **CONDITIONS FOR IMPLEMENTATION**

The present Action will support the implementation of the PFM Reform Programme, which is current in adoption process, which is expected to be concluded by end of December 2017. The Action will secure about 50% of the total cost of the intended PFM reforms. Therefore, ensuring the remaining funds is both a condition and an indicator for the political commitment to the PFM Reform and will be followed at yearly basis through the PFM policy dialogue.

Other conditions will also apply in relation to the specific PFM sub-system, notably the adoption of a number of laws and strategies with key importance such as:

Organic Budget Law creating the legal ground for the functioning of a comprehensive Medium-term Budget Framework (MTBF) and Medium term expenditure framework;

New Law on Public Procurement transposing the 2014 Package of EU directives on public procurement;

Tax System Strategy;

PIFC Policy Paper 2018-2020 and new Law on the system of internal controls in the public sector (PIC Law).

## **3. IMPLEMENTATION ARRANGEMENTS**

### **ROLES AND RESPONSIBILITIES**

Main institutions involved in the management and implementation of the Action are:

- Ministry of Finance;
- Customs Administration;
- Public Revenue Office;
- Public Procurement Bureau;
- State Appeal Commission for Public Procurement;
- State Audit Office.

The Ministry of Finance is the backbone of the PFM system. The following MoF departments and institutions are assigned with responsibilities for PFM:

The Budget and Funds Department is responsible for creation of fiscal policy, public finance management and improvement of the budgetary process. In this regard, the basic responsibility of the Budget and Funds Department is preparation of the Draft Budget as a whole and its submission to the Government. The Treasury Department is responsible for collecting and managing public revenues, and execution of the budget expenditures. It maintains central control of cash, monitors the collection of public revenues in the national Budget and their distribution by budget user and consolidates the government's cash position at the end of each day.

Tax and Customs Policy Department performs activities related to preparation of laws and by-laws in the field of personal income tax, profit tax, value added tax, excises, property taxes, utility and administrative fees, registration of cash payments and tax procedures, gathering and coordinating the activities in the field of customs policy, system and



procedures. Also, the department is involved in analysis of tax and customs revenues collection.

The activities of the Department for Public Debt Management are fully set out in the Public debt law, i.e. borrowing in the domestic and international markets for public debt issuers, providing financial resources for budget financing under the lowest possible cost and optimal level of risk, and regular servicing of debt liabilities.

The Public Internal Financial Control Department on behalf of the Minister of Finance is acting as Central Harmonization Unit responsible for coordinating the development, establishment, implementation and maintenance of the public internal financial control.

The Customs Administration (CARM) is a legal entity within the Ministry of Finance which has direct authority to enforce laws and other regulations in the field of customs in accordance with the Law on Customs Administration. It is responsible for collection of customs duties and VAT on imports and excise, and for prevention of illegal imports and exports. Protection of the fiscal interests of the country and trade facilitation is one of its key functions. CARM operations are implemented through the Customs Administration Headquarters and the Customs Houses.

The Public Revenues Office (PRO) is a public administration body within the Ministry of Finance, with the status of a legal entity. The PRO operationally implements the tax policy and collects taxes and other public duties, provides assistance to taxpayers to meet their tax obligations, monitors and analyses the functioning of the tax system and make suggestions for its improvement, cooperates with tax authorities from other countries and provides an international legal assistance in tax matters.

The legal framework for the operation of the PRO, the general tax law and tax administrative procedure are defined in two acts - the Law on Public Revenue Office and Tax Procedure Law. With a specialization of the employees on specific matters, PRO expects to increase the efficiency in achieving tasks, expand the database of the PRO and increase of the degree of collection of tax revenues.

The Public Procurement Bureau (PPB) is a separate legal entity within the MoF with responsibility to ensure proper functioning of the public procurement system at national level. The administrative capacity of the Public Procurement Bureau is sufficient for performing its responsibilities. The Bureau is duly supported by financial means to act effectively and efficiently according to all legal competences assigned. In the regular annual report on the functioning, the Public Procurement Bureau informs the Government for acting within all the legal competences.

The State Appeals Commission upon Public Procurement (SACPP) is an independent state authority with capacity of a legal person, responsible for review procedure for all contracting authorities and entities above and below EU thresholds with capacity of a legal person. It has also other responsibilities proscribed in the Law on public procurement.

The State Audit Office (SAO) is a Supreme Audit Institution established by the Parliament in charge of auditing the public revenue and public expenditure in the public sector entities, monitors whether the implementation of the concluded public procurement contracts is carried out in a duly manner. SAO organization and competences, the conditions and manner of performing state audit are regulated under the State Audit Law.

All institutions in PFM system are operational and functional, adequately equipped in terms of human and technical resources to perform all assigned responsibilities. Although they have enough capacity to execute current functions, there is still place for further improving the efficiency and effectiveness in their performance, as well as in view of the future developments of the PFM system.

## **PFM REFORM MANAGEMENT AND COORDINATION FRAMEWORK**

The reporting and monitoring system for this Action will be embedded in the system established under the PFM Reform Programme, which will consist of the following structures:

PFM Council

PFM Working Group

Coordinators per Priorities

Measure Leaders

### **PFM Council**

PFM Council is a high-level body comprised of the highest level representatives of the PFM institutions involved in implementation of the PFM Reform Programme. PFM Council was established in January 2018 and is chaired by the Minister of Finance or in his absence by the State Secretary of the Ministry of Finance. Other members of the PFM Council are: Deputy Prime Minister for EU Affairs, Minister of Economy, Minister of Information Society and Administration, Director of the State Audit Office, Director of the State Statistical Office, Director of the Customs Administration, Director of the Public Revenue Office, Director of the Public Procurement Bureau, President of the State Appeal Commission upon Public Procurement and others if need.

The PFM Council will have to ensure close cooperation between relevant institutions, provide overall guidance in delivering reform objectives, monitor the implementation of the action plan against targets and defined indicators, resolve any coordination issues arising between stakeholders and facilitate the policy dialogue with stakeholders and Donors and take decisions of financing of the activities under PFM Reform Programme. It will jointly discuss and identify any critical points or bottlenecks for further Programme implementation, as well as propose and discuss remedial actions to be taken in order to tackle identified problems.

### **PFM Working Group (PFM WG)**

A PFM working group composed of members from all relevant MoF departments and institutions involved in PFM issues was established for the preparation of PFM Reform Programme and other related PFM planning documents. (Decision of the Minister of Finance No. 04-7053/1, of 10 June 2015). It plays the role of a Sector Working Group, involving Ministry of Finance, State Audit Office, State Statistical Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, Ministry of Economy, Secretariat of EU Affairs, State Appeal Commission upon Public Procurement as well as Priority Coordinators and Measure Leaders appointed by the PFM Council. The PFM WG is supported by the Coordination unit within the Ministry of Finance and is chaired by a person, appointed by the Minister of Finance.

PFM WG will be maintained as an operational coordination tool throughout the implementation of the PFM Reform Programme 2018-2021. It will also assume key responsibilities as regards monitoring and reporting on the PFM Reform Programme.

### **Priority Coordinator**

Each priority is assigned the Priority Coordinator. Priority Coordinator will coordinate and overview the implementation of activities under each measure of the respective priority, will monitor fulfilment of indicators under the respective priority and report on the progress in reforms. He/she will prepare summary reports on reform execution on priority level, based on the progress reports on measure level provided by the measure leaders and propose annual action plans for implementation of the Programme. Priority Coordinator will report on the progress on his priority to the PFM Working Group.

## **Measure Leaders**

Each of the measures of the PFM Reform Programme is assigned to a lead/responsible entity to manage the delivery of the measure's activity plans outlined in the Logical framework.

Each measure is assigned a Measure Leader whose role shall be to serve as the focal point to the Priority Coordinator. During the implementation process Measure Leader shall take day-to-day responsibility for managing activities within his measure s and coordinating the roll out of reformed activities within his institution and will monitor the fulfilment of indicators under his measure. Measure Leaders will compile work-plans detailing indicators, deliverables and deadlines and prepare summary reports on reform execution. They will be accountable to the Priority Coordinator and will report also to the PFM Working Group.

## **Coordination unit within the Ministry of Finance**

Coordination unit within the Ministry of Finance will act as a technical secretariat to support functioning of the PFM Working Group and PFM Council. In general, its tasks will comprise of technical preparation of the meetings of the PFM Council and PFM Working Group.

The PFM Reform Programme was prepared and will also be implemented in an inclusive manner, involving larger groups of stockholders (academia, municipalities, economic operators), civil society, donors and development partners.

## *Consulting Group*

The success of the PFM reform depends significantly on the way the various budget entities and budget users understand, support and apply the new processes and concepts. This requires working with them to ensure they are able to integrate new procedures and processes in their everyday operations. The rollout of the reform will take time and will require good change management capacities at both institutional and sector level. Thus a wider Consulting Group has already been created in the process of preparation of the PFM Reform Programme and will also be involved at the Reform Programme implementation stage to support the capacity development activities and gain feedback on how the reforms are being implemented at the bottom level.

## *External partners*

Following the publication of the PFM Reform Programme 2018-2021 on the web-site of the Ministry of Finance, a high level-policy dialogue was launched on 19 September 2017 with the participation of all stakeholders, civil society, business sector, donors and international partners active in the sector. The involvement of external partners is furthered encouraged though the PFM Sector working group, which is a flexible sector coordination platform established to promote the sector approach in the PFM area on the ground of the PFM Working group but involving also external partners. The dialogue with the external partners will be supported by external technical reviews, such as those underlying the Article IV consultations with the IMF, Public Finance Reviews and other relevant reviews by the World Bank, the monitoring reports by SIGMA, and possible future PEFA reviews.

Good coordination with external partners is of increasing importance in the context of multi-donor funding and involvement. In parallel to this action, some technical assistance and support to the beneficiaries is also provided through the EU multi-beneficiary instrument. Thus, the International Monetary Fund (IMF) works in the country to improve tax system and some specific sub-areas of PFM. As part of the assistance under the SAFE grant, the Public Procurement Bureau receives financing from the EU/SAFE funds managed by the World Bank. Complementarity and synergy is ensured through the enhanced sector dialogue.

#### IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

This action will be implemented under direct management through various types of contracts as presented in the following table:

Implementation modalities	Budget (€)		Timeline	
	Total	EU contribution	Launch of procedure	Contract signature
<b>Procurement</b>	<b>13,570,588</b>	<b>9,900,000</b>		
Upgrading the PFM capacities (equipment, hardware and software)	11,017,647	7,700,000	Q2 2019	Q2 2020
Improving customs control capacities	2,352,941	2,000,000	Q3 2019	Q3 2020
Evaluation of the impact of IPA Funds on PFM reforms in the country	200,000	200,000	Q3 2022	Q4 2022
<b>Twinning</b>	<b>8,700,000</b>	<b>8,700,000</b>		
Strengthening of core PFM functions	3,700,000	3,700,000	Q1 2019	Q4 2019
Improving Revenue collection and policy	3,500,000	3,500,000	Q3 2018	Q2 2019
Strengthening external audit	1,500,000	1,500,000	Q3 2018	Q1 2019
<b>TOTAL</b>	<b>22,270,588</b>	<b>18,600,000</b>		

#### 4. PERFORMANCE MEASUREMENT

##### METHODOLOGY FOR MONITORING (AND EVALUATION)

The methodology for monitoring of the progress and the impact of the Action is framed by the 2 key factors:

1. The country has prepared a PFM Reform programme, covering key PFM sub-systems. For each system indicators and targets have been set up in the Programme. In addition a detailed monitoring and reporting system, based on the defined indicators and targets is established as a part of the Programme involving all hierarchical level of decision-making.
2. The country, with the support of the Commission, is in a process of a developing a sector-based performance assessment framework structured around a set of objectives, result and impact indicators and targets. For the PFM sub-sector the PAF integrates the indicators and targets as per the PFM Reform Programme and the responsibilities for data collection and processing are being assigned on the grounds of the monitoring and reporting system planned in the PFM Reform Programme. The PAF is indeed the e-tool to support the monitoring and reporting system as established by the PFM Reform Programme.

Thus, the monitoring of the Action will be performed through the same mechanism envisaged under the PFM Reform Programme. This is possible since there is consistency in the definition and measurement of the indicators defined in the PFM Reform Programme 2018 - 2021 and in this Action. This mechanism will ensure regular monitoring and reporting on the progress of the action.

In order to ensure timely implementation and sequencing of the activities under the PFM Reform Programme, the Government will adopt an Annual Action Plan for each year of implementation of the PFM Reform Programme. The activities planned under this Action will form an integral part of the Annual Action Plans, thus providing the grounds for continuous monitoring of both the action

and the programme. The reports on the implementation of the Action Plans will be main monitoring tool for this Action Document.

PFM Working Group will prepare reports on the progress of implementation of the PFM Reform Programme 2018-2021 and submit those reports for approval to PFM Council, on six months basis.

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

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

PFM Council will meet every six months to review the progress reports for implementation of the annual Action Plans prepared by the PFM Working Group. It will report to the Government on the progress in implementation of the PFM Reform Programme.

## INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2) 2018	Milestone 2022	Final Target (2024) (4)	Source of information
Budget deficit below 3%	2,7% of GDP (Draft budget 2018)	below 3%	below 3%	Medium term fiscal strategy and annual Budget
Progress made towards meeting accession criteria (economic and political criteria and steady progress in related Chapters 5,8,17,18,32 and 33)	PR 2016 assessment	Progress noted in respective areas of PFM	Progress noted in respective areas of PFM	EC Progress Reports
No of indicators of the PFM Reform programme fully met	0 (2017)	100%	100%	PFM Reform Programme reports
Significant Improvement in PEFA and SIGMA PFM indicators/assessment	PEFA 2015 (31 indicators, 94 dimensions) SIGMA (125 criteria)	50% of PEFA/SIGMA indicators show improvements	– 80% of PEFA/SIGMA indicators show improvements	PEFA/SIGMA Reports
Percentage deviation between annual budget of year N+1 and N+2 with MTBF projections year N	N+1 - 5% N+2 - cannot be calculated at the moment	up to 7% up to 10%	up to 7% up to 10%	MTBF, annual budget
Level of harmonization of the national legislation with the European <i>acquis</i> in the field of taxes and customs - number of EU tax and customs <i>acquis</i> (existing EU legal provisions in 2018) transposed in the national legislation	partly harmonised legislation – level of harmonisation to be established with concordance tables	50% of the <i>acquis</i> (2018 basis) transposed	70% of the <i>acquis</i> (2018 basis) transposed	Tables of concordance Laws/Official Journal

Indicator	Baseline (value + year) (2) 2018	Milestone 2022	Final Target (2024) (4)	Source of information
<del>Improved</del> Tax efficiency coefficient <sup>3</sup>	PIT tax efficiency not less than 0,23 CIT tax efficiency not less than 0,14 VAT C-efficiency not less than 0,52	PIT tax efficiency not less than 0,29 CIT tax efficiency not less than 0,23 VAT C-efficiency not less than 0,60	PIT tax efficiency not less than 0,29 CIT tax efficiency not less than 0,23 VAT C-efficiency not less than 0,60	Tables for the national Budget execution (Ministry of finance) and data for Gross domestic product (SSO)
Percentage of tax services digitalised	40% (2017)	60%	80%	e-Tax platform
Number of customs decisions to use simplified digitalised procedures	215 (2016)	225 - 5% increase (2022)	236 - 10% increase (2024)	Customs reports
Business continuity and stability of the PRO and Customs electronic systems in case of crisis for the data and the business processes	Partial (2017) - data back-up ensured	Partial (2017) - data back-up ensured	100% business continuity	PFM Disaster Recovery Centre documents
Competition rate: - number of one bid tenders in electronic procedures) - average No of tenderers per tender	25% (2016) 2.97 (2016)	Less than 25% above 3	Less than 20% 3.5	e-Procurement reports/ Annual Report on Public Procurement System

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PIT-Tax efficiency indicator  
 $\text{pit} = (\text{pit}) /$   
pit- tax efficiency indicator  
pit=PIT revenue  
- Tax rate first bracket

CIT-Tax efficiency indicator  
 $\text{cit} = (\text{cit}) /$   
cit- tax efficiency indicator  
cit=CIT revenue  
-Standard tax rate

VAT- C- efficiency indicator  
 $\text{vat} = (\text{vat} / \text{FC}) /$   
FC-Final consumption  
vat- C-efficiency indicator  
vat-VAT revenue  
-Standard tax rate

<b>Indicator</b>	<b>Baseline (value + year) (2) 2018</b>	<b>Milestone 2022</b>	<b>Final Target (2024) (4)</b>	<b>Source of information</b>
Publication rate of procurement plans	Plans: 0	100%	100%	e-Procurement reports/ Annual Report on Public Procurement System
No of budget users applying decentralised system for managing public funds	46%	60%	70%	Annual report for functioning of PIFC system
Percentage of implemented internal audit recommendations	43%	53%	63%	Annual report for functioning of PIFC system
Percentage of external audit coverage of the total public expenditure	45	60	65	SAO Annual Report
% of external audit recommendations leading to corrective measures	55%	72%	75%	SAO Annual Report
No of audit reports discussed by the Parliament	0	8	10	Report of the parliamentary body responsible for conducting the discussion of audit reports process



## **5. SECTOR APPROACH ASSESSMENT**

The country has developed a PFM Reform Programme (2018-2021) with the objective to improve the transparency, efficiency and effectiveness of public spending. The Programme has been designed as an overarching (sub) sector strategy consolidating the main reforms in various PFM subsystems i.e. budget planning and execution, public procurement, customs and taxation, internal control, transparency and accountability, external audit and Parliament scrutiny. In this aspect, the Programme ensures a consistency of the reforms and measures undertaken in the various PFM subsystems and defined in numerous strategic documents (corporate, functional, or system), which are still under implementation. Further on, the Programme has been prepared in a compliance with the Economic Reform Programme.

The programme is a result of the concerted efforts of all national stakeholders, represented in the PFM working group. The programme has been subject of a high-level policy dialogue. On 1 September 2017, the Public Finance Management Reform Programme 2018-2021 was published on the web-site of the Ministry of Finance. Public policy dialogue, chaired by the Minister of Finance, was held on 19 September 2017 with broad participation of relevant stakeholders (donors, chambers, universities, local authorities, civil society and all other stakeholders for active contribution in document preparation process). Intensive discussions followed in the months of October and November before the adoption of the Programme in December 2017. The final product is a realistic, yet ambitious, agenda of reforms in 7 PFM subsystems involving well-tuned and sequenced set of measures, backed up by clear indicators, targets and a monitoring and reporting system with clear data collection and processing responsibilities. Measures and activities under each priority are defined taking into consideration current human resources and physical capacities of the PFM institutions. At the same time the PFM Reform Programme envisages first of all a considerable investment in the Human Resources as a part of the reform process.

The development of the PFM Reform Programme and the present Action has significantly improved the dynamics of sector consultations and interaction, which in its turn reflected on the improved quality of the PFM Reform Programme. The monitoring and reporting system envisaged has the potential to keep the momentum gained. In addition, the EU Delegation is implementing a project for enhancing the sector approach, which will also significantly contribute to improving the sector coordination.

Overall, the country has progressed considerably as regards the sector approach uptake in the PFM sub-sector. The 2017 targets of the Sector Approach Roadmap had been met.

## **6. CROSS-CUTTING ISSUES**

### **Equal opportunities and gender mainstreaming:**

The country has put in place the legal framework to ensure gender equality through the adoption of the Law on equal opportunities for women and men and the Law on prevention of and protection from discrimination. The current legal framework actually prohibits discrimination on the grounds of gender and sexual orientation and prescribes that equal representation of men and women exists when one sex is represented with at least 40% per cent in bodies at all levels (state, municipal levels other institutions). Official data<sup>4</sup> show that the country generally respects the principles of gender equality in the public administration where the women employed represent 53% of the total. Further extensive research is needed to reveal if these principles are applied in terms of managerial positions within the ministries and other

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<sup>4</sup> Annual report on the data from the public sector employees register

bodies of the Government. Yet, at this stage, the EU support will further seek to empower women to exercise their rights. Particularly important in this aspect is the process of enhancing the managerial accountability and the delegation and sub-delegation of powers to downwards the administrative pyramid (Activities related to Result 4), which has the potential to bring more powers and responsibilities to women, traditionally occupying lower management levels. Further on, horizontal promotional activities will be implemented for greater recognition of the growth-enhancing effects of reducing inequality.

Another important opportunity to enhance the equal opportunities between men and women is provided through Gender Responsible Budget concept. In 2012, the country adopted a Strategy for Gender Responsible Budgeting. Following, the Ministry of Finance amended the budget instructions for 2013 and the 2014 Budget circular for the first time, and three ministries were selected as pilot institutions for gender budget analysis. From 2015, these provisions are mandatory for all budget users at central level. Until 2016, gender responsive budgeting was piloted by 6 line ministries and one agency, and in 2017, 8 new ministries and one agency joined the gender budget initiatives. The Action is expected to further support this process through all activities planned under Result 1.

### **Minorities and vulnerable groups:**

All sector activities will support the Ohrid Framework Agreement and “Race directive” 2000 (2000/43/EC of 29 June 2000), in particular local governance and local economic development, in accordance with the principles of subsidiarity and participatory development, as well as social cohesion and good inter-community relations, based on the principles of mutual tolerance. The implementation of the Ohrid Framework Agreement has an important impact on employment (incl. vocational training, working conditions, social protection etc.) and is also a crucial aspect of the *acquis*.

Simultaneously, equal representation of minorities and vulnerable groups will be the guaranteed principle. The institutions involved in the execution of the activities will observe equal opportunity for all citizens regardless of their ethnic, religious background or other type of social risk they face, in the sphere of human resources development.

### **Engagement with civil society:**

The civil society but also social partners, employers' organisations, trade unions, academia and media have been engaged in the design of the PFM Reform Programme through the policy dialogue. The partners will continue playing an important role in the sector dialogue and in the implementation of sector reform activities as their involvement is guaranteed by:

- (1). The PFM Reporting and monitoring mechanism, which envisages the information on achieving of the objectives of the PFM Reform Programme to be consulted with the business community, associations and civil society,
- (2). The uptake of the sector approach, which positions the sector working groups as a main fora for policy dialogue involving donors and civil society along with public administration,
- (3) The measures promoting PFM transparency i.e. publication of the Citizens Budget (already published for 2017 and 2018 Budget), which allows citizens to better understand the Government policy as regards public finances and therefore better assess and if necessary counteract Governmental policy; or the application of transparency standards in the public administration (particularly the Ministry of Finance and related bodies) or the investments in the e-procurement system and e-services, which will guarantee live access to PFM information.

### **Environment and climate change:**

The Action, although not directly focused on addressing environment or climate issues, will, still promote respect to the principles of environmental suitability in two ways. First, the new Law on Public Procurement, transposing the 2014 EU package of procurement directives, will introduce also green procurement in the legal basis and will strengthen the principle of most economically advantageous tender thus creating an opportunity for contracting authorities to select in future tenders that provide environment-friendly services and goods and respect the international agreements on climate change. Second, by promoting the shift to true programme-based budgeting, the Action will contribute to "greening" of the future policy-making in the country.

## 7. SUSTAINABILITY

The sustainability potential of the action is high due to several factors:

The Action is embedded in the PFM Reform Programme and its implementation ensures the achievement of the objectives and targets of the PFM Reform Programme. The governmental commitment to the PFM reform is thus translated into a commitment to the Action, which decreases the risks associated with such ambitious horizontal endeavour and guarantees the use of the results obtained in long-term perspective. Another element of sustainability is the link between the PFM reform and the PAR as the synergy created will multiply the benefits of the two reforms.

The successful implementation of the PFM Reform Programme and the Action will establish standards and processes which will be applied in the years ahead. Upgrading the skills and capacity of the human resources is an investment in the social capital in the country. The Programme and the action propose a strong capacity building component, which has the potential to attract, regenerate and develop motivated and engaged employees and this way to contribute to the sustainability of the public administration itself. The improvements in the business process (taxation, customs, internal control) will also pursue these objectives creating space for professional development of the public servants. The improvement of the E-service (for tax payers) is oriented towards a more rationalised, sustainable and cost-effective management of the public administration and public resources.

The Action and the Programme incorporate a considerable *acquis* alignment component. In the context of improving accession perspective for the country, the investment into harmonisation with the *acquis* creates a good sustainability prospect since the policy dialogue on the *acquis* transposition and implementation is expected to gain new importance. Furthermore, the *acquis* transposition will be based on the Better Regulation Approach, promoting well-targeted, evidence-based and simply written regulations, which have more chances to be properly implemented. Not only will this improve the efficiency of public administrations and businesses, avoiding unnecessary burdens and red-tape on citizens, businesses and public authorities but it will equally allow the focus of the administration and decision-makers to fall on effects and impacts instead of procedures.

The PFM Reform Programme (and the Action which is based on it), encompasses measures addressing real needs identified through numerous reliable assessments and previous projects. Moreover, the inclusive way in which the PFM Reform Programme was developed ensured that all viewpoints and needs were considered and that a balance was found in between institutional and sub-system interests and development prospects. The institutional support for the PFM reform is an important sustainability factor, particularly in context of enhanced delegation of powers, more dynamic decentralisation process and higher institutional and personal responsibility.

## 8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action with a particular focus on promotion of the progress in the PFM reform, the results achieved and the impact of the EU funding. The communication and visibility approach is based on several pillars:

Promotion of the action through the visibility and communication strategy "EU for YOU", of the EU Delegation, based on sector campaigns, which target the citizens at large outlining the benefits of the EU aid for the country in a communicative, comprehensible and interactive style. In addition, all EU projects are promoted through the Delegation web-site.

Promotion of the EU support at the level of the action – this implies selection of one or two activities out of the whole Action with very high media potential and creating a media event allowing to promote in general the EU values and principles in a certain specific context. This approach is being piloted under 2016 IPA annual programme and will be extended further. The cooperation with the Ministry of Finance, the NIPAC office and the other beneficiaries will be very important to ensure one-voice communication to citizens.

Promotion of the EU support for the implementation of the PFM Reform Programme – the EU funds, allocated through this action cover about 50% of the PFM reform cost, which makes the EU the biggest donor of the PFM reform. This fact shall be recognised by the Government and beneficiaries in all official documents, produced in relation to the PFM Reform Programme and through the high-level PFM policy dialogue.

Promotion of the EU support at the level of each single contract and in line with with the EU communication and visibility requirements in force. All contractors have to develop a communication plan, which will be approved by the EU Delegation. The communication and visibility plan should highlight the external communication activities that need to take place. In approving the communication plan the EU Delegation usually encourages "out-of-the-box" communication solution having the potential to attract the attention of media and citizens and allow passing important messages. This is even more important in the PFM area, which, even if having an impact on every single citizen's life, is traditionally considered as being "of no interest for media and people at large".

All contractors are also expected to show a good communication reflex and the ability to exploit unexpected opportunities to the benefit of the action. Having in mind importance of digital communication in today's era of web technologies and social media, creation of EU-funded projects' communication materials in an internet friendly format is essential. The implementation of the communication activities shall be funded from the amounts allocated to the Action and the separate contracts. It is the responsibility of the contractors and beneficiaries to keep the EU Delegation and the Commission fully informed of the planning and implementation of the specific visibility and communication activities. The beneficiary shall also report on the visibility and communication actions in the relevant reports.

All visibility and communication actions shall focus on results and changes achieved and shall demonstrate how the EU support brings the country closer to the EU standards. The objective is to improve the awareness on the EU funding of the general public and not only of target specific audiences. The communication policy applied must ensure that the added value and impact of the EU's interventions are understood by the citizens and that EU funds are managed and used in an transparent, efficient and effective way for the benefit of the country as a whole.