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PEFA ASSESSMENT OF THE Former Yugoslav Republic of MACEDONIA

REPORT

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Abbreviations and Acronyms

AGA	Autonomous Government Agency
BD	Budget Department, MoF
CA	Customs Administration
CEB	Council of Europe Development Bank
CHU	Central Harmonisation Unit, MoF
CIPFA	Chartered Institute of Public Finance and Accountancy, UK
COFOG	(UN) Classification of Functions of Government
COSO	Committee of Sponsoring Organisations (of Treadway Commission, US 1992)
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investment
FDL	Financial Discipline Law
FS	Fiscal Strategy 2015-17
GDP	Gross Domestic Product
GFS	(IMF) Government Financial Statistics
HF	Health Fund
IA	Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
IPSAS	International Public Sector Accounting Standards
ISSAI	International (Auditing) Standards of Supreme Audit Institutions
LGU	Local Government Unit
MDA	Ministries, Departments and Agencies

M/Econ	Ministry of Economy
MES	Ministry of Education and Science
MoF	Ministry of Finance
MoH	Ministry of Health
MISA	Ministry of Information Systems and Administration
M/Tp	Ministry of Transport
NA	National Assembly
NAO	National Authorising Officer
NERP	National Economic Reform Programme
NGO	Non-Government Organisation
NPAA	National Programme for Application of the (EU) Acquis
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PF	Pension Fund
PFM	Public Financial Management
PFM-PR	Public Financial Management Performance Report
PI	Performance Indicator
PIFC	Public Internal Financial Control
PPB	Public Procurement Bureau
PPC	Public Procurement Council
PPL	Public Procurement Law
PRO	Public Revenue Office
SACPP	State Appeals Commission on Public Procurement
SAO	State Audit Office
SERC	State Enterprise for Road Construction
SIGMA	Support for Improvement in Governance and Administration (OECD)
SNERR	Single National Electronic Registry of Regulation
SOE	State-Owned Enterprise
TIN	Taxpayer Identification Number
TOR	Terms of Reference
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
VFM	Value for Money
WB	World Bank (International Bank for Reconstruction and Development)

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Summary assessment

A. Background

1. The Beneficiary Country is a small land-locked country in South-East Europe with a population of about 2 Million and income per head of about 4,500 Euro a year. Although the economy contracted in 2012, the country weathered the global economic crisis better than most of its neighbours, and grew at 3-4 per cent a year during most of the last 10 years. It became a candidate country for membership of the EU in 2006, but negotiations have yet to start, and convergence with the EU has been limited. It has a business-friendly open economy, with low direct taxes intended to encourage inward investment. Exports by foreign-owned manufacturers based in special economic zones have been an important source of growth, but the economy remains significantly dependent on remittances from its citizens working in other countries which amount to about 15 per cent of GDP .The current (August 2015) coalition government made up of the largest Macedonian and Albanian parties has been in office since 2006. The Opposition had not participated fully in the National Assembly since 2012, and rejected the results of the 2014 election. A political agreement brokered by the EU was reached in July 2015 providing for the Opposition to return to the National Assembly in September 2015; a technocratic Prime Minister is to take office at the beginning of 2016 to prepare the ground for new elections in April 2016. Rebuilding public confidence in the political process will be of profound importance in determining the future growth of the economy.

2. This report has been prepared on the basis of the criteria for Public Expenditure and Financial Accountability (PEFA) assessments issued by the consortium of development partners in 2011. Since new criteria are scheduled to be formally adopted in the near future, the report also includes in an Annex the application of the intended new criteria, which in some areas introduce new and more challenging Performance Indicators.

B. Performance indicators

Credibility of the Budget

3. Consolidated central government revenue accounts for about 30 per cent of GDP, with expenditure amounting to 32-33 per cent of GDP. In each of the three years 2012-14 revenue fell short of budget, resulting in a need to hold back expenditure; the largest shortfall of about 12 per cent occurred in the recession year 2012. The revenue shortfall exceeded that for expenditure in each of the three years, resulting in a lower rating for aggregate revenue relative to budget (PI-3) than for expenditure (PI-1). The divergences were greater in 2014 than in 2013, reflecting particularly shortfalls in non-tax revenues and in capital expenditure.

4. No consolidated data have been published about central government financial liabilities and the extent to which payments are in arrears. The Treasury system within the Ministry of Finance (MoF) captures invoices only at the time they are presented by budget users for payment, rather than at the time they are received by the budget users concerned. As a result there are no reliable data

about the age of liabilities or the extent of arrears. However, there are significant acknowledged arrears in the health system, in addition to any amounts owed by budget users who have not presented invoices for payment because they know that they do not have funds available. Questions have also been raised about the timeliness of VAT refunds owed to exporters or suppliers of goods which are charged at the lower rate. The 2013 Financial Discipline Law which already applies in the private sector will require all invoices received by government to be paid within 60 days as from January 2016.

5. The overall impression is of a budget and Treasury system which can deliver and execute a budget reasonably close to that originally intended, but which in important respects lacks transparency. The absence of full information, for example about outstanding liabilities, and about the costs and performance of public investments, is a factor in eroding public confidence in the integrity of the system.

Comprehensiveness and transparency

6. Revenue and expenditure are presented in budget proposals and execution statements on the basis of consistent economic, administrative, functional and sub-functional classifications in accordance with GFS 1986 and the UN Classification of the Functions of Government (COFOG); programme classifications are still at a developmental stage. Fairly comprehensive information is provided to the National Assembly alongside the budget proposals, but convenient summaries according to different classifications are missing, and information is not consistently provided about the impact of new policy decisions on revenue and expenditure. The absence of effective questioning of Government decisions in the National Assembly in recent years has meant that there has been no pressure on Government to improve its presentation. The new 2015 criteria ask whether information is provided about fiscal risks and contingent liabilities, the medium-term fiscal framework, and the amount of revenue foregone through tax exemptions, none of which are covered. The consolidation of the revenue and expenditure of the three social insurance Funds into the budget represents a major step forward: the only revenue and expenditure by government bodies not reported with the budget is that of the nine Regulatory Agencies largely financed from their own income streams, and of the Public Enterprise for State Roads whose activities were part of the budget before 2013 and which are financed through road tolls, a share of excise duties on road fuel, and borrowing guaranteed by the Government.

7. About 60 per cent of the revenue of the 81 local government units (LGUs) takes the form of allocations from central government, almost all of which are determined by rules-based formulae and objective criteria. Since all LGU revenue and expenditure passes through the national Treasury system, information is readily available within MoF about local government expenditure on a functional classification. There is regular publication of general government expenditure on a functional classification in a very summary form.

8. The 14 Public Enterprises owned by central government make quarterly reports on their financial position to MoF, and can only undertake external borrowing on favourable terms if they have a government guarantee. However, no consolidated reports have been prepared which assess the fiscal risks their operations represent to the government. The 9 Regulatory Agencies also report regularly to MoF, but their total expenditure amounts to less than one per cent of consolidated

government expenditure. LGUs are normally expected to present balanced budgets, although they may borrow with MoF permission. Total LGU borrowing at 31 March 2015 was only 0.5 per cent of total general government debt, but there is anecdotal evidence of considerable payment arrears owed by some LGUs, mainly in respect of infrastructure improvements, which have not been the subject of any consolidated reports.

9. Formally there is ready public access to all the fiscal information required by the 2011 PEFA criteria, except that concerning the resources provided to individual schools and health care institutions, although there are deficiencies in the coverage of financial statements, in-year budget execution reports, and audit reports. The 2015 criteria look in addition for public access to a pre-budget statement, a comprehensive medium-term fiscal framework, and a convenient budget summary, none of which are actually available.

Policy-based budgeting

10. Budget preparation is an orderly process, and budgets have regularly been approved by the National Assembly before the beginning of the new financial year, although this process has lost much of its value because of the non-participation of the Opposition. But the Government's fiscal strategy has not always been approved before the issue of the Budget Circular calling for submissions from budget users, and the ceilings within which budget users have been required by MoF to work have not previously been agreed by the Government collectively. 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 in which the plans of budget users are fitted within the overall envelope of available resources set out in the fiscal strategy.

11. Debt sustainability analysis has been undertaken annually in the context of consultations with the International Monetary Fund (IMF). General government debt has increased over the period 2012-14, from 27.7 per cent of GDP at the end of 2011 to 38.2 per cent at the end of 2014. Including the government-guaranteed debt of public enterprises, total public debt increased during this period from 32.0 per cent of GDP to 46.0 per cent. Constitutional amendments which would set an upper limit for public debt of 60 per cent of GDP, and an annual limit of 3 per cent of GDP for the fiscal deficit, have been proposed but not yet enacted.

12. Development strategies have been prepared by some Ministries in the context of the introduction of programme budgeting, but these have not been agreed with MoF, while the planning of public investments does not consistently take into account the full current expenditure implications over the lifetime of the investments. A very large programme to transform the City of Skopje has been undertaken, but no information is available about its costs and benefits or its financing. The insistence on accepting the lowest bid, rather than the most economically advantageous tender, for almost all public procurement contracts, adds to the difficulty of longer term planning.

Predictability and control in budget execution

13. The tax system is relatively straightforward, and tax rates, apart from social contributions, are low. The World Bank Doing Business Survey shows the country to be the best performer in the region in terms of the burden of tax compliance. But there have been frequent changes in tax law without the proposals being exposed to public consultation before enactment, while responses to requests for definitive interpretations of the law are not automatically published. An administrative appeals machinery apparently functioned satisfactorily, although it was not independent of government, but this was abolished in mid-2015. Appeals can only be made now to the Administrative Court, which has little specialised tax expertise.

14. The IT systems applicable to each main tax are over 10 years old, and there are no automatic links between them. Upgrading these systems is a current priority. New arrangements have recently been put in place to identify and punish failure to register for taxation. The Public Revenue Office which accounts for most tax receipts operates comprehensive programmes of tax audit; in the case of VAT, businesses are automatically selected for audit on the basis of risk factors. Comparable arrangements for company taxation are being developed. Although the tax authorities have strong powers to enforce collection, there are substantial arrears amounting in total to some 30 per cent of annual collections; some progress has been made in recent years in reducing the total amount outstanding. All revenue is paid immediately into Treasury accounts, and the amounts for each tax are reconciled on a daily basis. But there are no overall reconciliations of the positions of each taxpayer in respect of all taxes.

15. A cash flow plan is prepared at the beginning of each year on the basis of submissions by budget users, and is updated monthly. All cash holdings of general government, including LGUs, are held in Treasury accounts at the Central Bank of the Republic of Macedonia. Spending allocations are issued for a period of three months ahead. Public debt, domestic and external, including borrowing by LGUs and guaranteed borrowing by public enterprises, is centrally managed by MoF, with the breakdown published quarterly. As noted in paragraph 11 above, total debt increased from 27.7 percent of GDP to 38.2 per cent during the period 2012-14, and net new borrowing exceeded expenditure on investment in 2013 and 2014. Steps are being taken to lengthen the average maturity of the debt in order to reduce the risks involved.

16. Until this year (2015) there were numerous different laws applicable to different groups of public service employees. These have been rationalized by the 2014 Laws on Administrative Servants (LAS) and on Public Sector Employees (LPSE), which have entered into force recently. Salaries and allowances are all paid directly from Treasury accounts; budget users have to provide detailed information about the reasons for any changes in payments to individuals, which are checked by the Treasury system. New structures of allowances and incentive payments, and an effective system of performance appraisal, are not yet in operation, while the consolidated Human Resources Management Information System will not be operational until next year (2016). Financial and compliance audits of individual budget users by the State Audit Office (SAO) include substantive tests of the justification of payments to representative samples of individuals, given the applicable legislation in each case, but such audits have covered less than half of the expenditure of all budget users during the period 2012-14. There have been no audits directed specifically at the functioning of the pay system across the public service.

17. Recent changes in the Public Procurement Law have moved it away from the EU acquis in important respects. All bidding opportunities and contract awards are published on the website of the Public Procurement Bureau (PPB) within MoF, and a very high proportion of contracts are let by some form of open competition. However, the form of tender documents, and any deviations from open competition and from mandatory award to the lowest bidder rather than the most economically advantageous tender, have since 2014 been subject to the approval of the recently established Public Procurement Council (PPC), whose operations are not transparent, and decisions unpredictable. No data are available about the extent of variations in contracts once they have been let. There are indications of deteriorating public confidence in the integrity of the public procurement process, resulting in a reduction in the average number of bids for each contract. There is an effectively functioning independent appeals process open to disappointed bidders, of which extensive use is made. Public Private Partnerships (PPP) and the letting of concessions are covered by separate legislation under the responsibility of the Ministry of Economy. Few resources are available for the supervision of these activities, and the PPP Council and Registry of Concessions foreseen by the legislation have not been established.

18. Substantial efforts have been made since 2009 to institute effective Public Internal Financial Control (PIFC) arrangements on the EU model throughout the government. Commitments now have to be registered with the Treasury when contracts are placed, and will be rejected if they are not consistent with available budget provision. But it is not clear that these requirements are fully respected. Other aspects of financial management and control have been reorganized in all main budget user institutions in accordance with the PIFC Law, although these are not yet fully operational throughout the government, and coverage remains limited at local level. 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. They also carry the implication of continuing political involvement in determining who receives government funds.

19. Internal audit is now operational in all main budget user institutions in accordance with the PIFC Law, and works to international standards, although it needs to focus more on the improvement of systems rather than simply on providing assurance. However, available staffing resources are limited, and not all managers yet respond appropriately to recommendations. The work is coordinated by the Central Harmonisation Unit (CHU) in MoF; copies of reports are given to CHU and the State Audit Office (SAO).

Accounting, recording and reporting

20. There are daily reconciliations between treasury and Central Bank records of revenue and expenditure, and advances and revenue suspense accounts are cleared at least monthly. Treasury and Health Insurance Fund records enable the receipts and payments of individual schools and public health care institutions to be identified, but these do not cover equipment or materials allocated to institutions whose costs are met centrally. Each institution is required to prepare an annual account of its operations, in which such allocations are reflected, for submission to the Government's Central Registry. But these accounts are only accessible on payment of a fee for each of them; they are neither consolidated nor published. In-year budget execution reports can readily

be generated from Treasury data, but the reports actually produced are at an aggregate level by economic classification only, without detail by function or administrative unit. Although each budget user institution is required to send its annual financial statements, including financial assets and liabilities to the country's Central Registry, the government is required by the Law on Accountancy of the Budget (Article 26) to provide only statements of revenue and expenditure. The government's annual statements cover the central government, the three social insurance Funds, and all 81 LGUs, but they include no balance sheet information. They are published on the National Assembly website (sobranie.mk) together with the SAO audit report on the core budget (i.e. excluding the social insurance Funds and expenditure financed from own resources or external sources).

External scrutiny and audit

21. The State Audit Office (SAO) is independent of government under the State Audit Law; its expenditure is authorized by the National Assembly separately from the rest of the budget, but its independence is not yet anchored in the country's constitution. Most of its work consists of financial and compliance audit of individual budget users, but performance audit has been developed since 2005. It works to the standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI). It does not have sufficient resources to carry out a full audit every year of every budget user and every LGU; it therefore concentrates each year on particular areas of expenditure as defined in its own work programme. The only wider financial audit undertaken each year is a review of the execution of the central government core budget (which excludes the social insurance Funds and expenditure financed from own revenues and external grants); this includes some testing of revenue receipts but expenditure is examined only at the Treasury with no detailed verification at the level of the budget users. An audit report is produced each year about each of the three social insurance Funds, but this is not always directed at their revenue and expenditure accounts. The consolidated annual report and the report on core budget execution are produced in June each year, within 4 months of the receipt of the revenue and expenditure statements. All reports are formally submitted to the National Assembly, and also published on the website. SAO undertakes follow-up of its recommendations, which are implemented by a majority of auditees.

22. The National Assembly's (NA) procedures for considering the annual budget proposals are well-established, and leave sufficient time for detailed consideration. But since the Opposition have not participated fully in its work during 2012-14, there has been little substance to the Assembly's questioning of the budget or other proposals. NA considers the SAO consolidated annual report every year, and sends its resulting Resolution to the Government. But little attention is paid to any of the other reports, and no detailed hearings have been held in recent years with representatives of budget institutions subject to audit criticism.

Donor Practices

23. External grants on average covered only about 2.5 per cent of government expenditure in 2012-14. Direct Budget Support (DBS) loans equivalent to 3 per cent, 10 per cent and 1.5 per cent of expenditure were received in the three years; the promised amounts of DBS were received in full External project funding is fully reflected in the budget, with project execution under the control of the authorities rather than the donors. Since the majority of external assistance passing through the

Treasury took the form of DBS, which by definition uses national procedures for procurement payment/accounting, reporting and audit, while projects use donor procedures for procurement and audit, the average percentage use of national procedures in expenditure financed from external sources was just under 80 per cent.

C. Assessment of the current strengths and weaknesses and their impact on PFM

(a) Aggregate fiscal discipline

24. The country operates orderly budgeting and payment arrangements, which are essential supports to fiscal discipline. During the period 2012-14 aggregate revenue consistently fell short of budget, resulting in a need to contain expenditure, and in somewhat higher fiscal deficits than originally budgeted, although the deterioration each year was less than one per cent of GDP. The requirement for all contract commitments to be registered with the Treasury at the time they are undertaken (with amounts beyond the first year also being notified) should help in countering any growth in payment arrears. Meanwhile there remain arrears owed by healthcare institutions, and apparently also by LGUs.

(b) Strategic allocation of resources

25. The absence of articulated medium-term planning consistent with available resources, and of targets and performance indicators for the development over time of different services, imply that opportunities are not being taken to ensure that resources are used to best advantage. There is also scope for more systematic planning of public investment to ensure the sustainable development of services, and further consideration could be given to the more pro-active management of public sector assets so as to generate additional resources.

(c) Efficient service delivery

26. The emphasis in reporting by the Government is on compliance with legal requirements, rather than on demonstrating the efficient delivery of services. There are significant gaps in the Government's financial reporting, which are authorized by current legislation, and information is not available about the costs and benefits of major public investments. SAO's annual financial audit of consolidated government revenue and expenditure is restricted to the core budget. The new laws on employment conditions in government services, and the establishment in 2016 of the new Human Resources Management Information System should in time contribute to a more efficient use of manpower, and thus more efficient service delivery. The changes introduced into public procurement have complicated the process without demonstrably improving service delivery.

D. Prospects for PFM reform planning and implementation

27. The Government's Public Administration Reform (PAR) programme comes to an end in December 2015, although much will remain to be done to ensure that the improvements in human resource management and in arrangements for public consultation on legislative changes are effectively implemented. There has hitherto been no overall PFM Reform programme within which initiatives to install effective PIFC arrangements throughout government, and to institute articulated medium-term fiscal planning combined with programme budgeting, could be fitted. Considerable *further work remains to be done before these initiatives can be regarded as complete. The needs are also recognised to replace the present Budget and Treasury IT systems with an integrated Financial Management Information System, and to develop a new integrated system to replace the existing IT systems covering each main tax. Establishing a PFM Reform programme including all these elements, with the necessary actions set out in a detailed timetable, will represent a considerable challenge. To be fully effective the programme will need to be implemented in a stable political climate, in which public confidence in the integrity and transparency of the work of government can be rebuilt.

28. The Annex to the report provides an assessment based on the new 2015 Framework currently in process of introduction.

Summary of Total Indicator and Dimension scores

	A	B	C	D	NA	Total
Indicators (2011)	8	7	8	8		31
Dimensions (2011)	30	16	15	13	2	76 inc. 2NA
Indicators (2015)	5	5	9	11		30
Dimensions (2015)	28	19	24	19		90

	A. PFM OUT-TURNS: Credibility of the Budget	
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	A
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	D+
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	B

PI-7	Extent of unreported government operations	C+
PI-8	Transparency of Inter-Governmental Fiscal Relations	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C
PI-10	Public Access to key fiscal information	A
	C. BUDGET CYCLE	
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+
PI-13	Transparency of taxpayer obligations and liabilities	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	B+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	C+
PI-19	Transparency, competition and complaints mechanisms in procurement	B+
PI-20	Effectiveness of internal controls for non-salary expenditures	C+
PI-21	Effectiveness of internal audit	C+
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	D+
PI-25	Quality and timeliness of annual financial statements	D+
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D+
	D. DONOR PRACTICES	
D-1	Predictability of Direct Budget Support	A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	A
D-3	Proportion of aid that is managed by use of national procedures	B

1. Introduction

1.1 Objective of the Public Financial Management Performance Report (PFM-PR)

1. The purpose of this PEFA assessment is to assess the current performance of the Public Financial Management (PFM) system in the Beneficiary Country. This is the first PEFA assessment of the country. The report should serve as a common information base for dialogue between the government and its development partners. It has been sponsored by the European Commission (EC) as part of the analysis undertaken to determine the country's future eligibility for direct EU budget support.

2. The PEFA PFM Performance Measurement Framework (PMF) is one of the elements of the Strengthened Approach to supporting PFM reforms developed by the World Bank (WB), the EC and other development partners. This Approach has three components: (i) a country-led PFM reform strategy and action plan, (ii) a coordinated programme of activities financed by development partners which supports and is aligned with the government's PFM reform strategy, and (iii) a shared information pool. The PEFA PMF constitutes the third component. The main Report is based on the criteria for each Performance Indicator as set out in the Performance Measurement Framework issued by the development partners in 2011. Because that Framework is in process of substantial revision, the annex to the Report analyses the Performance Indicators newly introduced into the Framework in some detail, and also provides ratings for all Indicators and Dimensions in the new Framework, so as to provide a complete baseline against which changes in future performance can be measured.

3. It should be stressed that the PEFA PMF does not seek to assess expenditure policy. The framework rather focuses on assessing the capacity of the elements of the system to facilitate the achievement of desired policy outcomes. Thus the report does not itself put forward specific recommendations for PFM reform or an action plan. In accordance with their terms of reference the assessment team will put forward their recommendations in a separate document. It is hoped in any event that the analysis presented in this report will assist the government to determine its PFM reform priorities and action plan.

1.2 Process of preparing the PFM-PR

4. As soon as the assessment team were appointed, and the date agreed for the start of the work, a schedule of the evidence required to assess each Performance Indicator (PI) was sent to the responsible official in the Ministry of Finance (MoF). Following an initial meeting on 19 June 2015 a launch workshop for most of the main stakeholders (MoF Departments, Public Revenue Office (PRO), Customs Administration (CA), Public Procurement Bureau (PPB), State Audit Office (SAO)) was held in MoF on 22 June, at which the assessment team reviewed the rationale of all the Indicators, including those newly introduced in 2015, and explained what evidence would be needed to rate

each of them. During the period 22-26 June preliminary discussions were held with a number of the main stakeholders, in the course of which the data and other evidence requirements were further clarified. A second field mission was then undertaken from 13 to 24 July, in the course of which the assessment team had discussions with a number of spending Ministries and other budget users, as well as further discussions with the main stakeholders, and also met representatives of development partners and civil society and other organisations which are not part of the Government. A concluding workshop was held in the MoF on 24 July at which the assessment team presented their initial conclusions on the ratings of each Indicator and dimension, and received feed-back from stakeholders. A list of those consulted is attached at Annex 2. The assessment team are very grateful for the open and constructive spirit in which the discussions were conducted, and for the provision of much detailed information which they have sought to reflect in the report.

5. Following the workshop the complete draft report was sent on 4 September 2015 to the principal stakeholders in the country's government. At the same time the draft report was subjected to a quality review performed by the PEFA Secretariat, the EU Delegation in Skopje, and (informally) the IMF. The comments received helped to improve and finalise the text. A further short mission was undertaken from 5 to 8 October to discuss the amendments needed to take account of the points raised by the country's stakeholders and the peer reviewers.

1.3 The methodology for the preparation of the report

6. The assessment was prepared on the basis of the PFM Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005, and takes into account adjustments made to three of the Indicators in 2011. The Framework is an integrated monitoring tool developed to provide reliable information on the performance of PFM systems, processes and institutions. It relies on a set of 28 high-level Performance Indicators (PIs) which measure different aspects of the government's PFM systems, and 3 Indicators which assess the involvement of donors in the government's budgetary processes. The report takes into account the detailed guidance issued by the PEFA Secretariat about the operation of the framework. While the main focus of the report is on Government Ministries, the report also takes into consideration the activities of other bodies responsible for the discharge of particular government functions, some of which have important implications for government finance. For each of the PIs, which are scored on a rating system from A to D, the report provides a brief description of the government's procedures and processes concerned and an explanation for the score by reference to the PEFA criteria for that Indicator. Where Indicators have more than one dimension, the scores for each dimension are combined by one of two methods: for those Indicators where Method M1 applies, the lowest score is taken, with a +sign added where one or more dimensions receive a higher score. Where Method M2 applies, an average score is registered by reference to a scale set out in the PEFA criteria. Before presenting the PI assessments the report gives information about the country's economic situation, recent budgetary outcomes and the legal and administrative structures within which PFM takes place.

7. Because (as noted above) the assessment is being undertaken at a time when the PEFA Framework is in process of substantial revision, the assessment team – in accordance with their terms of reference – have provided ratings for a number of the Performance Indicators newly

introduced. The results, which will help to provide a baseline against which changes in PFM performance can in future be measured, are presented in Annex 4 to the main Report.

1.4 The scope of the assessment as provided by the PFM-PR

8. In conformity with the PEFA guidelines, the assessment of the country's PFM concentrates on the operations of government as set out in successive annual budget proposals and execution statements. The government includes the offices of the President and Prime Minister, the National Assembly, the Judiciary, the State Audit Office, the Ombudsman, 15 Ministries, 3 Social Insurance Funds, and a number of government Commissions and Agencies. The Budget also includes provision for transfers to 81 local government units which also have their own revenue streams.

9. A number of the PEFA Indicators require data for the three most recent financial years as the basis for the assessment. Thus this assessment is based, where relevant, on the experience of the financial years 2012, 2013 and 2014 (ending in each case on 31 December). The structure of the rest of the report is as follows: Chapter 2 provides background information on the economic situation, recent budgetary experience, and the administrative and legal structures within which PFM is operated. Chapter 3 presents the scores for each of the 31 PIs, and the reasons for them. Chapter 4 sets out the prospects for further PFM reform as they appear at August 2015. In addition to Annex 5 which assesses a number of the Indicators by reference to the new criteria in process of introduction (see paragraph 7 above), a series of other Annexes provide more detailed reference information, including lists of the people (Annex 1) and documents (Annex 2) consulted, a summary of the ratings of Indicators and Dimensions based on the 2011 criteria (Annex 3), and the Terms of Reference for the assessment (Annex 5) [not attached to this version].

2. Country background information

2.1 Description of the country economic situation, including economic prospects and risks

1. The Beneficiary Country is a small land-locked country in the Southern Balkans, bordered by Serbia, Bulgaria, Greece, Albania and Kosovo. About 30 per cent of the 2 million population live in the capital Skopje, with the remainder distributed around the country, much of which is mountainous. Agriculture remains important, employing about 20 per cent of the working population, with tobacco an important export good. Exploitation of minerals is an important source of export revenue, but the government has been seeking to diversify the economy and the country's exports by encouraging foreign investment into special zones which are free of corporation tax and VAT for 10 years. Much of these investments have been in the manufacture of components for the automotive industry. More generally the Government seeks to maintain a low tax economy, with 10 per cent personal and corporate income tax rates, and 18 per cent standard and 5 per cent reduced VAT rates. Average income per head of the population is currently about 4,500 Euro; some 26 per cent of the population were assessed in 2012 as living in poverty (defined as having a consumption level below 70 per cent of the median for the country). Although unemployment has fallen substantially – from 31 per cent in 2012 to 26,8 per cent in the second quarter of -2015 – it remains uncomfortably high. An annual deficit on the balance of trade in goods and services of about 18 per cent of GDP is largely financed through private sector remittances which correspond to about 15 per cent of GDP.

2. The country weathered the 2008-9 global recession relatively well, and with the exception of 2012 when real GDP fell by 0.5 per cent, the country's recent growth rate has compared well with other countries in the region. According to preliminary data GDP increased by 3.5 per cent in 2014, with a similar growth rate in prospect for 2015, based on rising exports (particularly from the free zones), on substantial public investment in road and rail infrastructure and in electricity distribution, and on domestic private consumption. The outlook would have been still more favourable had it not been for the adverse impacts of continuing stagnation in the Eurozone and the domestic political situation respectively on the country's export markets and on inflows of foreign direct investment (FDI). The acceleration in public investment has been largely financed through new external borrowing, resulting in an increase in public debt as a percentage of GDP from 27.7 per cent at the end of 2011 to 38.2 per cent at the end of 2014. If the rate of investment and the low tax environment are to be sustained, it seems likely that some fiscal consolidation will be needed in order to ensure the stability of the country's external position, including the maintenance of the current exchange rate peg of about 61MKD to the Euro. Meanwhile the country remains at risk from adverse economic developments elsewhere in Europe resulting in a cut-back of the remittances which have been preventing large deficits in the current account of the balance of payments.

Table 2.1: Selected Macro-Economic Indicators

Year	2010	2011	2012	2013	2014
GDP at market prices (Euro millions)	7,109	7,544	7,585	8,150	8,530
Real growth of GDP (%)	3.4	2.3	-0.5	2.9	3.5
Population (thousands)	2,057	2,060	2,062	2,066	2,073
GDP per capita (Euro)	3,459	3,665	3,680	3,949	4,125
Imports (Euro millions)	4,129	4,987	5,072	5,018	5,554
Exports (Euro millions)	2,729	3,441	3,374	3,530	4,057
Remittances (Euro millions)	1,337	1,417	1,572	1,499	1,499
Current account (Euro millions)	-144	-189	-240	-134	-69
FDI (net) (Euro millions)	157	345	131	229	197
Inflation (CPI, period average)	1.6	3.9	3.3	2.8	-0.3

Source: IMF cr15242, IMF Data

3. The immediate outlook for the development of the economy is for some slowing in real growth, which is projected by the IMF to amount to 3.2 per cent in 2015. Public investment and private consumption will continue to be expansionary factors, while the Greek situation, stagnation in the Eurozone, and the uncertainties created for both domestic and foreign investment by the long-running political impasse, will continue to work in the other direction. Much will depend on the successful implementation of the political agreement completed on 15 July, under which the main Opposition parties took their places in the National Assembly in September 2015, and the ground will be prepared for new elections in April 2016. If a sustained improvement in the political climate can be achieved, the prospects will be improved for rising FDI and exports, falling unemployment, and GDP growth in the region of 4 per cent a year.

2.2 Legal and institutional framework for public financial management

4. The Constitution of 2001 specifies that the Budget is proposed by the Government (Article 91) and is adopted by the National Assembly (Article 68).

5. The (organic) Budget Law which dates from 2005 and has been amended several times, most recently in 2012, regulates preparation, adoption, execution and reporting of the Budget of the central government and of the budgets of the municipalities. Each annual budget adopted by the National Assembly (NA) has to be accompanied by a special annual Law on the Execution of the Budget. Without this law a budget although approved cannot be executed. Public finances of the municipalities are further regulated through the Law on Financing of Local Self-Government Units.

6. Several laws regulate public bodies i.e. public enterprises and regulatory institutions which are in general not included in the state or municipalities' budgets: Law on Public Roads, Law on Railway

System, Law on Forests, Law on Insurance Supervision, Law on Spatial and Urban Planning, Law on Aviation, etc.

7. The consolidated version of the Public Debt Law from 2014 (based on 2005 Public Debt Law and its amendments) stipulates the arrangements for public debt management, the purposes of the public debt, and the procedure of issuance, servicing and termination of guarantees.

8. The main indirect and direct tax legislation includes Law on Value Added Tax, Law on Excise, Profit Tax Law, Law on Personal Income Tax, Law on Property Taxes, and Customs Tariff Law. .

9. The Law on Accounting of budgets and budget users of 2002, most recently amended in 2011, regulates the maintenance of bookkeeping records and defines how budget users are to keep records of revenues and expenditures, as well as assets and liabilities. It also sets out how financial reports are to be made and gives the timeframe for the submission of financial reports.

10. The Law on Public Procurement was adopted in 2007 and has since been amended several times, most recently in 2014. It regulates the manner and procedure for awarding public contracts, and the role and competences of the Public Procurement Bureau, the recently established Public Procurement Council, and the State Appeals Commission. The 2012 Law on Concessions and Public Private Partnerships regulates these matters, which are the responsibility of the Ministry of Economy, although appeals can be made to the State Appeals Commission on Public Procurement.

11 The Law on Public Internal Financial Control (PIFC) adopted in 2009 and most recently amended in 2013 establishes the financial management and control and internal audit functions, and also specifies the organisation, standards, methodology, relations and responsibilities for PIFC.

12. The first State Audit Law adopted in 1997 was replaced with a new one in 2010. The audit of public finances is performed by State Audit Office (SAO), the country's independent Supreme Audit Institution. The law provides for the scope of state audit, and regulates the conditions and manner of conducting state audit of public revenues and expenditures, financial statements and financial transactions. Although SAO's budget is separately voted by the National Assembly, the staff are still subject to MoF control over staff numbers and pay rates.

13. In addition to the above legislation the country adopted in 2013 the Law on Financial Discipline which regulates the payment of liabilities for both private and public sectors. According to the law invoices should be settled within the 60 days. For the private sector the law entered into force in May 2014; for the public sector the operative date was 1 January 2015, except for the health sector and local government where the date is 1 January 2016[1]. There are plans to amend the constitution

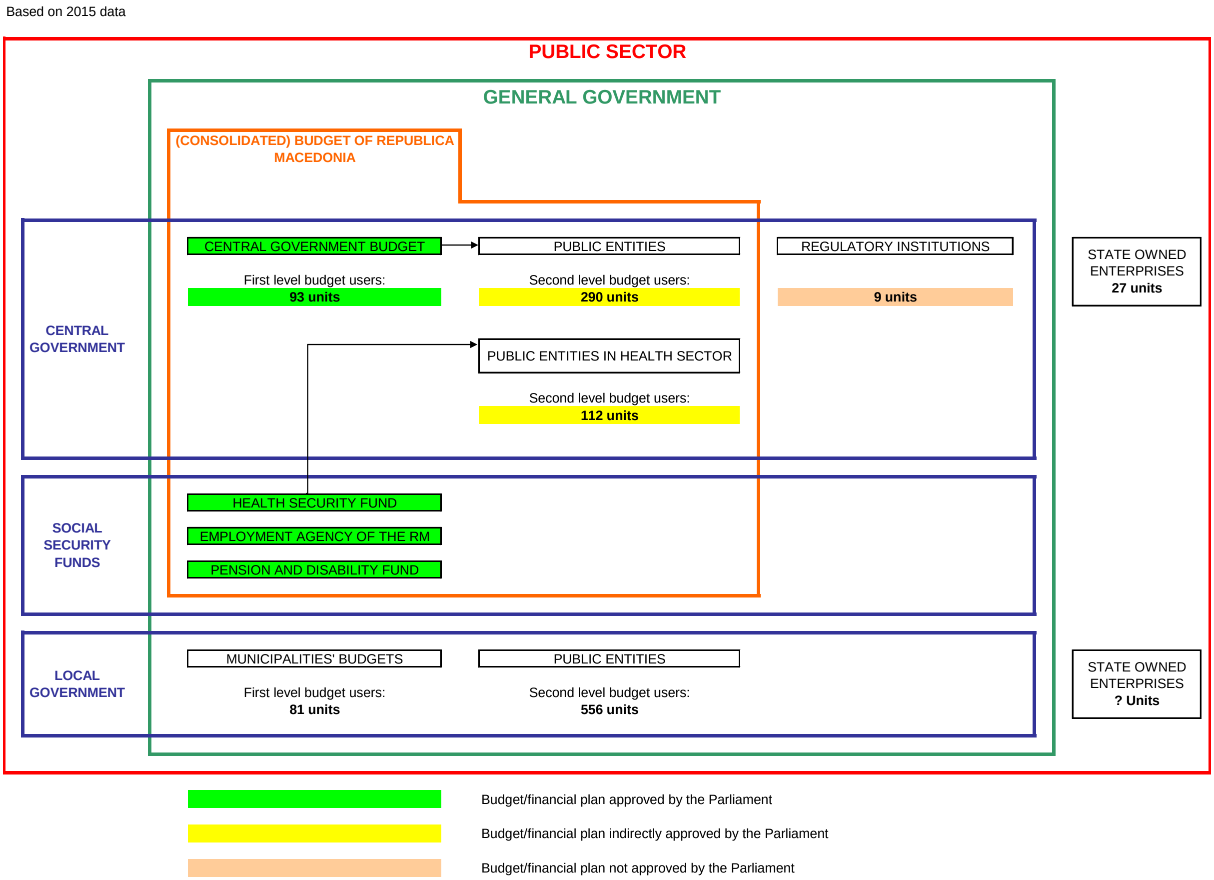
[1] *According to the Law of Financial Discipline, in the cases where public sector entities are debtors, the terms of payment should not be be longer than 60 days, except for the health institutions, public enterprises, enterprises owned by the state or in which the state is a shareholder, and for the local-self governments, for which the prescribed term of payment of 60 days will enter into force from 1st January 2016; for the period from 1st of May 2014 to the end of 2014 the terms of payment should not be longer than 120 days, and for the year 2015 not longer than 90 days.*

in order to introduce fiscal rules, namely the budget deficit shall not exceed 3 % of GDP and public debt must not exceed 60 % of GDP.

Institutional framework

14. The budget (annual budget law) is prepared by the government and approved by the NA. The NA approves the Consolidated Budget which consists of Central Government Budget and budgets (financial plans) of social insurance funds (Health Insurance Fund, Employment Agency, Pension and Disability Fund). The structure of the budget is largely defined by the (organic) Budget Law. Appropriations are approved according to source of funds, economic, function, sub-function and administrative classifications. (Programme classifications are currently being developed.) Central government budget beneficiaries or budget users (administrative classification) are divided into two groups, namely (i) first level budget users whose financial plans are individually presented in the budget itself, and (ii) second level budget users which are subordinated to the first level budget users, with their financial plans approved by the NA indirectly through the financial plans of the first level budget users.

Figure 1: Coverage of Budget of Republic of Macedonia



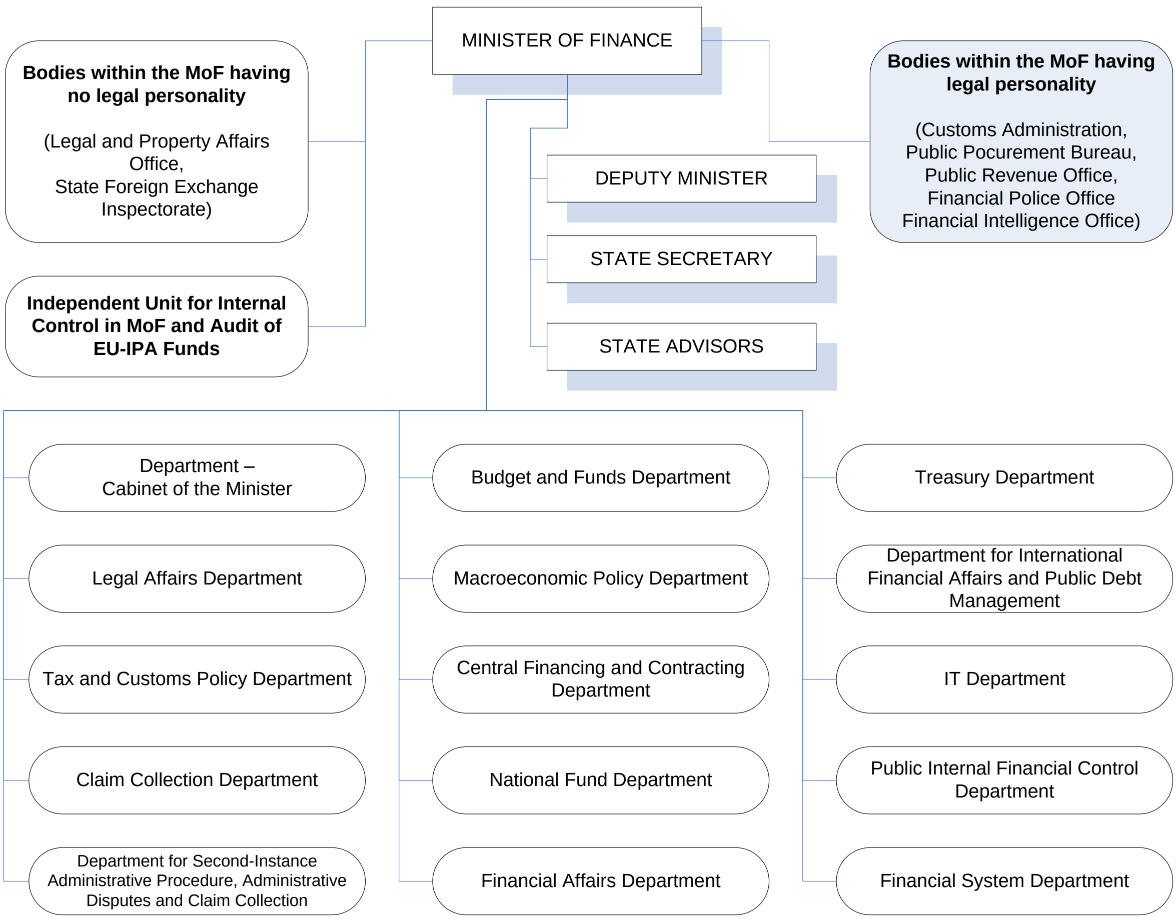
15. The Ministry of Finance has the leading role in preparing and executing the budget, debt management and fiscal reporting, which greatly relies upon the well- functioning Single Treasury Account system.

16. Execution of the Consolidated Budget functions mainly through two Single Treasury Account systems, the main system dedicated to the central government level (386 beneficiaries) and local government level (637 beneficiaries) and the other dedicated to the Health Insurance Fund (113 beneficiaries).

17. In accordance with the State Audit Law, SAO is responsible for auditing 1490 entities – first and second level budget users, local government units and their subsidiary bodies, public enterprises and regulatory agencies (as situation in 2015). The list is updated annually.

18. The Judiciary is not directly involved in PFM issues. The NA appoints judges to the Constitutional Court. The judicial system is comprised of three tiers: municipal ("basic") courts, district (territorial appeal) courts, and the Supreme Court. Municipal courts hear civil, commercial and criminal cases in the first instance. District courts mostly deal with appeals, whereas the highest judicial court is the Supreme Court. The Constitutional Court handles issues of constitutional interpretation, including protection of individual rights.[2] In September 2015 amendments to the tax and customs regulations were adopted which abolished the Second Instance appeal procedure to the Ministry of Finance. According to new regulations any appeal against decisions of the Public Revenue Office and Customs Administration will have to be made directly to the Administrative Court.

Figure 2: Structure of the Ministry of Finance



[2] Commercial Laws of FYR Macedonia; June 2013; An Assessment by the EBRD

Key Features of the PFM System

19. In the period of 2004 to 2011 the country implemented fiscal decentralization whereby all 81 municipalities (except Plasnica Municipality) administer and finance their transferred competences in the fields of education, culture, child care and social protection. The Ministry of Finance manages the Treasury Single Account which receives all revenues and from which all payments are made on behalf of budget users at central and local levels. Budget users do not have transaction accounts in the commercial banks. The Health Insurance Fund runs a subsidiary single account for health institutions. Responsibility for authorising payments is with heads of the individual budget users and should normally be delegated to the designated Financial Management and Control Officers. Wages are paid centrally in response to payroll requests from budgetary entities. All payments are made by bank transfer, not using cash or checks. Internal audit is evolving as service to the management of budgetary entities. Most of in-year and annual reporting is made through the Treasury computerised system developed in 2001, which has exact information on the availability of funds for budget users but does not have comprehensive centralized information on financial liabilities, since the date of receipt of invoice by budget entity is not recorded .In 2014 an additional system was introduced to capture information about commitments as they are undertaken by budget users.

The Structure of the Public Sector

20. The public sector is dominated by the central government (including the Pension, Health Insurance and Employment Funds which are now integrated into the consolidated budget). Central government revenue and expenditure corresponds to about a third of GDP, while the expenditure of the 81 Local Government Units (LGUs) amounts to only about 15 per cent of the central government total. More than 60 per cent of LGU expenditure is financed from central government grants. As well as the social insurance Funds there are 93 Ministries and other bodies financed directly from the budget, and 290 second level budget users which receive funds from the first level institutions. The Health Insurance Fund controls 113 Public Health Care Institutions. There are 556 second level budget users financed through the 81 LGUs. Nine Regulatory Bodies are financed outside the budget through their own revenues; their total annual expenditure is less than one per cent of consolidated central government expenditure. The central government owns 14 Public Enterprises, mainly concerned with the provision and distribution of electricity and water; these also include a body which maintains main roads, while since 2013 the construction of roads (previously directly borne by the budget) has been the responsibility of the Public Enterprise for State Roads (PESR) which is financed from shares of excise duty on road fuel and vehicle registration fees, road tolls, and external borrowing guaranteed by the government. The situation is summarised in Table 2.2 below.

Table 2.2: Structure of the Public Sector

MKD millions

	2012	2013	2014
Central government consolidated revenue	137,847	140,545	146,064
LGUs' own revenues	11,282	10,095	9,904
Grants to LGUs (external and non-govt.)	237	323	361
General Government consolidated revenues	149,366	150,963	156,329
Central Government consolidated expenditure	155,940	159,502	168,057
of which Social Transfers	69,676	74,250	78,367
less Central Government grants to LGUs	17,133	16,581	17,325
plus Total LGU expenditure	29,145	27,836	27,732
less LGU debt repayments	32	59	153
Consolidated General Government expenditure	167,920	170,698	178,311
Total expenditure of Regulatory Agencies	1,279	1,525	1,228
GDP (MKD billion)	467	500	526

Sources MoF and IMF cr15242

21. The functional allocation of General Government expenditure is shown in Table 2.3 below (taken from the 2013 Pre-Accession Economic Programme and the January 2015 National Economic Reform Programme documents).

Table 2.3: General government expenditure by function

Percentage of GDP (Percentage of total expenditure)	2012	2013	2014
General Public Services	3.1 (8.3)	3.8 (11.1)	4.4 (12.4)
Defence	1.3 (3.5)	1.1 (3.2)	1.1 (3.1)
Public Order and Safety	2.7 (7.2)	2.4 (7.0)	2.5 (7.1)
Economic Affairs	7.2 (19.2)	3.1 (9.1)	3.6 (10.2)
Environmental Protection	0.1 (0.3)	0.1 (0.3)	0.2 (0.6)
Housing and Community Amenities	1.0 (2.7)	2.2 (6.4)	2.1 (5.9)
Health	5.4 (14.4)	5.1 (14.9)	5.0 (14.1)
Recreation, Culture and Religion	0.7 (1.9)	0.8 (2.3)	0.8 (2.3)
Education	4.6 (12.3)	4.1 (12.0)	4.2 (11.9)
Social Protection	11.4 (30.5)	11.3 (33.0)	11.4 (32.2)
Total	**37.4 (100.0)**	**34.2 (100.0)**	**35.4 (100.0)**

22. These figures show clearly that social protection absorbs by far the largest proportion of government expenditure. Expenditure on health is the second largest category; RM spends a higher

proportion of GDP on the public provision of health services than many other transition countries. Rising public investment in transport and power is shown in the line for economic affairs. There are apparently some coverage differences between the 2012 figures and those for the subsequent years.

2.3 Description of budgetary outcomes

Fiscal Performance

23. Government revenues are equivalent to about a third of GDP. Over 85 per cent is raised through taxes and social contributions; the largest amounts come from Value Added Tax (VAT) and social contributions, which are each responsible for about a third of the total. Personal and corporate income taxes taken together, and excise duties each account for about an eighth of the total. The relatively well-developed social insurance system requires total contributions of 27 per cent of gross earnings; VAT is charged at 18 per cent, with a reduced rate of 5 per cent on food and other essentials. Personal and corporate income taxes are charged at a flat rate of 10 per cent; following the 2008 financial crisis corporate income tax was only payable when dividends were distributed, but this concession was withdrawn in 2014, although relief is still given for reinvested profits. Foreign investors in specially designated free zones receive exemption for 10 years from corporate income tax and VAT, while their employees are exempted from income tax. The evolution of revenues 2012-14 is shown in Table 2.4 below.

Table 2.4: Central Government revenues 2012-14

MKD millions

Revenue	**2012**	**2013**	**2014**
Personal Income Tax	9,616	10,309	12,376
Profit Tax	3,790	4,578	5,284
VAT	38,542	39,898	43,943
Excise taxes	16,595	16,093	17,685
Customs duties	4,067	4,255	4,222
Social contributions	40,922	42,437	44,193
License fees	6,149	3,422	1,614
Charges for services	5,718	5,519	5,854
Dividends	2,740	2,469	1,266
Other domestic revenues	4,559	5,887	3,957
External grants	2,834	3,575	3,658
Total current revenue	***135,530***	***138,442***	***144,053***
Capital receipts	2,509	1,753	1,825
Total revenue	***138,040***	***140,195***	***145,878***

Source: MoF Summary of revenue and expenditure

24. Consolidated central government expenditure during the period 2012-14 exceeded total revenues by about 20 billion MKD each year, resulting in budget deficits of about 4 per cent of GDP in each year. The economic breakdown of expenditure is shown in Table 2.5 and Table 2.6 below.

Table 2.5: Expenditure by economic classification 2012 to 2014

MKD millions

Expenditure	**2012**	**2013**	**2014**
Wages and allowances	22,713	22,563	23,095
Goods and services	33,465	34,011	35,232
Interest payments	4,216	4,606	5,090
Subsidies and Transfers	10,409	10,918	12,377
Social benefits	50,821	55,067	58,489
Other expenses	15,345	15,631	15,987
Total operating expenditure	**136,969**	**142,795**	**150,271**
Capital expenditures	18,868	16,613	17,624
Total expenditure	**155,837**	**159,407**	**167,895**

Source: MoF Summary of expenditure, and table of LGU receipts

Table 2.6: Expenditure by economic classification as percentage of total expenditure

Expenditure	***2012***	***2013***	***2014***
Wages and allowances	14.6%	14.2%	13.8%
Goods and services	21.5%	21.3%	21.0%
Interest payments	2.7%	2.9%	3.0%
Subsidies and Transfers	6.7%	6.8%	7.4%
Social benefits	32.6%	34.5%	34.8%
Other expenses	9.8%	9.8%	9.5%
Total operating expenditure	**87.9%**	**89.6%**	**89.5%**
Capital expenditures	12.1%	10.4%	10.5%
Total expenditure	**100%**	**100%**	**100%**

Source: MoF Summary of revenue

25. During the period 2012-14 the fiscal deficit as reported increased a little from 3.8 per cent of GDP in 2012 to 4.2 per cent in 2014. This may understate the underlying situation, since road construction investment was financed on-budget in 2012, but in the subsequent two years was transferred to the Public Enterprise for State Roads, whose activities are outside the budget. This had little impact in 2013, but the acceleration in roads investment in 2014 will have added about one per cent of GDP to total public debt. Capital investment marginally exceeded net new borrowing by the Government in 2012, but in 2013 and 2014 a small part of new borrowing was used to meet

current expenditure. Although it can be argued that the underlying fiscal deficit arising from Government decisions may have been understated, the impact on public debt has been made clear in Government Debt statistics, since total public debt is defined as including borrowing by public enterprises when guaranteed by the Government. The fiscal deficit and movements in government and total public debt are summarised in Table 2.7 below.

Table 2.7: Fiscal Balance and Debt 2012 to 2014

MKD millions

	2012	**2013**	**2014**
Total revenue	138,040	140,195	145,878
Total current expenditure	136,969	142,795	150,271
Total current and capital expenditure	155,837	159,407	167,895
Fiscal balance (Deficit -)	**-17,798**	**-19,212**	**-22,017**
Fiscal balance as % of GDP	-3.8%	-3.9%	-4.2%
Outstanding General Government debt (year-end)	157,102	170,455	200,644
Public Enterprises guaranteed debt (year-end)	21,789	31,353	40,522
Total Public Debt (year-end)	178,891	201,808	241,166
Total Public Debt as % of GDP	38.6%	43.2%	46.3%

Source: MoF *Summary of revenue and expenditure*

3. Assessment of the PFM systems, processes and institutions

The purpose of the PEFA-based PFM assessment is to evaluate public financial management, focusing on the functional performance of the government through a set of 28 high-level performance indicators. In addition there are three performance indicators assessing how development partners activities are integrated into the budget process. In this case the analysis covers all activities of government Ministries and their subsidiary departments, and other agencies directly financed from the Budget (MDAs). The government includes the President, the National Assembly, the Prime Minister and 15 Ministers, the Judiciary, the State Audit Office, and the Ombudsman. A number of the PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available, and the two immediately preceding years. Thus where relevant the assessment is based on the experience of the fiscal years 2012, 2013 and 2014 (the fiscal year runs from 1 January to 31 December).

3.1 Budget credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budget expenditures to be similar to initially approved budgets, and requires appropriate fiscal discipline to be in place. In aggregate, actual primary expenditure (total expenditure less interest payments and externally-financed investments) deviated from budgeted amounts by 8.6 per cent in 2012, 4.2 per cent in 2013 and 5.5 per cent in 2013-14. Because the difference exceeded 5 per cent in two of the three years, rating is B. The 2012 to 2014 figures are shown in table 3.1.

Table 3.1: Originally budgeted and actual expenditure 2011-12 to 2013-14 MKD millions

	2012		2013		2014	
	Budget	**Out-turn**	**Budget**	**Out-turn**	**Budget**	**Out-turn**
Total expenditure	169,299.1	155,940.8	165,650.6	159,501.6	176,512.9	168,056.9
Percentage difference		-7.9%		-3.7%		-4.8%
less Externally-financed project expenditure	5,159.2	4,960.8	5,261.1	5,111.5	6,877.0	6,840.2
less Debt interest	3,584.6	4,215.7	4,114.3	4,605.6	4,402.7	5,090.4
Adjusted total expenditure	160,555.2	146,764.3	156,275.2	149,784.5	165,233.2	156,126.4
Percentage difference		**-8.6%**		**-4.2%**		**-5.5%**

Source: MoF

Indicator PI-1 (M1)	2015 score	Justification for 2015 score
Aggregate expenditure out-turn compared to original approved budget	B	Actual expenditure deviated from original budget by more than 5% in two of the last three years.

PI-2 Composition of expenditure out-turn compared to original approved budget

(i) Extent of variance in expenditure composition during the last three years

This dimension measures the relative changes in expenditure on different functions, after taking into account the overall change between budget and out-turn. The variance is calculated by adjusting the provision (net of external project financing, contingency provision and interest payments) for each function in the original budget by the overall percentage difference between budget and out-turn as established for PI-1. These adjusted amounts are then compared with actual expenditure on the function in question. The variance is then calculated as the sum of the absolute differences (positive or negative) between the actual and adjusted amounts for each function. The calculations subtract debt interest from the amounts for General Public Services, and externally-financed investment is deducted from each functional line. The relative share of expenditure absorbed by social protection increased substantially in all three years, while for most other functions apart from health the relative share declined. The total variances for the three years 2012-14 were 7.6 per cent, 4.4 per cent and 4.9 per cent respectively. Table 3.2 shows the details.

Table 3.2: Composition of Budget Execution by Function 2012 to 2014

	2012				2013				2014			
Administrative or functional head	**Budget**	**Actual**	**Adj. Budg.**	**Abs. Diff.**	**Budget**	**Actual**	**Adj. Budg.**	**Abs. Diff.**	**Budget**	**Actual**	**Adj. Budg.**	**Abs. Diff.**
Defense (702)	6,208	5,484	5,678	194	5,826	5,530	5,585	55	5,984	5,491	5,652	161
Economic affairs (704)	22,405	17,100	20,492	3,392	15,193	12,669	14,564	1,895	16,118	14,204	15,223	1,019
Education (709)	21,716	20,274	19,861	412	21,292	20,278	20,410	132	21,717	20,077	20,511	434
Environmental protection (705)	1,016	702	929	227	866	695	830	135	1,028	846	971	126
General public services (701)	12,365	10,230	11,309	1,079	12,928	12,154	12,393	239	14,686	12,864	13,870	1,006
Health (707)	26,039	24,317	23,815	502	25,753	25,175	24,687	489	26,362	25,662	24,899	764
Housing and community amenities (706)	1,337	954	1,223	268	1,306	932	1,252	320	1,299	999	1,227	228
Public order and safety (703)	13,357	12,238	12,217	21	13,067	12,024	12,526	502	13,460	12,175	12,712	537
Recreation, culture and religion (708)	4,056	3,361	3,709	348	4,056	3,945	3,888	57	4,535	3,949	4,283	334
Social protection (710)	51,857	52,001	47,428	4,573	55,867	56,287	53,554	2,733	59,944	59,697	56,615	3,082
Allocated expenditure	**160,355**	**146,661**	146,661	11,017	**156,155**	**149,690**	149,690	6,557	**165,133**	**155,964**	155,964	7,690
Contingency	200	104			120	94			100	162		
total expenditure	**160,555**	**146,764**			**156,275**	**149,785**			**165,233**	**156,126**		
Variance as % of actual allocated expenditure				**7.5%**				**4.4%**				**4.9%**

Sources: MoF

This analysis shows that most functions absorb a fairly constant proportion of the total; the largest variances arise because social transfers remain close to budget and thus increase their share, while other areas of expenditure fall short of budget and therefore decline in relative terms. Because the total variance exceeded 5 per cent of actual expenditure in only one year (and never exceeded 10 per cent), the rating is A.

(ii) Average amount of expenditure actually charged to the contingency vote

The amounts charged to contingency were 103.6 million MKD in 2012, 94.3 million MKD in 2013, and 162.2 million MKD in 2014. These amounts represent respectively 0.06 per cent, 0.06 per cent, and 0.1 per cent of total expenditure in the three years 2012-14. Since the amounts charged to contingency were always far below 3 per cent of total expenditure, the rating is A.

Indicator/Dimension	2015 score	Justification for 2015 score
PI-2 (M1) overall score	A	
(i) Extent of variance in expenditure composition	A	Variance exceeded 5% in only one of the three years.
(ii) Average amount of expenditure charged to the contingency provision	A	Amounts charged to contingency were much less than 3% of total expenditure.

PI-3 Aggregate revenue out-turn compared to original approved budget

The rating for this Indicator is based on the difference between total domestic revenue in the original budget and the actual out-turn. Under-estimation is taken into account as well as over-estimation, but over-estimation has a relatively greater impact on the rating: thus an A rating is assigned if the out-turn is between 97 per cent and 106 per cent of original budget. A summary of budgeted and actual revenues is set out in Table 3.3. Revenue forecasts are established by MoF Budget Department, taking into account inputs from PRO and CA and macro-economic projections from the Macro-Economic Department. The data show that VAT receipts have been persistently overestimated, while revenues from personal and company income taxes have recently exceeded the budget estimates. The overall revenue shortfall in 2014 owed much to under-collections of different streams of non-tax revenues, including licence fees, dividends and receipts from the sale of capital assets.

Table 3.3: Budgeted and actual revenues 2012 to 2014

MKD millions

	2012		2013		2014	
Revenue type	**Budget**	**Actual out-turn**	**Budget**	**Actual out-turn**	**Budget**	**Actual out-turn**
Personal Income Tax	10,788.0	9,615.9	10,425.0	10,309.4	10,769.0	12,375.9
Profit Tax	3,990.0	3,789.7	4,114.7	4,577.8	4,293.0	5,283.8
VAT	44,966.0	38,541.9	45,533.5	39,897.9	48,818.0	43,943.2
Excise taxes	17,228.0	16,594.7	14,678.0	16,093.3	16,006.0	17,685.4
Customs duties	5,800.0	4,066.6	3,942.0	4,254.5	4,086.0	4,221.8
Social contributions	42,619.1	40,922.3	42,990.9	42,437.2	45,153.0	44,192.5
Licence fees	5,655.0	6,148.6	4,019.0	3,422.0	4,734.3	1,614.2
Charges for services	6,719.1	5,718.0	6,548.3	5,519.1	7,115.3	5,854.4
Dividends	3,968.1	2,740.3	2,915.0	2,469.1	2,960.0	1,266.0
Other domestic revenues	7,726.2	4,558.6	6,549.6	5,886.6	6,641.5	3,957.3
Capital receipts	4,842.0	2,509.3	3,627.0	1,753.1	4,636.6	1,824.6
Total Domestic revenue	**154,301.5**	**135,205.9**	**145,343.0**	**136,620.0**	**155,212.7**	**142,219.1**
Out-turn as percentage of budget		**87.6%**		**94.0%**		**91.6%**
External grants	2,365.1	2,833.6	2,605.4	3,575.0	3,003.7	3,658.4
Total revenue and grants	156,666.6	138,039.5	147,948.4	140,195.0	158,216.4	145,877.5

Source: MoF

Revenue fell short of budget in all three years, with significant shortfalls on VAT receipts each year. Income and profits taxes and excise duties exceeded budget in 2013 and 2014, but licence fees, property income and capital receipts all fell substantially short of budget in these years. Since total domestic revenue fell more than 8 per cent below budget in two of the last three years, the rating is D.

Indicator PI-3 (M1)	**2015 score**	**Justification for 2015 score**
Aggregate revenue out-turn (excluding external grants) compared to original approved budget	D	Out-turn was below 92% of budget in two of the three years.

PI-4 Stock and monitoring of expenditure payment arrears

This Indicator has two dimensions: (i) asks about the stock of payment arrears, and recent changes in the stock; (ii) asks about the availability of data for monitoring the stock of expenditure arrears. Expenditure arrears have in the past been a source of concern in RM, but the situation has not generally been transparent. Budget support loans provided or guaranteed by the World Bank between 2012 and 2014 were conditional on action to deal with arrears; a supplementary budget in 2013 included repayment of 100 million Euro of arrears (including overdue VAT refunds). The 2013 Financial Discipline Law requires all invoices throughout the economy to be settled within 60 days, but this law will only be fully applicable to the government from January 2016. Meanwhile the January 2015 IMF Monitoring Report (cr1518) noted that arrears owed by Public Health Care Institutions (PHCIs) amounted to 0.4 per cent of GDP; the July 2015 report of the Health Insurance Fund indicates that PHCIs' total expenditure arrears were more than 3billion MKD, or more than 1.5 per cent of consolidated government expenditure. There is also anecdotal evidence of substantial arrears owed by local governments in respect of infrastructure improvements; while these are formally outside the scope of PI-4, they could constitute a significant risk for the government (see PI-9 below).

(i) Stock of payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

The MoF Treasury system records invoices on the date they are presented by MDAs for payment, rather than on the date when they were received by the MDAs concerned; invoices will not be paid unless the contracts have previously been registered in the system. MoF stated that there are no sufficiently evidenced invoices in the system which remain unpaid after 60 days. However, it appears that MDAs may delay presenting invoices until they have funds available to meet them, or renegotiate the payment schedules with their suppliers, at some additional cost to the budget. As noted above, PHCI arrears amounted to more than 3 billion MKD in mid-2015 – more than 1.5 per cent of consolidated government expenditure, and an increase of nearly one billion MKD since the end of 2012. Taking into account possible delays in registering invoices, it appears likely that total expenditure arrears exceed 2 per cent of annual government expenditure, and there is no evidence that they have been falling; this indicates the rating C.

(ii) Availability of data for monitoring the stock of payment arrears

Annual consolidated financial statements produced by the government provide information only about revenue and expenditure; balance sheet items are not covered. Thus no consolidated information has been made available about financial liabilities, including expenditure arrears. Every business and every public institution with legal personality is required to submit its annual financial statements, including information about financial assets and liabilities, to the RM Central Registry. But neither MoF nor any other public institution has sought to consolidate this information, which can only be accessed on payment of a fee for each statement. Thus there is no reliable data about the stock of expenditure payment arrears, which results in the rating D.

Indicator/Dimension	2015 score	Justification for 2015 score
PI-4 (M1) overall score	D+	
(i) Stock of expenditure payment arrears	C	Health sector arrears alone amounted to about 1.5 per cent of government expenditure in mid-2015, and there is no evidence of a downward trend. Possible delays in registering invoices could also increase the true arrears amounts.
(ii) Availability of data for monitoring the stock of payment arrears	D	Although the annual financial statements submitted to the RM Central Registry by each budget user contain details of financial liabilities, including expenditure payment arrears, this information has not been consolidated.

3.2 Comprehensiveness and transparency

PI-5 Classification of the budget

This Indicator asks whether expenditure can be tracked from year to year by reference to responsible administrative unit, economic nature (pay, purchases of goods and services, utility charges, subsidies, interest payments, etc), function (e.g. education) and sub-function (e.g. primary education). A programme classification may be substituted for sub-function. The annual budget is prepared according to administrative, economic, functional and sub-functional classifications, and the records of every transaction include all these classifications. Programme classifications are also being developed.

Indicator PI-5 (M1)	2015 score	Justification for 2015 score
Classification of the Budget	A	Consistent administrative, economic, functional and sub-functional classifications are used in presenting the Budget and reporting the out-turn.

PI-6 Comprehensiveness of information included in budget documentation

This indicator assesses the comprehensiveness of the budget documentation made available to the Parliament by the Central Government on the basis of nine information elements or benchmarks, specified in the summary box below. For the current assessment, this corresponds to the documentation made available to the National Assembly at the time of presentation of the FY 2015 budget proposal.

The position in relation to each element is shown in the following table.

Elements of budget documentation	Available 2015	Commentary
1.Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Projections of GDP growth, inflation and exchange rate provided in Fiscal Strategy as well as in and Budget 2015.
2. Fiscal deficit according to GFS standard	Yes	Provided in Fiscal Strategy as well as in and Budget 2015.
3. Deficit financing, describing anticipated composition	Yes	Table 3 of the Fiscal Strategy, Consolidated Budget of the Republic Macedonia 2015.
4. Debt stock, including details at least for the beginning of the current year	Yes	Fiscal Strategy: chapter Trends of Public Debt of the Republic of Macedonia includes projection of debt stock for current and two additional years.
5. Financial assets, including details at least at the beginning of the current year	No	No cash balances or other financial assets and projected movements are shown in budget documentation.
6. Prior year's budget out-turn, presented in the same format as the Budget proposal	No	Prior year's budget out-turn (2013) is not presented either in the Fiscal Strategy or in the Budget 2015 and as result the National Assembly is not able to compare previous year's budget out-turn to the proposed budget.
7. Current year's Budget, presented in the same format as the Budget proposal	Yes	The budget estimates show in the same table current year Budget and Budget for coming year.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	No	This data is not available
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programmes	No	These changes are not explained or quantified in the budget documentation.

Indicator PI-6 (M1)	2015 score	Justification for 2015 score
Comprehensiveness of information included in Budget documentation	B	Five of nine benchmarks are satisfied.

PI-7 Extent of unreported government operations

This Indicator has two dimensions: (i) the first asks about the extent to which the costs of operations for which the government is ultimately responsible but which are not included in the Budget are reported both before and after the event; (ii) the second asks whether income and expenditure information about externally funded projects is included in fiscal reports.

(i) The level of extra-budgetary expenditure not included in fiscal reports

All expenditure by Ministries, Government Agencies financed through the budget, and the three Social Insurance Funds (Pensions, Health Insurance, Unemployment) is included in the consolidated budget, including expenditure financed through fees and charges levied by these bodies, and expenditure financed by external grants and loans. The expenditure of nine Regulatory bodies (energy, communications, transport, insurance) whose activities are financed through their own revenues outside the Treasury system, is excluded from the budget; the total corresponds to less than one per cent of consolidated government expenditure. Seven of these bodies report their financial statements to the National Assembly, while the remaining two report only to the government. Where reports are made to the National Assembly, the bodies concerned also notify their budgets for the next year before the end of the current year, but outside the budget timescale. Since 2013 road construction has been the responsibility of the Public Enterprise for State Roads (PESR), whose activities are managed through the Treasury system and financed by a share of excise duty on road fuel, the revenue from road tolls, and borrowing guaranteed by the Government. PESR expenditure in 2014 amounted to more than 10 billion MKD, or more than 6 per cent of government expenditure; reports are made only to the Government, but the National Assembly's approval is needed for borrowing guaranteed by the Government. Extra-budgetary expenditure not included in consolidated fiscal reports alongside the budget thus mounted to about 7 per cent of total consolidated government expenditure, which results in the rating C .It appears that the bulk of the costs of the very large building and infrastructure investments under the Skopje 2014 programme have not been financed through the central government budget, but rather through bodies associated with LGUs.

(ii) Income/expenditure information on externally funded projects, which is included in fiscal reports

Externally financed project expenditure is fully integrated into budget estimates and expenditure out-turn statements. Rating: A

Indicator/Dimension	2015 score	Justification for 2015 score
PI-7 (M1)	C+	
(i) Level of unreported extra-budgetary expenditure	C	Extra-budgetary expenditure not included in ex ante and ex post fiscal reports alongside the budget amounted to about 7 per cent of consolidated central government expenditure in 2014.
(ii) Inclusion of information on donor-funded projects in fiscal reports	A	Externally funded projects are fully included in fiscal reports.

PI-8 Transparency of Inter-Governmental Fiscal Relations

This Indicator has three Dimensions: (i) asks whether the amounts of central government allocations to local government units (LGUs) are determined by transparent and rules-based systems; (ii) asks whether LGUs receive information from central government about the amounts of their allocations in time for them to make orderly preparations for the next year's budget; and (iii) asks whether consolidated reports are made of general government revenue and expenditure by function.

(i) Transparency and objectivity in the horizontal allocation among local government units (LGUs)

About 60 per cent of the revenues of the 81 LGUs in RM take the form of grants from central government. LGUs' own revenues from infrastructure and other local charges are not much more than a third of the total. More than 90 per cent on average of central government grants are distributed through formulae based on objective factors (population, pupil numbers, surface area). In addition to their shares of block grants for education, culture and social protection, LGUs receive 4.5 per cent of the previous year's VAT revenue shared out in the same way. LGUs' own revenues include 3 per cent of the current year's yield in their areas from personal income tax, which could also be regarded as an allocation based on objective factors. These arrangements result in the rating A. The breakdown of LGU revenues is shown in Table 3.5 below.

Local Government Revenue Summary

MKD millions

Revenue Type	2012	2013	2014
LGUs' Own Revenues	11,282.2	10,095.2	9,904.4
Formula-based Central Government grants	15,343.1	15,632.3	15,987.6
Other Central Government grants	1,789.5	948,9	1,337.9
Total Central Government grants	17,132.6	16,581.2	17,325.5
Formula-based as percentage of total	89.6%	94.3%	92.3%
External grants	237.4	322.6	361.1
Total LGU revenues	28,652.2	26,999.0	27,591.0

Source: MoF

(ii) Timeliness of reliable information to LGUs on their allocations

The Ministry of Finance issues guidance to LGUs about the amounts of government grants, and other factors to be taken into account in their preparation of the next year's budget, by the end of September each year, once the provision for grants to LGUs in the draft budget has been determined. LGUs' development plans have to be put before their elected councils by the end of November each year, and budgets should be approved before the beginning of the year to which they relate, but LGUs are free in other respects to fix their own budget calendars. Thus LGUs have sufficient time to prepare their budgets, and to secure their enactment before the beginning of the year to which they relate. Most LGU budgets are notified to MoF in the first week of January.
Rating: A

(iii) Extent of consolidation of fiscal data for General Government according to sectoral categories

Summaries of General Government revenues and expenditures are published in January each year in the annual National Economic Reform Programme document (until 2014 this was called the Pre-Accession Report). The 2015 document contains summary actual figures for 2013 in MKD billions, with some economic breakdown of projected revenue and expenditure for 2014 and 2015 as percentages of GDP as well as a functional (the 10 main COFOG functions: see Table 2.3 above) breakdown of expenditure as percentages of GDP. The data are derived directly from the Treasury system through which all local government expenditure passes, and are therefore comprehensive. These published figures provide rough orders of magnitude only, with little analysis or commentary. Since the 2013 actual figures were produced 13 months after the end of the year in question, the rating for this dimension is B.

Indicator/ Dimension	2015 score	Justification for 2015 score
PI-8 (M2)	A	
(i) Transparency and objectivity in the horizontal allocation of central government grants to LGUs	A	The allocation of over 90 per cent on average of central government grants to LGUs is based on transparent and rule-based systems.
(ii) Timeliness of reliable information to LGUs on their allocations	A	LGUs receive guidance on prospective allocations and other factors to be taken into account in budget preparation by 30 September each year.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	B	Summary reports of general government revenue and expenditure by economic classification, and of expenditure by functional classification, are published about 13 months after the end of the year in question.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

This Indicator reviews the fiscal risks posed by (i) Public Enterprises and Autonomous Government Agencies (AGAs), and (ii) sub-national governments.

(i) Extent of central government monitoring of SOEs and AGAs

There are 14 Public Enterprises (PEs) owned by the central government of RM, covering water supply, railway infrastructure, road construction and maintenance, radio and television broadcasting, the agricultural commodity exchange, the management of forest and pasture lands, and the Government Gazette. In addition there are a considerable number of local utility companies owned by LGUs. Some PEs are engaged in major investments financed by external lenders with borrowing guaranteed by the Government. There are also 9 Regulatory Agencies (see PI-7 above) which are mainly financed from their own fees and charges; these bodies' total expenditures are less than one per cent of central government consolidated expenditure, and they do not constitute any significant fiscal risk. All these bodies make regular – mostly quarterly – financial reports to MoF and to their sponsor Ministries, as well as semi-annual and annual reports to the Government and National Assembly which compare their revenue and expenditure performance with that of the previous year. But these reports have not been consolidated into an overall report on their financial performance and the fiscal risks involved. Rating for this Dimension: C

(ii) Extent of central government monitoring of sub-national governments' fiscal position

All LGU transactions pass through the central government Treasury system, and all borrowing by LGUs requires MoF consent. Total LGU borrowing from domestic and external sources was only 18 million Euro at the end of March 2015, while central government debt was well over 3 billion Euro. However, MoF systems do not capture LGU expenditure arrears, or amounts guaranteed by LGUs for investments by local utility or other companies they control. LGUs submit annual financial statements to the Central Registry in the same way as other public and private sector institutions, but the information is not consolidated. There is anecdotal evidence of significant amounts – well in excess of total published borrowing by LGUs – owed to contractors, and it is understood that the Treasury accounts of a number of LGUs have in effect been frozen. In the absence of a consolidated overview of the current liabilities of LGUs, rating is C.

Indicator/Dimension	2015 score	Justification for 2015 score
PI-9 (M1)	C	
(i) Extent of government monitoring of PEs and AGAs	C	Quarterly financial reports are made to MoF by PEs and Regulatory Agencies, but these are not consolidated into a report on fiscal risks.
(ii) Extent of central government monitoring of LGUs fiscal position	C	LGUs make quarterly reports to MoF, and all borrowing by them requires MoF consent. But no information is available about LGUs' current financial liabilities.

PI-10 Public Access to key fiscal information

This indicator assesses whether information on fiscal plans, positions and performance of the government is easily accessible to the general public, or at least to the relevant interest group. Six elements of information to which public access is essential are considered. The situation is set out in the following table.

Table 3.5 Public access to fiscal documentation

Elements of fiscal documentation	Availability	Commentary
Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes	Information including Budget Circular, Fiscal Strategy and Budget itself is published on the Government (http://www.finance.gov.mk) and Parliament (http://www.sobranie.mk) web-sites at the time the Budget is presented.
In-year budget execution reports: the reports are routinely made available to the public through appropriate means within one month of their completion.	Yes	Summaries of monthly and quarterly reports are published on the Government web-site (http://www.finance.gov.mk) within one month after the period completion.
Year-end financial statements: the statements are made available to the public within six months of completed audit.	Yes	Annual report is according to the law submitted to the National Assembly by June 30 for the previous year. Audited report for budget 2014 was approved by the Parliament already in June 2015. The reports and the SAO audit reports are published on the website of the National Assembly (http://www.sobranie.mk)[3].
External audit reports: all reports on government consolidated operations are made available to the public within six months of completed audit.	Yes	The annual audit report on the government's financial statements is published as soon as it is presented to the House of Assembly (see also the treatment of year-end financial statements above).
Contract awards: awards of all contracts above approx. US$100,000 are published at least quarterly through appropriate means.	Yes	Publication of all contract awards is mandatory on the public procurement website (http://www.e-nabavki.gov.mk).
Resources available to primary service units: information is publicised through appropriate means at least annually, or available on request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No	Resources for individual secondary schools, primary health clinics or other primary service units (generally second level budget users) are not published.

Indicator	2015 score	Justification for 2015 score
PI-10 Public access to key fiscal information (M1)	A	5 of 6 benchmarks are met.

[3] (http://www.sobranie.mk/materialdetails.nspx?materialId=ee0126cf-4753-4261-b45f-904edde53127)

3.3 Policy-based budgeting

PI 11: Orderliness and Participation in the Annual Budget Process

While the Ministry of Finance (MOF) is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by other ministries, departments and agencies (MDAs) as well as by the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

(i) Existence of, and adherence to, a fixed budget calendar

The Budget Law provides a detailed framework for the budget process. The budget calendar is defined in articles 15-30 of the Law. There were no indications of significant deviations from the timetable over the last three years except with regard to the determination of strategic priorities by the Government and approval of Fiscal Strategy by the Government. Nevertheless MDAs had each year more than 6 weeks to prepare their estimates. Table below shows actual dates of some key milestones in the budget process. Rating of this dimension is A.

Macedonia Budget Calendar

	Budget Law		Budget year 2013	Budget year 2014	Budget year 2015
1	**Strategic priorites determined by Government**	15 April	24.4.2012	1.5.2013	9.9.2014
2	**Fiscal Strategy approved by Government**	31 May	N/A	19.9.2013	3.10.2014
3	**Ceilings (limits) approved by Government**	31 May	In the period 2012-2014 (for Buxet 2013, 2014, 2015) the limits were set at the level of the budget of the previous year		
4	**MoF issues Budget Circular**	15 June	15.6.2012	15.6.2013	9.6.2014
5	**Spending units submit Development Program Plans**	15 July	Spending units submit Development Program Plans in their budget request in a defined form as a special development subprograms		
6	**Development Program Plans approved by Government**	15 August	Development Program Plans is an integral part of the Budget as a special part- Development part of Budget of Republic of Macedonia and they are approved by the Government when the Budget of Republic of Macedonia is approved		
7	**Spending units submit budget requests**	1 September	1.9.2012	1.9.2013	1.9.2014
8	**Government submits budget to the Parliament**	15 November	4.11.2012	19.9.2013	3.10.2014
9	**Paliament approves the budget**	31 December	26.12.2012	20.12.2013	16.12.2014

(ii) Guidance on the preparation of budget submissions

MOF issues a comprehensive budget circular in June each year. The budget ceilings have been set at the level of the previous year's budget and are not approved by Cabinet. Because the expenditure ceilings issued to spending units do not reflect collective decisions by Ministers, but instead have been regarded as the starting point for negotiations, the rating for this dimension is C.

(iii) Timely budget approval by the legislature

The annual budget law has been approved by Parliament by 31 December in each of the last three years. The Budget Law provides for continued budget execution if the Parliament fails to approve the law in time, but this has not been needed for the last three budgets. Rating for this dimension: A

Indicator/Dimension	2015 score	Justification for 2015 score
PI-11 (M2)	B+	
(i) Existence of and adherence to a fixed budget calendar	A	A clear budget calendar exists, is generally followed, and provides sufficient time for budget submissions.
(ii) Guidance on the preparation of budget submissions	C	Expenditure ceilings not subject to prior government approval.
(iii) Timely budget approval by the Legislature	A	Budgets are approved before the beginning of each year.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, expenditure aggregates and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) are an essential element in policy formulation. The aggregate framework needs to be complemented by detailed plans for the development of each sector (including any necessary investments) which in total are consistent with the aggregate.

(i) Multi-year fiscal forecasts, and functional allocations

The Fiscal Strategy includes three-year fiscal projections on a rolling annual basis. Forecasts of revenue or expenditure are not broken down by any classification. There are no direct and transparent links between the macrofiscal framework and subsequent budget allocations. Rating for this dimension: D.

(ii) Scope and frequency of debt sustainability analysis

The government undertakes a comprehensive debt sustainability analysis each year in collaboration with the IMF in the context of Article IV consultations. The most recent published update is contained in IMF Country Report No.15/242(https://www.imf.org/external/pubs/ft/scr/2015/cr15242.pdf). The report provides analyses of non-financial public sector(external and domestic) debt and also total external (public and private) debt.. Rating for this dimension: A

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

Forward estimates for projects for two subsequent years to the budget year are provided in the Development Program Part of the budget. These are not yet derived from sector development strategies directed towards clear policy objectives and endorsed by the government as a whole. Sector strategies incorporating clear objectives have been prepared for some sectors and ministries, such as education, scientific research, transport, energy, tourism, etc. and some of them are available on the internet, but these have not been consistently published. These strategies may give a partial picture of the sector, and the costing may be incomplete. All strategies approved by the

Council of Ministers are prior checked by the Budget Department. As noted in (i) above, the forward estimates produced by each budget user are not yet reconciled with the overall fiscal framework. There is no clear evidence that fully costed sector strategies would represent more than 25% of primary expenditures, as would be required for the rating B. Rating for this dimension: C

(iv) Linkages between investment budgets and forward expenditure estimates

The Budget Law requires that projects included in the draft Development program presented alongside the Budget plan should be harmonized with the strategic plan of the user. Some investment decisions nevertheless have a weak link to sector strategies. The recurrent cost implications of some new investments (mainly those which are externally financed) are included in forward budget estimates. Rating for this dimension: C

Indicator/Dimension	2015 score	Justification for 2015 score
PI-12 (M2)	C+	
(i) Multi-year fiscal forecasts and functional allocations	D	No projections of revenue and expenditure broken down by any classification are published beyond budget year.
(ii) Scope and frequency of debt sustainability analysis	A	DSA is carried out annually in collaboration with IMF
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C	Sectoral strategies / development programs are produced in some ministries but not consistent with overall fiscal framework.
(iv) Linkages between investment budgets and forward expenditure estimates	C	Some investment decisions have a weak link to sector strategies.

3.4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

Indicator/Dimension	2015 score	Justification for 2015 score
PI-13 (M2)	C+	
(i) Clarity and comprehensiveness of tax liabilities	B	Laws and Regulations are generally clear, but there have been frequent changes with little consultation with taxpayers or discussion in the National Assembly. Tax advisers question whether the laws are sufficiently precise on some technical issues. Tax laws are all published on the MoF website (finance.gov.mk).
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	B	Taxpayers have easy access on the Public Revenue Office (PRO) (ujp.gov.mk) and Customs (customs.gov.mk) websites and in other ways to information about tax liabilities and administrative procedures for major taxes. Tax advisers express concern that PRO responses to individual taxpayers' specific questions about the application of legislation are not published, so allowing different approaches to be taken by different tax offices.
(iii) Existence and functioning of a tax appeals mechanism	D	An administrative appeals system in MoF was fully established and functional, and a considerable proportion of decisions were given in favour of the taxpayer. But this "second instance" was abolished in July 2015. Appeals now have to be sent directly to the Administrative Court

The collection of taxes is the responsibility of the Public Revenue Office (PRO) and the Customs Administration (CA). Social insurance contributions are collected by PRO alongside the collection of income and profits taxes. PRO operates a Large Taxpayers' Office (LTO) and five regional tax offices in Skopje, Bitola, Tetovo, Stip and Kavadarci. The largest amounts are collected by the Skopje office and the LTO. Small traders and artisans may choose to be subject to a simplified tax on turnover of one per cent in place of income and profits taxes and VAT.

(i) Clarity and completeness of taxpayer obligations and liabilities

Each main tax is founded on a separate law (Personal income, profits, VAT, social insurance contributions, excises, customs duties, etc) and separate laws govern the procedures to be followed by the tax authorities and the penalties for failure to meet registration and declaration obligations. The legislation is all published on the MoF website (finance.gov.mk). Regulations, procedures and documents for tax filing are available on the Public Revenue Office (PRO) website (ujp.gov.mk). In most cases the legislation determines clearly the amounts to be paid, so that tax collectors do not have discretion in fixing liability. The country scores best in the region in the World Bank annual Doing Business survey in terms of ease of tax compliance. However, tax advisers question whether the legislation is sufficiently precise on issues such as transfer pricing and the treatment of tax losses in company mergers, while there have been frequent changes recently in tax laws, some of which have been enacted without prior publication in draft on the government's Single National Electronic Registry of Regulations (as is required by the government's Public Administration Reform programme). Thus liability to pay social insurance contributions was extended at the beginning of 2015 to casual self-employment income, but the administrative procedures and impact on taxpayers had not been sufficiently prepared; the problems encountered were so serious that the charge was withdrawn in July 2015. . Rating: B

(ii) Taxpayers' access to information on tax liabilities and administrative procedures

In addition to information posted on MoF, PRO and Customs websites, taxpayers have access to Call Centres operated by both tax Departments, and answers to questions may also be obtained through the websites. All changes in the law and regulations, once enacted, are the subject of material issued by PRO and Customs. Where the same issue is raised by a number of different taxpayers, PRO aims to provide guidance on its website. Tax advisers would like PRO to publish the responses to specific questions by individual taxpayers about the interpretation of tax legislation, so as to minimise the risk that different tax offices may adopt different practices. At present in certain aspects there are limited facilities for e-filing, and not all PRO core business processes and assessments are automated; where this is so they are dependent on manual performance/calculations by PRO staff. Rating for this dimension: B

(iii) Existence and functioning of a tax appeals mechanism.

Appeals against PRO and Customs assessments are directed initially to the tax offices responsible. If agreement was not reached, appeals were until July 2015 directed to a "Second Instance" which was a section of MoF. Further appeals could then be directed to the Administrative Court. Table 3.7 below summarises the results of appeals during the period 2012-14.

Table 3.7: Tax appeals, 2012-14

	2012		**2013**		**2014**	
Classification of appeals	**Number**	**MKD millions**	**Number**	**MKD millions**	**Number**	**MKD millions**
Successful appeals	1,528	2,360.5	953	1,092.1	1,092	880.5
Unsuccessful appeals	2,166	1,355.1	1,425	1,255.1	1,246	1,571.7
Inadmissible or withdrawn	306	569.4	288	313.8	215	111.2
Total appeals	4,000	4,287.2	2,666	2,667.0	2,553	2,563.5
Further appeals to Administrative Court	72	172.2	236	735.6	283	1,252.3

Source: PRO

Appeals in 2014 concerned about 2 per cent of total tax revenue. The number of appeals to the Second Instance fell between 2012 and 2014 from 4,000 to 2,553, with the amounts appealed falling by the same proportion. The proportion decided in favour of the taxpayer declined over this period, while the amounts further appealed to the Administrative Court increased very sharply in 2014. As a result of the abolition of the Second Instance appeals now have to be sent directly to the Administrative Court, which is unlikely to command the resources or expertise to deal quickly and fairly with very numerous fresh appeals. The PRO point out that these changes have removed the situation whereby appeals were directed to a body which was not independent of the authority responsible for collecting taxes. Rating: D

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(i) Controls in the taxpayer registration system

Companies (legal entities) are allocated Tax Identification Numbers by PRO which serve for all taxes. Persons are recorded under their state registration numbers, which also serve for social insurance purposes. Currently there are separate electronic systems for each main tax, with no automatic links between them; the government hopes to introduce a new integrated system, with links to the Bureau of Statistics and other national databases by 2017. Special efforts are made to identify unregistered persons or enterprises who should be paying taxes; these are of relatively greater importance in regional offices away from Skopje, but the additional revenues collected are not significant. Rating for this dimension: C

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

Hitherto fines of 3,000 MKD, in addition to tax amounts owed, could be imposed on companies or individuals who failed to pay income and profits taxes at the prescribed time. Failure to register for VAT attracted a penalty of the MKD equivalent of 1,200 Euro; the amounts assessed by regional tax offices were 6.6 million MKD, 2.3 million MKD and 6.9 million MKD for the three years 2012-14 respectively, while the amounts collected increased from 0.1 million MKD in 2012 to 2.6 million MKD in 2014. A new law was enacted in July 2015 under which investigation and sanctioning of non-registration will be undertaken by an "Audit Council" in which different interested Ministries and other bodies will participate (but not PRO); this body will have tougher powers to fine and confiscate assets. PRO is able (as from September 2015) to impose higher penalties as a result of its own investigations. Given that the penalties are in process of being increased, and new machinery is being established to deal with non-registration, the arrangements hitherto in force must be considered to require some strengthening, which points to the rating C.

(iii) Planning and monitoring of tax audit and fraud investigation programmes

There is a substantial continuing programme of tax audits and investigations. For VAT , which operates by self-assessment, most of the taxpayers concerned are selected for audit by a computer programme which automatically assesses risk factors. A comparable arrangement is in preparation for company income tax. The numbers of planned and executed inspections are summarised in table 3.8 below.

Table 3.8 Planned and actual inspections (2014 and 2015 to September)

	VAT		PIT		CIT		Other	
	Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Regional Offices (2014)	2272	2559	1420	1768	1136	503	1988	2175
LTO (2014)	36	34	27	24	18	35	27	96
Regional Offices (2015)	1397	1511	873	1127	699	320	1223	1464
LTO (2015	21	21	16	8	11	21	16	135

Source: PRO

As will be seen, planned VAT inspections have largely been carried out, or the planned numbers exceeded as a result of the need to examine refund claims. The Large Taxpayer Office which collects 40 per cent of all revenue, has generally at least achieved its planned number of inspections, and exceeded it in the case of company income tax. The large number of "Other" inspections reflects requirements to examine compliance with the Financial Discipline Law (see PI-4 above), to inspect lotteries, etc., and to review the operation of concessions. In the case of the "other" inspections, additional revenue identified is not collected or accounted for by PRO. The results of the inspections are shown in Table 3.9 below.

Table 3.9: Results of tax inspections 2012-14

MKD millions

	2012		2013		2014	
	Assessed	**Collected**	**Assessed**	**Collected**	**Assessed**	**Collected**
VAT	1,928	247	2,001	250	1,258	337
Profits tax	794	250	660	219	633	221
Income tax	689	539	999	633	677	895
Other public revenue	284	0	962	0	190	0
Total	3,695	1,036	4,622	1,101	2,759	1,453

Source: PRO

Apart from an increasing number of inspections directed at "other" revenues where collection is not the responsibility of PRO, these figures show a fall in additional revenue assessments between 2012 and 2014, but an increase in amounts actually collected . In the case of income tax, collections exceeded assessments in 2014, which suggests that a high proportion of additional amounts assessed is being collected, although with some delay. Amounts of VAT and profits tax collected also increased steadily as a proportion of amounts assessed; in the case of VAT the increase was from 13 per cent in 2012 to 27 per cent in 2014. These statistics suggest that the combination of penalties for under-declaration and a continuing inspection effort is resulting in an improving level of tax compliance. Rating for this dimension: B.

Indicator/Dimension	2015 score	Justification for 2015 score
PI-14 (M2)	C+	
(i) Controls in the taxpayer registration system	C	The databases for the main taxes are not yet integrated, and the links to other databases have yet to be developed.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	Since new arrangements are being instituted to deal with non-registration, and the penalties available to PRO have been increased from September 2015, the arrangements hitherto in force must be seen as requiring improvements.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	B	Inspections/audits of VAT payers are largely determined by an IT programme which analyses their returns and other relevant data by reference to risk factors. But the selection of taxpayers for inspections related to other taxes, while reflecting risk factors, is not yet automatic as in the case of VAT.

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears

Arrears of the main taxes accounted for by PRO (Income, Profits, VAT , social insurance contributions) were 36 per cent of 2013 collections at the end of 2013, and 29 per cent at the end of 2014. This improvement primarily reflected collections of social insurance contributions exceeding new assessments in 2013, and collections of VAT substantially exceeding assessments in 2014. Full information is not available about the ages of the arrears of different taxes; about three-quarters of total arrears on average are attributable to VAT, while about 55 per cent of VAT arrears are more than a year old. The statistics are set out in Table 3.10 below.

Table 3.10: Arrears of main taxes 2012-14

MKD millions

Tax	Arrears end 2012	New assessments during 2013	Collections during 2013	Arrears end 2013	New assessments during 2014	Collections during 2014	Arrears end 2014
Personal income tax	2,412	10,367	10,255	2,524	12,245	12,321	2,448
Profits tax	1,453	4,075	4,420	1,109	5,490	5,060	1,538
VAT	27,810	41,602	39,752	29,660	36,997	43,695	22,962
Social insurance	5,995	48,179	50,310	3,865	52,955	52,351	4,469
Total	37,670	104,224	104,736	37,158	107,687	113,427	31,417
Arrears as % of in-year collections				36%			29%

Source: PRO

These figures show that although total arrears remain substantial at around 30 per cent of annual collections, there has been some overall improvement in the situation, with total arrears falling both absolutely and as a proportion of current collections. About three quarters of these arrears are attributable to VAT, and more than 50 per cent of VAT arrears are more than a year old. The overall picture shows that the system is relatively successful in collecting amounts due as a result of new assessments, but the persistence of debts more than a year old indicates that the collection ratio for debts outstanding at the beginning of each year must be below 60 per cent. Arrears are not a major problem for Customs, since goods are generally not released into circulation unless duties have been paid or are the subject of guarantees. Rating for this dimension: D.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

All tax (and other budget) revenue is received by Treasury offices and paid directly into the Treasury Single Account at the Central Bank for the Republic of Macedonia (CBRM). Rating for this dimension: A

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

There is daily reconciliation between the amounts of receipts by regional tax offices and deposits in CBRM. Sufficient data is collected about each tax amount paid into the Treasury system to avoid any significant use of suspense accounts. However, because each main tax has its own separate IT system, there are no regular reconciliations of the overall positions of individual taxpayers. Rating for this dimension: D

Indicator/Dimension	2015 score	Justification for 2015 score
PI-15 (M1)	D+	
(i) Collection ratio for gross arrears	D	Total arrears are about 30 per cent of annual collections, and have been falling both absolutely and as a proportion of current collections. Because of the persistence of arrears which are more than a year old, especially in relation to VAT, it appears that the collection ratio is less than 60 per cent.
(ii) Effectiveness of transfer of tax collections to the Treasury	A	All revenue is received directly by Treasury offices, and paid into the Single Treasury Account at CBRM.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	There is daily reconciliation between Treasury and CBRM records, and sufficient information is collected so as to avoid any significant use of suspense accounts. But the fact that there is a separate IT system for each tax means that there are no regular arrangements for the overall reconciliation of the position of individual taxpayers.

PI-16. Predictability in the availability of funds for commitment of expenditures

Indicator/Dimension	2015 score	Justification for 2015 score
PI-16 (M1)	B+	
(i) Extent to which cash flows are forecast and monitored	A	Complete cash flow forecast is made on basis of returns by MDAs, and updated monthly
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	MDAs are provided reliable information for 3 months ahead
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	A	Significant changes imposed on MDAs require a supplementary budget, as do increases in provision for budget users.

(i) Extent to which cash flows are forecast and monitored.

MoF (Budget and Treasury Departments) prepare a monthly cash flow forecast at the beginning of each year based on revenue projections by PRO and Customs, and expenditure profiles provided by first level budget users. This is updated monthly in the light of experience. Rating for this dimension: A

(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment.

Once the budget for each budget user has been set, MoF releases the amount in quarterly tranches with a monthly profile. Budget users must manage their commitments so that the resulting payments remain within these limits. Rating for this dimension: B

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.

Reductions in budget allocations can only be imposed through a revised Budget approved by the National Assembly. Increased revenue collections can be used to pay down debt, but increases in expenditure by budget users require a revised budget (see Article 36(3) of the Budget System Law). The recently enacted revised budget for 2015 provides for increases in some areas, and no overall reduction. There was one revised budget each year in the period 2012-14. Rating for this dimension: A

PI-17 Recording and management of cash balances, debt and guarantees

Indicator/Dimension	2015 score	Justification for 2015 score
PI-17 (M2)	A	
(i) Quality of debt data recording and reporting	A	Domestic and foreign debt records are complete, updated and reconciled monthly; there are no doubts about the completeness or accuracy of the data.
(ii) Extent of consolidation of the government's cash balances	A	All government cash balances are held in Treasury accounts at the Central Bank of the Republic of Macedonia (CBRM). All cash balances are calculated daily and consolidated.
(iii) Systems for contracting loans and issuing guarantees	B	Issues of debt and guarantees are all controlled by MoF and made within total limits, but not based on fiscal targets.

(i) Quality of debt data recording and reporting

Domestic and external public debt (the debt of central government, including social insurance Funds, local government, and public enterprises and state owned joint stock companies when guaranteed by the government) is controlled by the International Financial Relations and Public Debt Management Department of MoF. Domestic debt issues are managed by MoF. The consent of the National Assembly is required for external borrowing by central and local government and for the issue of government guarantees in the case of external borrowing by public enterprises and state owned joint stock companies. All debt data are recorded in an electronic system which ensures accurate reporting. The Central Bank of the Republic of Macedonia (CBRM) also keeps records of external public debt alongside those of the external debt of the private sector, and these are reconciled quarterly with those of MoF. MoF publishes general government and total public debt statistics on a quarterly basis. Rating for this dimension: A

(ii) Extent of consolidation of government cash balances

All balances of central and local government budget institutions (including amounts accruing from budget users' own revenues and from external sources) are held in the Treasury Single Account (TSA) at the CBRM which receives all revenues and from which all payments are made. Public Health Care Institutions operate through a sub-account of TSA managed by the Health Insurance Fund. The Treasury operates through a network of offices throughout the country. No funds are held in the commercial banking system. Rating for this dimension: A

(iii) Systems for contracting loans and issuance of guarantees

The Public Debt law of 11th November 2014 regulates all aspects of borrowing by central and local government and also the issue of sovereign guarantees. Amounts and terms of borrowing are closely controlled by MoF. In practice there is little formal borrowing by local governments, whose annual debt service payments (interest and principal) must not exceed 30 per cent of the previous year's current operational revenue. Borrowing takes place within an overall limit of 60 per cent of GDP, but has not yet been constrained by the requirement – which the Government intends to impose by means of a constitutional amendment - to keep net new borrowing within a limit of 3 per cent of GDP. Rating for this dimension: B

PI-18 Effectiveness of payroll controls

Until very recently the terms of public sector employment have been very fragmented, with different conditions for different groups. The Ministry of Information Systems and Administration (MISA) is currently working on the completion of a Human Resources Management Information System (HRMIS) containing details of all government employees, which is scheduled to become operational in 2016. Meanwhile all employees receive their pay directly from the TSA, with budget users submitting details of their payrolls to MoF each month. The number of staff in each budget institution is subject to control by MoF. Laws on Administrative Servants (LAS) and Laws on Public Sector Employees (LPSE) which came into force this year (2015) have rationalised the conditions of employment, and should contribute to better staff management.

(i) Degree of integration between personnel records and payroll data

Until HRMIS is in place personnel records will remain widely distributed across budget institutions, with no automatic links to the payroll, and each institution responsible for ensuring that changes in personnel records are correctly reflected in the payroll. MoF systems automatically check that the amounts for each individual are consistent with the supporting data about changes to the payroll provided each month by budget users. The State Audit Office (SAO) checks the functioning of these arrangements when it carries out a detailed financial and compliance audit of each budget user, apparently with generally positive results. Rating for this dimension: B

(ii) Timeliness of changes to personnel records and the payroll

The Ministries of Health, Education and Science, and Transport all stated that timely adjustments were made to the payroll to reflect changes in personnel records, so that amounts of pay correctly reflected the changes in the month they came into effect. Thus there were very few occasions when retrospective adjustments were required. The payroll section of MoF confirmed that this situation applied generally across budget users. Rating for this dimension: A

(iii) Internal controls of changes to personnel records and the payroll

Budget users, MoF and SAO all confirm that there is close hierarchical supervision at all stages of personnel records and the payroll, and that changes leave an audit trail. Rating for this dimension: A

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

SAO financial and compliance audits of individual budget institutions include detailed sample testing of the justification for salary and other payments to individuals.. However, such audits have covered well under 50 per cent of the budget over the period 2012-14. Given the apparent strength of the control systems at the levels of budget users and MoF, SAO do not see a need for audits specifically directed at the payroll. Since the PEFA criteria require all government entities to have been covered by a payroll audit over the last three years to qualify for the rating B, the rating for this dimension must be C

Indicator/Dimension	2015 score	Justification for 2015 score
PI-18(M1)	C+	
(i) Degree of integration and reconciliation between personnel records and payroll data	B	Personnel records are currently widely distributed among different budget users, with no automatic links to the payrolls in each case. But it appears that changes in personnel records are correctly reflected in the payrolls as they are prepared each month.
(ii) Timeliness of changes to personnel records and the payroll	A	Budget users stated that changes in personnel records are taken into account without delay in payroll preparation, so that few occasions arise when retrospective adjustments are required.
(iii) Internal controls over changes to personnel records and the payroll	A	There is strong hierarchical supervision, and changes always leave an audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	Samples of salary and other payments are rigorously checked when SAO undertakes detailed financial and compliance audits of individual budget users But the coverage of such audits across the government over the period 2012-14 is far from complete.

PI-19 Transparency, competition and complaints mechanisms in procurement

Public procurement legislation during the period up to 2010 was closely aligned with the requirements of the EU acquis. More recently, however, further elements have been introduced into the legislation which are not consistent with the acquis. Particular emphasis has been placed on e-procurement, coupled with the insistence that each contract should be let through an e-auction to the lowest bidder. This has made it more difficult for Contracting Authorities to choose the most economically advantageous bids, given the overall life costs of equipment being purchased, and has encouraged bidders to offer low prices with the expectation that prices can be revised upwards when the disadvantages of the lowest cost bids become apparent. Where additional requirements are identified after a contract has been concluded, this is registered by the Public Procurement Bureau (PPB) as a new contract; no records are kept to link the new contracts with the original ones. Currently special permission from the Public Procurement Council (PPC) established in 2014 is required before the most economically advantageous tender can be accepted. Meanwhile confidence in the integrity of the public procurement process has been eroded as it has appeared that arrangements have been made which favour particular bidders. The new requirement for the consent of the PPC to the terms of bidding opportunities appears to have reduced bidders' confidence in the integrity of the process; there has been a steady fall in the average number of bidders for each contract, with a substantial number being let to the only bidder. Further amendments were made to the law in 2015, providing for the use of standard contract documents without the need for reference to the PPC, and requiring the PPC to determine definitively the terms of any contract specification where the proposals of the contracting authority concerned had already been rejected twice.

The letting of concessions, and Public Private Partnership (PPP) arrangements, are covered by the 2012 Law on Public Private Partnerships and the Letting of Concessions administered by the Ministry of Economy. These are outside the responsibility of the PPB, although appeals fall under the jurisdiction of the State Appeals Commission on Public Procurement. Few resources are available to manage and supervise concessions, and it is doubtful whether transparency is sufficiently ensured. Neither the PPP Council nor the Registry of Concessions provided for in the legislation have been established.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

This Indicator is scored by reference to six criteria, which are shown in the following table.

Table 3.11: Characteristics of Procurement Legislation

Benchmark	Satisfied?	Commentary
(i) Organised hierarchically and precedence clearly established	No	The introduction in 2014 of the Public Procurement Council (PPC) with the function of giving consents to contract procedures and specifications makes it unclear whether responsibility rests with Contracting Authorities or with the Council.
(ii) Is freely available to the public	Yes	Law is freely available to public.
(iii) Applies to all procurement with government funds	No	The Procurement Law is not applied where procurements are financed in whole or in part by the EU or by International Financial Institutions.
(iv) Makes open competitive procurement the default method of procurement	Yes	Exceptions to open competition must be justified in accordance with the law, and in practice some type of competition is used in around 90 per cent of contracts by value.
(v) Provides public access to procurement plans, bidding opportunities, contract awards and results of procurement complaints	No	Bidding opportunities and contract awards are published on the Public Procurement Bureau (PPB) website (e-nabavki.gov.mk), and the results of procurement complaints on the website of the State Appeals Commission on Public Procurement (www.dkzjn.mk). But although Ministries are required to produce procurement plans, these are not notified to PPB or published.
(vi) Provides for an independent procurement review process prior to contract signature	Yes	Appeals can be made to the State Appeals Commission on Public Procurement which has the authority to annul decisions by Contracting Authorities.

Since three of the six benchmarks are satisfied, rating is C.

(ii) Use of competitive procurement methods

Most contracts, by number and value, are let through a competitive process, even if the underlying conditions in which the process takes place are not entirely satisfactory. All contracts are listed on the PPB website e-nabavki.gov.mk. Simplified procedures with short notice periods are applied for contracts under 5,000 Euro. For larger contracts which are still below the EU threshold, longer notice is given, while for contracts above the EU threshold of 130,000 Euro the full notice period required by the acquis is respected. The use of restricted or negotiated procedures has to be justified by reference to the Public Procurement Law; it appears that contracting authorities provided such justification whenever they notified PPB of their intention not to let a contract by open competition. Under current arrangements divergences from open competition have to be approved by the PPC. Table 3.11 below summarises the contracts let during 2013 and 2014.

Table 3.12: Use of different contract procedures, 2013-14

	2013		2014	
Type of contract award procedure	**Number of contracts**	**Value of contracts (MKD millions)**	**Number of contracts**	**Value of contracts (MKD millions)**
1. Simplified procedure under 5000 Euro	7364	1,233.3	7321	1,199.8
2. Simplified competitive procedures	3268	2,362.7	5284	2,713.3
3. Open procedure	7109	35,691.5	7115	47,552.4
4. Restricted procedure	7	1,209.1	3	826.0
5. Qualification system	22	1,887.4	48	3,136.7
6. Negotiated procedure with prior notice	58	3,555.0	68	1,010.9
7. Negotiated procedure without prior notice	1452	5,936.3	826	3,466.5
8. Other	1365	616.3	1273	486.5
9. Total	20,645	52,491.6	21,938	60,392.1

Source Public Procurement Bureau

As the table shows, some sort of competition (lines 1-5) was applied in over 80 per cent of procurements by value in 2013, and in over 90 per cent in 2014. Rating for this Dimension: A

(iii) Public access to complete, reliable and timely information

All bidding opportunities and contract awards are published on the PPB website (e-nabavki.gov.mk), and the results of procurement complaints are published by the State Appeals Commission for Public Procurement (www.dkzjn.mk), although this website was stated to be difficult to navigate. Contracting Authorities are required to prepare annual procurement plans, but these are not published or notified to PPB. Since three of the four elements (plans, bidding opportunities, contract awards and the results of procurement complaints) are published, rating for this dimension is B.

(iv) Existence of an independent administrative procurement complaints system

The PEFA criteria look for a system which meets seven benchmarks. The first two ask whether the complaints review body is made up of experienced professionals, including people from outside government, and whether the members are independent of the decision-making process. The remaining benchmarks are whether fees are charged which limit access to the appeal body, whether clearly defined procedures are followed, whether the appeal body has authority to suspend the procurement process, whether decisions are made within a prescribed timescale, and whether decisions are binding on all parties. While it appears that the time allowed for lodging appeals may in some cases be extremely short, the arrangements satisfy all these benchmarks. The State Appeals Commission for Public Procurement is independent and comprises experienced people; it works in accordance with defined procedures and does not charge prohibitive fees. It has authority to suspend the process, its decisions are given within a specified time-frame, and are binding on all parties. That the benchmarks are satisfied is demonstrated by the very substantial use made of the appeals machinery: in 2014 638 appeals were decided in relation to contracts worth over 18 billion MKD, or about 30 per cent of the total value of contracts let in 2014. 190 appeals were approved, 327 rejected and 71 dismissed on procedural grounds. The remainder were either withdrawn or accepted by the contracting authorities concerned. Rating for this dimension: A

Indicator/Dimension	2015 score	Justification for 2015 score
PI-19 (M2)	B+	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	C	Three of the six benchmarks are clearly satisfied.
(ii) Use of competitive procurement methods	A	Evidence shows that competition is applied to more than 80 per cent of procurement by value, and that exceptions are justified by reference to the applicable legislation.
(iii) Public access to complete, reliable and timely information about government procurement	B	Bidding opportunities, contract awards and the results of procurement complaints are all published. But there is no publication of procurement plans.
(iv) Existence of an independent administrative complaints machinery	A	The independent State Appeals Commission on Public Procurement satisfies all seven benchmarks.

PI-20 Effectiveness of internal controls for non-salary expenditure

Indicator/Dimension	2015 score	Justification for 2015 score
PI-20 (M1)	C+	
(i) Effectiveness of expenditure commitment controls	B	Expenditure commitment control procedures exist and appear generally effective, but uncertainty about expenditure arrears suggests that there may be exceptions. (See PI-4).
(ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures	B	The 2009 law on Public Internal Financial Control (PIFC) has improved situation but implementation is still underway.
(iii) Degree of compliance with rules for processing and recording transactions	C	The practice in some major spending Ministries whereby the Minister signs all payment orders leaves scope for overriding normal controls and is inconsistent with the PIFC Law and the Rulebook for General Financial Processes issued by the Minister of Finance.

(i) Effectiveness of expenditure commitment controls.

An additional control was introduced in 2014 into the MoF budget execution system, whereby payments will not be made unless the associated commitment has previously been registered in the system. All contracts should now be registered when placed, together with the expected timing of the associated payments. Registration is rejected if the amounts exceed the remaining funds available on the relevant budget line or if the timing of payments is incompatible with the quarterly allocations of funds to the budget user concerned. However, it is not yet clear that these requirements are being universally respected. Rating for this dimension: B .

(ii) Comprehensiveness, relevance and understanding of other rules / internal control procedures

The enactment of the PIFC Law and the issue of implementing Regulations has been followed by a continuing effort to reorganise and strengthen financial management structures and procedures. This distinguishes between the responsibilities of the policy sections of Ministries which should carry responsibility for undertaking commitments, and the finance sections which should authorise payments. It envisages that financial authority will be delegated by the Minister or Head of Institution to the head of the finance section, who will be responsible for ensuring an appropriate structure of ex ante and ex post controls. Much progress has been made, but the new arrangements have not yet been fully implemented in all budget users. Rating for this dimension: B

(iii) Compliance with rules for processing and recording transactions.

Controls in the MoF budget execution system should ensure that expenditure remains within budget limits, and that payment instructions are supported by contract documents. But the operation of the required controls within budget institutions is outside the scope of MoF controls. Regulations issued under PIFC should ensure appropriate division of functions, but the continuing arrangements in a number of major Ministries, whereby all payment orders are signed by the Minister or his/her Deputy who also has ultimate responsibility for authorising commitments, are inconsistent with these Regulations, and leave open scope for political intervention concerning the amounts and recipients of payments. Rating for this dimension: C

PI-21. Effectiveness of internal audit

Indicator/Dimension	2015 score	Justification for 2015 score
PI-21 (M1)	C+	
(i) Coverage and quality of the internal audit function	B	Internal audit has been established in most central institutions and largely meets professional standards. The focus is mainly directed towards the functioning of systems rather than compliance with regulations (which should be considered in relation to PI-20 above) .
(ii) Frequency and distribution of reports	A	The reports are prepared according to an approved plan and presented to the audited unit, the Central Harmonisation Unit at MoF and the State Audit Office.
(iii) Extent of management response to internal audit findings	C	A fair degree of action is taken by many managers

(i) Coverage and quality of internal audit function

The concept of Internal Audit (IA) as an advisory service to management was unknown in the country until the enactment of the PIFC law. Rulebooks had to be issued to provide for an Internal Audit Charter in each budget institution concerned, to prescribe internal audit methods, procedures and reporting arrangements, to lay down a Code of Ethics, and to define audit standards in line with international practice. Internal auditors had to be trained to undertake the work correctly, and appropriate structures established in each budget institution. The development of IA thus remains a work in progress, with progress measured and charted by the Central Harmonisation Unit at MoF, which takes the lead in the development of policy and regulation and makes an annual report to the government. As at July 2015 IA units had been established in 81 of 93 first level budget users, employing 144 auditors, and each producing up to 5 reports a year on aspects of the operation of systems in accordance with plans agreed with the heads of the institutions concerned. The further extension of IA in smaller institutions without the resources to establish their own dedicated units depends to an extent on the establishment of cooperative arrangements with their larger neighbours. SAO carried out a performance audit of the operation of PIFC across the government in 2014, which confirmed that IA was operating satisfactorily in most parts of central government. Overall resources for IA remain limited, and there is a need for more auditors; this is being addressed by the provision of professional training so that more auditors can become qualified.

Work is generally carried out in accordance with international standards, although the CHU Policy Paper for the development of PIFC 2015-17 noted that efforts were directed more to providing assurance about the reliability of systems than to providing advice on how they could be improved. Rating for this dimension: B

(ii) Frequency and distribution of reports

The CHU annual reports confirm that IA reports are being produced in accordance with plans previously agreed with the heads of the institutions concerned, and submitted to CHU and SAO as well as the auditees concerned. Rating for this dimension: A

(Iii) Extent of management response to internal audit findings

CHU keeps statistics of the number of recommendations issued and implemented by management. Up to the end of 2014 51.2 per cent of recommendations were recorded as being implemented in central government.This percentage where IA was functioning in local government is 54. In the absence of further information about the content and significance of recommendations, such aggregate statistics are difficult to interpret. For the time being it seems reasonable to conclude that a fair degree of action is taken by many managers in response to recommendations, but that there remains much scope for increasing the impact of IA work. Rating for this dimension: C

3.5. Accounting, recording and reporting

PI-22 Timeliness and regularity of accounts reconciliation

Indicator/Dimension	2015 score	Justification for 2015 score
PI-22 (M2)	A	
(i) Regularity of bank reconciliations	A	There are daily reconciliations between Treasury and CBRM records of domestic transactions. Where accounts are held in foreign currency in CBRM, reconciliation is monthly.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	Advances are reconciled and cleared at least quarterly, within a month of the end of the period, and with few balances remaining open from past periods. There are no suspense accounts.

(i) Regularity of bank reconciliations

All treasury operations take place through the TSA at CBRM which receives all revenues and from which all payments are made. CBRM and Treasury records of domestic transactions are reconciled daily. Sub-accounts are kept within TSA for budget institutions' own revenues, and there is a sub-account for public health care institutions managed by the Health Insurance Fund. Foreign currency balances attributed to particular projects are normally held in CBRM as part of TSA, with monthly reconciliations between CBRM and MoF. Rating for this dimension: A

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Advances to staff to meet subsequent expenditure are cleared at least monthly when the definitive expenditure can be recorded in the General Ledger. Advances to contractors are limited to 10 per cent of the contract value, and are reconciled quarterly. They must be cleared before further advances are paid. According to the Treasury there are no revenue suspense accounts. Rating for this dimension: A

PI-23 Availability of information on resources received by service delivery units

Indicator PI-23 (M1)	2015 score	Justification for 2015 score
Availability of information on resources received by service delivery units	D	Information about the cash expenditures of every individual school and public health care institution (PHCI) is available in Treasury system (including the sub-account for the PHCIs). But where resources are allocated centrally to schools or PHCIs, the value of materials assigned to each institution is not recorded in the Treasury, and there is thus no overall system which records all the necessary information in respect of all institutions. Each school and PHCI must submit its annual financial statements, which should in principle record the value of materials supplied to it, to the Central Registry, but these are neither consolidated nor published.

The Treasury system records the cash revenues and expenditures of each school or PHCI, but it includes no information about resources allocated to them without payment. Each school or PHCI, as a second level budget institution, must submit its annual financial statements (on a modified accrual basis) to the country's Central Registry, but these are accessible only on payment of a fee, and are neither consolidated nor published. Rating: D

PI-24 Quality and timeliness of reports on the budget during the year

Indicator/Dimension	2015 score	Justification for 2015 score
PI-24 (M1)	D+	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. But reports produced are limited to data aggregated by economic classification, without information about expenditure by function or administrative unit. Expenditure is covered only at the payment stage.
(ii) Timeliness of the issue of reports	A	Reports are prepared monthly or on demand. They are issued within 4 weeks of the end of the period.
(iii) Quality of information	A	There are no material concerns regarding data accuracy.

(i) Scope of reports in terms of coverage and compatibility with budget estimates

The Treasury system collects data which make possible comparisons with the original budget on the basis of all four classifications. But the monthly reports actually produced and published on the MoF website are consolidated figures based on the economic classification only, without any information about expenditure by administrative unit or function. The reports only provide data on payments, without information about the extent of outstanding commitments. Rating for this dimension: D

(ii) Timeliness of the issue of reports

Monthly reports are issued within four weeks of the end of the previous month. Rating: A

(iii) Quality of information

There are no doubts about the quality of the information in the Treasury system about cash receipts and payments, although its extraction and presentation requires knowledge and care. Rating: A

PI-25 Quality and timeliness of annual financial statements

Indicator/Dimension	2015 score	Justification for 2015 score
PI-25 (M1)	D+	
(i) Completeness of the financial statements	D	MoF prepares an annual consolidated statement of central government revenue and expenditure, in accordance with the law on Accountancy of the Budget and Budget Beneficiaries .But it is not required to present any information about financial assets and liabilities.
(ii) Timeliness of submission of the financial statements	A	Reports are submitted for external audit within 6 months of the end of the fiscal year.
(iii) Accounting standards used	C	Statements are presented in consistent format over time in accordance with the Law.

(i) Completeness of the financial statements

Article 25 of the Law on Accountancy of the Budget and Budget Beneficiaries (most recently amended in 2011) requires MoF to present only consolidated information about revenue and expenditure. Although budget institutions are required to report also details of their financial assets and liabilities, this information is not included in the consolidated statements produced by MoF. Because this essential information is not included in the financial statements submitted for audit, rating for this dimension is D.

(ii) Timeliness of submission of financial reports

Article 52 of the main Budget Law requires the Government's consolidated statements of the revenue and expenditure, together with the SAO audit report on the core budget (excluding the social insurance Funds, budget institutions own revenues and externally financed expenditure), to be presented to the National Assembly by 30 June each year for the previous year The statements presented, and published on the NA website, also include those of all LGUs. This timetable is respected. Rating for this dimension: A.

(iii) Accounting standards used

Annual statements of consolidated revenue and expenditure are produced in accordance with the Law on Accountancy of Budget and Budget Beneficiaries, and are consistent from one year to the next. But the limited coverage is not consistent with International Public Sector Accounting Standards. Rating for this dimension: C

3.6 External scrutiny and audit

PI-26 Scope, nature and follow-up of external audit

(i) Scope/nature of audit performed (including adherence to audit standards)

Public external audit in RM is the responsibility of the State Audit Office (SAO) which operates under the 2010 State Audit Law (most recently amended in 2014). SAO's audit remit covers all central government bodies, including the social insurance Funds and Regulatory Agencies, all local government units (LGUs) and institutions dependent on them, all enterprises owned by government, and political parties. The law gives SAO appropriate operational independence as well as the powers necessary for the conduct of audits; it is financed from the annual budget, but its expenditure is separately voted by the National Assembly. The Auditor-General is appointed for a term of 9 years by the National Assembly. A Constitutional Amendment anchoring SAO has been prepared, but has not yet been approved. Most of the 82 audit staff hold professional qualifications, and SAO work to international auditing standards as established by the International Organisation of Supreme Audit Institutions (INTOSAI). SAO is currently upgrading its IT infrastructure and audit management system with the assistance of the Office of the Auditor-General of Norway. While most of the resources of SAO have generally been devoted to financial and compliance audits of its 1490 individual auditees, performance audits are also being developed. A large proportion of SAO's resources in 2014 was devoted to a performance audit of the operation of the Public Internal Financial Control (PIFC) system throughout general government.

SAO does not have the resources needed to carry out a full financial and compliance audit of all its auditees every year, and therefore aims to cover most of them in detail over a period of several years. A consolidated annual report of all SAO's activities during the previous year is sent to the National Assembly in June each year. In addition to this SAO is required to make an annual audit of the execution of the central government Core Budget, which excludes the social insurance Funds as well as operations financed from own revenues or external sources. This audit is limited to revenue and expenditure statements, and does not cover assets and liabilities. It includes some sample testing of revenues, but expenditures are covered only at the level of the Treasury, without any substantive testing of transactions at the level of the budget users. SAO also produces an annual report on each of the three social insurance Funds, but this is not always directed at their financial statements. The individual financial audits covered less than 7 billion MKD of consolidated central government expenditure of 168 billion MKD in 2014; in 2013 there was full coverage of the social insurance Funds (47.6 billion MKD), but only 9.4 billion out of the Core Budget of more than 120 billion MKD was subject to detailed review. Because less than 50 per cent of the expenditure of central government entities is audited each year, the rating for this Dimension is D.

(ii) Timeliness of submission of audit reports to the legislature

Individual financial audit reports are sent to the National Assembly, and published on the SAO website (www.dzr.gov.mk) as soon as they are approved. The annual audit of the central government Core Budget (see (i) above) is sent to the National Assembly in June each year, within four months of the receipt of the revenue and expenditure out-turn statements from MoF. The annual consolidated report is also sent to the National Assembly in June each year. Rating for this Dimension: A

(iii) Evidence of follow-up on audit recommendations

Each year's SAO Annual Report contains an analysis of the responses of auditees to the recommendations in its audits. Auditees are required to respond to recommendations within 90 days. The 2014 Report shows that 65 per cent of the recommendations where the 90 day deadline had passed were in process of implementation; 18 per cent were not implemented because of changes in circumstances or disagreements by auditees, while no response had been received from auditees in respect of 17 per cent of the recommendations. The Report also shows that follow-up reviews were conducted with 53 auditees covered by 2014 reports and 37 by 2013 reports, although it provides no detailed information about the nature of the findings or the action taken by budget users in response to them. While there are indications of a reasonable level of responses by auditees, there is a continuing high incidence of qualified and adverse opinions given in the individual financial and compliance audits: unqualified opinions were given to only 26 per cent of financial statements, despite a materiality level of 4 per cent as compared with the 2 per cent more generally used, while qualified opinions were given to 45 per cent of statements, adverse opinions to 22 per cent, and disclaimers of opinion to 7 per cent. The incidence of qualified and adverse opinions on compliance with laws and regulations was even higher. In view of the evidence of continuing problems, and the extent of non-response, rating for this Dimension is B.

Indicator/Dimension	2015 score	Justification for 2015 score
PI-26 (M1)	D+	
(i) Scope/nature of audit performed	D	Less than 50 per cent of central government entities are covered by audit each year.
(ii) Timeliness of submission of audit reports to the legislature	A	Reports are submitted in June each year within 4 months of the receipt of revenue and expenditure statements from MoF.
(iii) Evidence of follow up on audit recommendations	B	There is evidence of follow-up by SAO, but not all auditees respond, and a high proportion of reports give qualified or even adverse opinions.

PI-27 Legislative scrutiny of the annual budget law

This indicator addresses the work of the National Assembly in considering the Government's budget proposals. The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. (Note that the materials provided by the Government in support of its proposals are covered in PI-6). Four dimensions are considered:

(i) Scope of the legislature' scrutiny

The PEFA criteria require consideration of whether the scope of the legislature's examination extends to fiscal policies, the medium-term fiscal framework and medium-term priorities as well as details of revenue and expenditure. In addition to the Budget Law the Government's Fiscal Strategy is available to the National Assembly for discussion. The discussion in the Finance and Budget Committee and other interested sectoral committees is concentrated on the coming year and it does not extend to the medium-term fiscal framework and medium-term priorities. The years 2014 and 2015 have been characterised by the boycott by the Opposition of the National Assembly which has undermined budget examination, discussion and debate in general. The Opposition returned to the Parliament in September 2015. Because of the very limited nature of the NA's review during the period 2012-14, Dimension rating is D.

(ii) Extent to which the legislature's procedures are well-established and respected

The government is required by the Budget Law to submit the Annual Budget to the legislature by November 15, and the National Assembly must according to its Rules of Procedure wait for 20 days before starting its plenary discussion of the proposals. The Rules of Procedure of the Assembly define further all the procedures for adoption of the budget. Article 180-A prescribes that the debate (general and amendment debate) on the draft-budget at the meeting of an authorised working body and the legislative committee shall last for a total of 10 working days. A member of the working body and an MP, during the general debate in the plenary session can take the floor several times for up to 20 minutes in total, while the coordinator a parliamentary group has up to 30 minutes in total. The Rules of Procedure are followed by the NA. Dimension rating: A

(iii) Adequacy of time for the legislature to respond to the budget proposals

As discussed above with the respect to dimension (ii), the Budget Law gives the Government until 15 November to submit the proposed Annual Budget to the legislature; in practice as shown in PI-11 the Government actually submitted the draft budgets for in 2014 and 2015 to the National Assembly before the beginning of November, thus leaving the Assembly more than two months to review the budget. But the 2013 Budget was not submitted until after the beginning of November 2012. Dimension rating: B

(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature

The PEFA scoring envisages that there should be clear limits on the extent to which the Executive can change or reallocate the Budget in the course of its execution without the approval of the National Assembly. The Budget Law permits the Government to reallocate appropriations between items for each budget user (but reductions are limited to 20 per cent of the provision for each item, and provision for salaries cannot be increased by more than 10 per cent). Reallocations between budget users require a revised budget approved by the NA (Article 33 of Budget System Law). Overall reductions or increases in expenditure require an amended budget. The limits set by the Budget Law are respected. Dimension rating: A

Indicator/Dimension	2015 score	Justification for 2015 score
PI-27 (M1)	D+	
(i) Scope of the legislature's scrutiny	D	Due to the boycott of the Opposition the budget process was undermined in 2012-14 and the legislature's review extremely limited.
(ii) Extent to which the legislature's procedures are well-established and respected	A	Procedures are well established and respected.
(iii) Adequacy of time for the legislature to respond to budget proposals	B	Budget Law ensures at least 1 month but less than 2 months for consideration of proposals by National Assembly.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	A	Rules limiting the executive's ability to amend the budget without the approval of the National Assembly are clear and respected

PI-28 Legislative scrutiny of external audit reports

This indicator examines the handling of external audit reports by the legislature. Three dimensions are assessed: (i) Timeliness of examination of audit reports (for reports received within the last three years), (ii) Extent of hearings on key findings, (iii) Issuance of recommended actions by the legislature and implementation by the executive

(i) Timeliness of examination of audit reports by the legislature

In accordance with Article 52 of the Budget Law, the Government is required to submit to the National Assembly the annual budget execution together with the audit report of the core budget for discussion and adoption by June 30. As regards the other audit reports made by SAO, there is no legal obligation for the Assembly to examine any reports other than the consolidated Annual Report on the previous year's audits and operations of SAO. According to the 2014 Annual Report of SAO 116 audit reports were submitted to the National Assembly but not further examined. Dimension rating: D

(ii) Extent of hearings on key findings undertaken by the legislature

As discussed above in the dimension (i) there is no legal obligation to examine the audit reports on individual budget users. No in-depth hearings with auditees subject to criticism have been conducted by the National Assembly in the 2012-2014 period. Number of audit reports submitted to the National Assembly: 93 in 2012, 155 in 2013, 116 in 2014. Dimension rating: D

(iii) Issuance of recommended actions by the legislature and implementation by the executive

According to the Chairman of the Finance and Budget Committee in the NA some actions are recommended to the executive each year on the basis of the SAO annual report, some of which are implemented. But there was no indication that the Government attached much importance to the NA's intervention. Dimension rating: D

Indicator/Dimension	2015 score	Justification for 2015 score
PI-28 (M1)	D+	
(i) Timeliness of examination of audit reports by the legislature	D	The National Assembly has no legal obligation to examine audit reports other than the consolidated annual report.
(ii) Extent of hearings on key findings undertaken by the legislature	D	No in-depth hearings have been conducted by the National Assembly in 2012-2014.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	C	The NA sends its Resolution based on the SAO Report to the Government, incorporating its recommendations. But there was no sign that the Government took much notice.

3.7 Donor indicators

D-1 Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided to the government before submission of budget proposals to the legislature

The country received Direct Budget Support in 2012-14 in the form of two Development Policy Loans from the World Bank amounting to 75.1 million Euro paid in two tranches in 2013 and 2014, and two Budget Support Loans from Deutsche Bank guaranteed by the World Bank amounting to 325 million Euro paid in two tranches (75 million Euro and 250 million Euro) in 2012 and 2013. MoF stated that the whole amounts were received at the time originally programmed and taken into consideration in budget formulation. Rating for this Dimension: A

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

The timing of the receipts was determined by MoF not by the lenders. Rating for this Dimension: Not Applicable

Indicator/Dimension	2015 score	Justification for 2015 score
D-1 (M1)	A	
(i) Annual deviation of actual budget support from donor agencies' forecast	A	The programmed amounts were actually received.
(ii) In-year timeliness of donor disbursements	NA	The timing of receipts depended on the Government, not the lenders.

D-2 Financial information provided by donors for budgeting and reporting on project and programme aid

(i) Completeness and timeliness of budget estimates by donors for project support

All externally financed projects are fully reflected in budget documentation and out-turn statements, although the amounts actually drawn may differ from those shown in the budget. Rating for this Dimension: A

(ii) Frequency and coverage of reporting by donors on actual flows for project support

Implementation of externally financed projects is controlled by the RM government, not the donors/lenders. Rating: Not Applicable

Indicator/Dimension	2015 score	Justification for 2015 score
D-2 (M1)	A	
(i) Completeness and timeliness of budget estimates by donors for project support	A	Externally financed projects are fully taken into account in the budget each year.
(ii) Frequency and coverage of reporting by donors on actual flows for project support	NA	Project implementation is controlled by the authorities, not the lenders/donors.

D-3 Proportion of aid that is managed by use of national procedures

Direct Budget Support (DBS) by definition uses national procedures for procurement, payment, reporting/accounting and audit. Externally financed projects use national procedures for payment and reporting/accounting, but the donors' procedures are used for procurement and audit. i.e. as to 50 per cent according to the conventions used in the PEFA criteria. The respective amounts are shown in Table 3.9 below.

Table 3.13: Direct Budget Support and Externally Financed Projects 2012-14

Euro thousands

	2012	2013	2014	Total
Direct Budget Support	75,000.0	288,700.0	36,400.0	400,100.0
Externally Financed Projects	80,590.2	83,113.8	112,221.1	275,927.1
Total External Finance	155,590.2	371,813,8	148,621.1	676,027.1
Weighted average use of national procedures				79.6%

Source: MoF

Indicator D-3 (M1)	2015 score	Justification for 2015 score
Proportion of aid that is managed by use of national procedures	B	National procedures were used on average for 79.6 per cent of external grant and aid financing.

4. Government reform process

Recent and on-going reforms

The current Public Administration Reform strategy 2010-15 led by the Ministry of Information Systems and Administration (MISA) is nearing its conclusion, and a new strategy will need to be adopted to begin in 2016. This strategy has focused on the improvement of human resource management (HRM), the development of e-government services, and measures to improve the quality of public administration through fuller consideration and greater consultation about changes in legislation and administrative procedures, including implementation of a requirement for Regulatory Impact Assessments RIAs) before changes are enacted. The main initiatives promoted by the Government should be included in the Government Annual Work Programme (GAWP). There is also a National Programme for the Application of the (EU) Acquis (NPAA), on which steady progress has been made, although with some delays. The legislative underpinning for these initiatives has for the most part been enacted, but implementation has been limited. Much legislation has been enacted through accelerated procedures in the National Assembly, without RIAs being prepared, and without draft proposals being exposed to public consultation through publication on the Single National Electronic Registry of Regulation (SNERR). Freedom of Information legislation is in place, but there is wide scope for the refusal of applications, and many requests go unanswered. New laws to rationalise the employment conditions of civil servants and other public sector employees (the Laws on Administrative Servants (LAS) and on Public Sector Employment (LPSE)) were enacted in early 2014 and brought into force a year later, although measures to reform the structure of allowances and incentive payments and to ensure the proper implementation of performance appraisal are not yet fully applied.

There is currently no PFM reform strategy or programme in place. Recent improvements have focused on the implementation of a Medium-Term Fiscal Strategy, the introduction of Programme Budgeting, the development of Public Internal Financial Control (PIFC) on the EU model, and strengthening the capacity of the State Audit Office (SAO), including its IT infrastructure. But there is not yet a fully articulated Medium-Term Budgetary Framework within which the strategies for the development of each service are contained, the specification of performance targets and indicators, together with consistent reporting of the outcomes, is only just beginning, there is still some way to go before all aspects of PIFC are in place throughout general government, and there remain important gaps in the transparency of government fiscal operations.

Prospects for further reform

MoF plans to use EU Instrument for Pre-Accession (IPA) funds to support the further development of medium-term fiscal planning and to finance the development of a strategy for the upgrading of the government's Financial Management Information System. It also recognises the need to upgrade and integrate the IT systems used in the assessment and collection of different taxes. These initiatives, together with further development of PIFC and steps to improve transparency and accountability for fiscal operations, could form elements in a PFM reform strategy, the formulation of which will be a condition for RM to receive direct budget support from the EU. The development of this strategy will have much greater chances of success if it takes place in an improved political climate in which the Government accepts the need for full transparency and accountability for its operations, which is the key to rebuilding public trust.

Annex 1: List of People Consulted

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Aleksandar Lochev

Sonja Velnic

Roza Manevska

Customs Administration

Ilija Janoski

Irina Tileva

Secretariat for European Affairs

Zuica Zmejkovska

State Audit Office

Tanja Janevska

Sveta Ristovska

Aleksandar Popovski

Julia Stepanovic

Kalliopi Petkovska

Natasha Mihailovic

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Dragan Cuklev, Member of Budget and Finance Committee
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Annex 2: List of Documents consulted

PEFA 2011 Criteria

Testing version of 2015 PEFA Criteria

Budget Law

State Audit Law

Law on Public Internal Financial Control and Implementing Regulations

Law on Accountancy for Budget and Budget Beneficiaries, and Implementing Regulations

Law on Local Government Financing

Public Procurement Law (2014)

National Assembly Rules of Procedure

National Economic Reform Programme 2015

Fiscal Strategy 2014-16 and 2015-17

State Audit Office Reports for 2012, 2013, 2014

PIFC Policy Paper 2015-17

Public Procurement Bureau, 2014 Annual Report

Central Bank of the Republic of Macedonia, Annual Report for 2014

IMF Country Reports 15/18 and 15/242

World Bank Doing Business Survey, FYR Macedonia 2015

SIGMA Report on FYR Macedonia for 2013

EU Progress Report for FYR Macedonia 2014

Annex 3: Scoring - PEFA 2011 Methodology

	A. PFM OUT-TURNS:	
PI-1	Aggregate expenditure out-turn compared to original approved budget (M1)	B
PI-2	Composition of expenditure out-turn compared to original approved budget (M1)	A
(i)	*Extent of variance in expenditure composition*	*A*
(ii)	*Average amount of expenditure charged to the contingency provision*	*A*
PI-3	Aggregate revenue out-turn compared to original approved budget (M1)	D
PI-4	Stock and monitoring of expenditure payment arrears (M1)	D+
(i)	*Stock of expenditure payment arrears*	*C*
(ii)	*Availability of data for monitoring the stock of payment arrears*	*D*
	B. KEY CROSS-CUTTING ISSUES:	
PI-5	Classification of the budget (M1)	A
PI-6	Comprehensiveness of information included in budget documentation (M1)	B
PI-7	Extent of unreported government operations (M1)	C+
(i)	*Level of unreported extra-budgetary expenditure*	*C*
(ii)	*Inclusion of information on donor-funded projects in fiscal reports*	*A*
PI-8	Transparency of Inter-Governmental Fiscal Relations (M2)	A
(i)	*Transparency and objectivity in the horizontal allocation of central government grants to LGUs*	*A*
(ii)	*Timeliness of reliable information to LGUs on their allocations*	*A*
(iii)	*Extent of consolidation of fiscal data for general government according to sectoral categories*	*B*
PI-9	Oversight of aggregate fiscal risk from other public sector entities (M1)	C
(i)	*Extent of government monitoring of PEs and AGAs*	*C*
(ii)	*Extent of central government monitoring of LGUs fiscal position*	*C*
PI-10	Public Access to key fiscal information (M1)	A
	C. BUDGET CYCLE	
PI-11	Orderliness and participation in the annual budget process (M2)	B+
(i)	*Existence of and adherence to a fixed budget calendar*	*A*
(ii)	*Guidance on the preparation of budget submissions*	*C*
(iii)	*Timely budget approval by the Legislature*	*A*
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)	C+
(i)	*Multi-year fiscal forecasts and functional allocations*	*D*
(ii)	*Scope and frequency of debt sustainability analysis*	*A*
(iii)	*Existence of sector strategies with multi-year costing of recurrent and investment expenditure*	*C*
(iv)	*Linkages between investment budgets and forward expenditure estimates*	*C*
PI-13	Transparency of taxpayer obligations and liabilities (M2)	C+

(i)	*Clarity and comprehensiveness of tax liabilities*	*B*
(ii)	*Taxpayers' access to information on tax liabilities and administrative procedures*	*B*
(iii)	*Existence and functioning of a tax appeals mechanism*	*D*

PI-14	Effectiveness of measures for taxpayer registration and tax assessment (M2)	C+
(i)	*Controls in the taxpayer registration system*	*C*
(ii)	*Effectiveness of penalties for non-compliance with registration and declaration obligations*	*C*
(iii)	*Planning and monitoring of tax audit and fraud investigation programmes*	*B*

PI-15	Effectiveness in collection of tax payments (M1)	D+
(i)	*Collection ratio for gross arrears*	*D*
(ii)	*Effectiveness of transfer of tax collections to the Treasury*	*A*
(iii)	*Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury*	*D*
PI-16	Predictability in the availability of funds for commitment of expenditures (M1)	B+
(i)	*Extent to which cash flows are forecast and monitored*	*A*
(ii)	*Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment*	*B*
(iii)	*Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs*	*A*
PI-17	Recording and management of cash balances, debt and guarantees (M2)	A
(i)	*Quality of debt data recording and reporting*	*A*
(ii)	*Extent of consolidation of the government's cash balances*	*A*
(iii)	*Systems for contracting loans and issuing guarantees*	*B*
PI-18	Effectiveness of payroll controls (M1)	C+
(i)	*Degree of integration and reconciliation between personnel records and payroll data*	*B*
(ii)	*Timeliness of changes to personnel records and the payroll*	*A*
(iii)	*Internal controls over changes to personnel records and the payroll*	*A*
(iv)	*Existence of payroll audits to identify control weaknesses and/or ghost workers*	*C*
PI-19	Transparency, competition and complaints mechanisms in procurement (M2)	B+
(i)	*Transparency, comprehensiveness and competition in the legal and regulatory framework*	*C*
(ii)	*Use of competitive procurement methods*	*A*
(iii)	*Public access to complete, reliable and timely information about government procurement*	*B*
(iv)	*Existence of an independent administrative complaints machinery*	*A*
PI-20	Effectiveness of internal controls for non-salary expenditures (M1)	C+
(i)	*Effectiveness of expenditure commitment controls*	*B*
(ii)	*Comprehensiveness, relevance and understanding of other internal control rules and procedures*	*B*
(iii)	*Degree of compliance with rules for processing and recording transactions*	*C*
PI-21	Effectiveness of internal audit (M1)	C+
(i)	*Coverage and quality of the internal audit function*	*B*
(ii)	*Frequency and distribution of reports*	*A*
(iii)	*Extent of management response to internal audit findings*	*C*

PI-22	Timeliness and regularity of accounts reconciliation (M2)	A
(i)	*Regularity of bank reconciliations*	*A*
(ii)	*Regularity of reconciliation and clearance of suspense accounts and advances*	*A*
PI-23	Availability of information on resources received by service delivery units (M1)	D
PI-24	Quality and timeliness of in-year budget reports (M1)	D+
(i)	*Scope of reports in terms of coverage and compatibility with budget estimates*	*D*
(ii)	*Timeliness of the issue of reports*	*A*
(iii)	*Quality of information*	*A*
PI-25	Quality and timeliness of annual financial statements (M1)	D+
(i)	*Completeness of the financial statements*	*D*
(ii)	*Timeliness of submission of the financial statements*	*A*
(iii)	*Accounting standards used*	*C*

PI-26	Scope, nature and follow-up of external audit (M1)	D+
(i)	*Scope/nature of audit performed*	*D*
(ii)	*Timeliness of submission of audit reports to the legislature*	*A*
(iii)	*Evidence of follow up on audit recommendations*	*B*
PI-27	Legislative scrutiny of the annual budget law (M1)	B+
(i)	*Scope of the legislature's scrutiny*	*D*
(ii)	*Extent to which the legislature's procedures are well-established and respected*	*A*
(iii)	*Adequacy of time for the legislature to respond to budget proposals*	*B*
(iv)	*Rules for in-year amendments to the budget without ex ante approval by the legislature*	*A*
PI-28	Legislative scrutiny of external audit reports (M1)	D+
(i)	*Timeliness of examination of audit reports by the legislature*	*D*
(ii)	*Extent of hearings on key findings undertaken by the legislature*	*D*
(iii)	*Issuance of recommended actions by the legislature and implementation by the executive*	*C*
	D. DONOR PRACTICES	
D-1	Predictability of Direct Budget Support (M1)	A
(i)	*Annual deviation of actual budget support from donor agencies' forecast*	*A*
(ii)	*In-year timeliness of donor disbursements*	*NA*
D-2	Financial information provided by donors for budgeting and reporting on project and program aid (M1)	A
(i)	*Completeness and timeliness of budget estimates by donors for project support*	*A*
(ii)	*Frequency and coverage of reporting by donors on actual flows for project support*	*NA*
D-3	Proportion of aid that is managed by use of national procedures (M1)	B

Annex 4: Application of 2015 PEFA Criteria

SUPPLEMENT TO PEFA REPORT

APPLICATION OF 2015 CRITERIA

This supplement to the main report rates a number of the new Performance Indicators according to the January 2015 testing version of the new criteria.

PI-8 Performance information for achieving efficiency in service delivery

With the exception of dimension (iii) which covers the same ground as PI-23 under the 2011 criteria, this is a new Indicator to test the availability of information about the economy, efficiency and effectiveness of the delivery of the main public services (education, training, health, social benefits, roads, policing).

(i) Disclosure of annual performance targets for service delivery

This dimension asks whether information is presented within budget documentation on performance targets for the outputs to be delivered, and on the indicators by reference to which performance is to be measured. A high rating requires such targets and indicators to be presented covering a large proportion of expenditure on service delivery functions. Some budget users (including Health and Transport, which together account for about 25 per cent of expenditure) provide information about performance targets as part of the initiative to introduce programme budgeting, but the information is not comprehensive and does not consistently specify how progress against the targets is to be measured. Rating for this dimension: C

(ii) Disclosure of data on performance results achieved in service delivery

This dimension asks whether information is provided about the extent to which previously announced performance targets have been achieved. While there are not yet comprehensive arrangements for publication of the delivery of all main public services against targets, information is published about the performance of health care institutions which account for some 10 per cent of total government expenditure. Rating for this dimension: C

(iii) Monitoring of resources received by service delivery units

This dimension essentially reproduces PI-23 under the 2011 criteria. Rating is D.

(iv) Content and coverage of independent performance evaluations

This dimension asks about the extent to which the delivery of the main public services has been the subject of independent evaluations. Performance audits of the delivery of services are taken into account here. SAO performance audits have covered specific aspects of the health and education services (for example student accommodation, procurement of advanced medical equipment), and included recommendations about service delivery, but it does not appear that the coverage of these audits will have exceeded 25 per cent of expenditure on main public services during the period 2012-14. There do not seem to have been any other evaluations of service delivery. Rating: C

Indicator/ Dimension	**2015 Rating**	**Justification for 2015 Rating**
PI-8 (M2)	D+	
(i) Disclosure of annual performance targets for service delivery	C	Performance targets for some major programmes accounting for about 25 per cent of consolidated budget expenditure are presented with budget documentation, but there is no consistent information about the measurement of performance.
(ii) Disclosure of data on performance results	C	While there are not yet any generally applicable arrangements for publishing information about performance against defined targets, information is published about the performance of health care institutions which account for some 10 per cent of annual expenditure.
(iii) Monitoring of resources received by service delivery units	D	The Treasury system collects information about the revenue and expenditure transactions of all first and second level budget users, including schools and health care institutions. But it collects no information about resources in kind allocated by central government to each institution. Each institution must submit its annual financial statements to the Central Registry which should cover such allocations, but these statements are only available on payment, and are nowhere consolidated or published..
(iv) Content and coverage of independent performance evaluations	C	SAO performance audits have covered some specific aspects of service delivery.

PI-11 Public Investment Management

This is a new Indicator, which asks more searching questions about the management of public investment than are required by the 2011 criteria.

(i) Application of objective economic analysis

The highest rating for this dimension requires all major capital investment projects to be appraised according to economic analysis as specified in established national guidelines, and for this analysis to be validated by an entity other than the sponsoring Ministry or Agency. No generally applicable rules for the appraisal of investment projects have been promulgated, and there are no procedures in place to ensure that the economic case for each project is validated by a body other than the project's sponsor. However, many major investment projects put forward by budget users are currently dependent on loans at favourable rates from International Financial Institutions (World Bank, European Investment Bank, European Bank for Reconstruction and Development) which undertake an assessment of the economic case for the projects before agreeing to the loans. These projects meet the criteria to be counted as large projects (cost, ranking in Ministries' programmes, duration. Because of this, rating for this dimension is C.

(ii) Costing over the project life cycle

The highest rating for this dimension requires Regulations or Guidelines to be in place which prescribe that the full life-cycle costs (including subsequent recurrent costs of operating or using the assets to be created) are included in the plans submitted for each investment project. No Regulations or Guidelines have been established to ensure that the full life-cycle costs involved in the operation or use of new assets are fully taken into consideration in investment decisions. Although the subsequent recurrent costs are taken into consideration in some investment decisions, there is no assurance that this is done systematically in respect of 50 per cent of new projects, which results in the rating D.

(iii) Project monitoring and reporting

While there is no consolidated database of approved projects which would enable progress, physical and financial, in their implementation to be regularly monitored from a central viewpoint, the sponsors of major investments have arrangements in place which enable progress on individual projects to be monitored regularly by the managements concerned. There are limits on advances to contractors, and further payments are not made until the Ministries or Agencies concerned are satisfied with the progress of work. It should be noted, however, that no arrangements are in place to provide for central monitoring of the extent to which contracts are varied during implementation to cover changed or additional requirements; where such changes are made they are treated by the Public Procurement Bureau, which oversees the system, as new contracts, not linked in any way to the original contract. Rating for this dimension: B

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-11 (M2)	C	
(i) Application of objective economic analysis	C	Major projects financed by IFIs are validated by the lenders concerned.
(ii) Costing over the project life-cycle	D	Although the decisions on some projects take full life-cycle costs into account, no systematic arrangements are in place to ensure this.
(iii) Project monitoring and reporting	B	Sponsoring bodies keep close track of the execution of projects for which they are responsible.

PI-12 Public asset management

This is another new PI, which addresses matters not directly addressed under the 2011 Framework. It asks whether policies and arrangements are in place to ensure that governments obtain the best returns from their holdings of financial assets (external reserves, bank deposits, loans, shareholdings in enterprises) and non-financial assets (land, buildings, public infrastructure, rights to the exploitation of minerals and natural resources), and whether transparent arrangements are in place covering the transfer and disposal of non-financial assets and usage rights.

(i) Quality of central government financial asset monitoring

The Ministry of Finance maintains records of government holdings of financial assets, including external reserves, loans to enterprises in the public and private sectors, bank deposits (almost all of which are held in the Central Bank of the Republic of Macedonia (CBRM) and shareholdings in enterprises The performance of these assets is monitored, but no consolidated reports are produced about the financial performance of public enterprises (see PI-10 above) and nothing has been published about government holdings of financial assets. Rating for this dimension: D

(ii) Quality of central government non-financial asset monitoring

The law on Accountancy for Budget and Budget Beneficiaries and the Regulations issued under it clearly require the keeping of asset registers and the reporting of balance sheet information. Detailed Regulations prescribe the rates at which different types of asset should be depreciated, and require their periodic revaluation. A balance sheet should be produced as part of each budget user's annual financial statements submitted to the Central Registry. But it does not appear that any arrangements exist for the consolidation or exploitation of this information, or that any reports have been produced about the extent of or changes in government holdings of non-financial assets. The SAO report for 2014 includes criticisms of the Ministries of Defence and Agriculture in respect of their management and record keeping of public assets. Rating for this dimension: D

(iii) Transparency in the sale, transfer and disposal of non-financial assets and usage rights

The transfer of usage rights is regulated by the 2012 Law on Public Private Partnerships and the Letting of Concessions for which the Ministry of Economy is responsible. The Registry of Concessions provided for in the 2012 law has not been established, so there is no effective monitoring or supervision of the letting of concessions by central or local government. There do not appear to be any arrangements for the supervision and monitoring of the sale of public assets, other than by SAO in the course of its programme of financial audits of budget institutions. Rating for this dimension: D

Indicator/Dimension	2015 score	Justification for 2015 score
PI-12 (M2)	D	
(i) Quality of central government financial asset monitoring	D	The Ministry of Finance holds information about external reserves, bank deposits and government loans, and monitors the performance of public enterprises. But no consolidated reports are prepared about the performance of all government holdings of financial assets.
(ii) Quality of central government non-financial asset monitoring	D	Each budget user should have a register of fixed assets, but there is no central machinery to supervise this, and no reports have been produced about the management of fixed assets.
(iii) Transparency in the sale, transfer and disposal of non-financial assets and usage rights	D	The letting of concessions is governed by a 2012 law, but there is no effective central government machinery to supervise this; the proposed Registry of Concessions has not been established. There is no central supervision of the sale of government assets, and no reports have been produced about any of these matters.

PI-13 Management of debt and expenditure arrears

This Indicator brings together the two dimensions of 2011 PI-4 concerning expenditure arrears, and the first and third dimension of 2011 PI-17, and adds a new dimension concerning the preparation of a debt management strategy. Dimensions (i) and (ii) reproduce dimensions (i) and (iii) of 2011 PI-17, and are therefore rated A and B respectively, as in the main report.

(iii) Preparation of a debt management strategy

The highest rating for this dimension requires the annual updating and publication of a medium-term debt management strategy, which includes target levels of indicators of interest rate, refinancing and exchange rate risk, based on a thorough debt sustainability analysis. Such targets are set out in the Government's Fiscal Strategy 2015-17. The country has a strategy of seeking to lengthen the average maturity of both domestic and external debt, so as to reduce interest rate and refinancing risks; interest risk should be contained by maintaining the "average time to refixing" at a minimum of 2 years, and refinancing risk by maintaining the "average time to maturity" at a minimum of 3 years. The actual values of these Indicators in 2015 were projected to be 3.5 and 4.5 years respectively. Thus the rating for this dimension is A.

(iv) Stock and monitoring of expenditure arrears

This dimension brings together and simplifies the two dimensions of 2011 PI-4. For the highest rating, data is required on the complete stock of arrears, including an age profile, and the stock must not exceed 2 per cent of total government expenditure. As the main report explains, no comprehensive and reliable data are available about the extent and age of expenditure arrears. If comprehensive data were available about the total of short term financial liabilities of all budget users, it might be possible to conclude that arrears could not exceed 10 per cent of total expenditure, the condition for a C or even B rating. But in the absence of any comprehensive information, rating is D.

Indicator/Dimension	**2015 score**	**Justification for the 2015 score**
PI-13 (M2)	B	
(i) Domestic and foreign debt data recording and reporting	A	Data are complete, regularly reconciled, and there are no doubts about their accuracy.
(ii) Systems for contracting loans and issuance of guarantees	B	The contracting of loans and issue of guarantees are under full control of the Minister of Finance, and made within total limits; but these are not linked to specific fiscal targets.
(iii) Preparation of a debt management strategy	A	The country aims to lengthen the average maturity of domestic and external debt in order to reduce interest rate and refinancing risks; the Government's Fiscal Strategy 2015-17 sets targets for minimum average periods before interest rate refixing and before maturity, which have been fully met for 2015.
(iv) Stock and monitoring of expenditure arrears	D	Comprehensive and reliable information about the extent and age of expenditure arrears is not available.

PI-14 Credible fiscal strategy

This is another new Indicator which is concerned with matters not directly addressed in the 2011 Framework. It asks (i) whether a three year medium-term fiscal strategy has been formulated at the start of the budget process, (ii) whether medium-term fiscal strategies are soundly based on medium-term macro-economic projections, and (iii) whether there have been substantial deviations in the last three years from the fiscal balance put forward when the budget was proposed.

(i) Formulation of fiscal objectives and strategy

Fiscal strategies for the three years immediately ahead have since 2013 (i.e. in relation to the 2014 and 2015 budgets – see PI-11 in the main report) been formulated in terms of aggregate projections of revenue and expenditure, taking into account expectations about the development of the economy. Since this has only been done for the two most recent budget cycles, the rating is B.

(ii) Preparation and use of macro-economic forecasts as a basis for annual and medium-term budgets

A high rating requires the preparation of a medium-term budget based on macro-economic projections which assess the impact of risks to the fiscal variables (revenue, expenditure and debt) from the macro-economic environment, and consider pessimistic and optimistic scenarios. Because only an annual budget is produced, and only the risks to debt from slower growth of revenue and faster growth of expenditure are considered, informed by the debt sustainability analysis carried out annually in consultation with the IMF, the rating is C.

(iii) Difference between actual and originally forecast central government fiscal balance

There were significant increases in the fiscal deficit as between budget and out-turn in each of the years 2012-14. On the basis of the figures in PI-1 and PI-3 of the main report, the deteriorations were from 12.6 billion MKD to 17.9 billion MKD in 2012, from 17.7 billion to 18.6 billion MKD in 2013, and 18.3 MKD to 22.2 billion MKD in 2014; as percentages of GDP these were 2.7 percent to 3.9 per cent, 3.8 to 3.9 per cent, and 3.5 to 4.2 per cent for the three years respectively. Since the deviations between budget and out-turn were less than one per cent of GDP in two of the three years, the rating is A.

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-14 (M2)	B	
(i) Formulation of fiscal objectives and strategy	B	For the 2014 and 2015 budgets a Fiscal Strategy in terms of aggregate projections of revenue and expenditure has been produced before submission of the draft budget to the National Assembly.
(ii) Preparation and use of macro-economic forecasts as a basis for annual and medium-term budgets	C	Only an annual budget is presented, and alternative scenarios are not considered in the projections, which take into account only the risks to debt sustainability.
(iii) Difference between actual and originally forecast central government fiscal balance	A	Although there were deteriorations in the fiscal balance in each of the three years 2012-14, the deterioration exceeded one per cent of GDP only in 2012. The deteriorations amounted to 1.2 per cent, 0.1 per cent and 0.7 per cent respectively.

PI-15 Revenue budgeting

This PI looks in more detail at how revenue forecasting interacts with fiscal planning. The first dimension assesses the way in which revenues are forecast in the medium-term, the second examines whether the fiscal impact of revenue policy changes is presented on the basis of well-evidenced economic forecasts, and the third looks at changes in the mix of revenues between budget and out-turn in the same way as changes in the mix of expenditure are examined in PI-2.

(i) Medium-term forecasting of revenues

A high rating requires the production of medium-term forecasts of the major sources of revenue as part of the annual budget process, with documentation explaining the assumptions and methodology used in each case, and including also estimates or explanations of the upside and downside risks. The Fiscal Strategy document produced as part of the budget process provides only aggregate projections of total revenue, with no breakdown by revenue source, and no detailed explanation of the assumptions used. The National Economic Reform Programme document produced after the enactment of the budget includes a very limited breakdown of revenues between taxes on income and profits, taxes on production and imports, and social contributions for the two further years, but provides no analysis of the basis for these figures. Because of this, the rating is D.

(ii) Assessment of the fiscal impact of proposed policy changes

A high rating requires detailed explanations to be given of the expected revenue impact of revenue policy changes. As noted in relation to PI-6 in the main report, information is not provided in the budget of the fiscal impact of policy changes. The National Economic Reform Programme document includes some overall presentation of the impact of revenue policy changes already enacted, but these are all included in one table without a clear explanation of the impact of the different elements. Because of this, rating is D.

(iii) Extent of variance in revenue composition

The variance in revenue composition is calculated from the data in PI-3 of the main report. The figures are in the Annex 3 above. These show that the variance for the three years was 10.3 per cent, 9.4 per cent and 14.5 per cent for the three years 2012-14. Social insurance contributions were maintained at a level close to budget when other elements fell short, while VAT receipts consistently fell further short of budget than other revenue streams. Capital receipts consistently fell further short of budget than other revenues, while in two of the three years miscellaneous revenues fell disproportionately short of budget. Because the calculated variance exceeded 10 per cent in two of the three years (but never exceeded 15 per cent), the rating is C.

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-15 (M2)	D+	
(i) Medium-term forecasting of revenues	D	No documentation is provided to justify the forecasts of different revenue streams.
(ii) Assessment of the fiscal impact of proposed policy changes	D	No documentation is provided to explain the expected impact of revenue policy changes.
(iii) Extent of variance in revenue composition	C	The calculated variances exceeded 10 per cent in two of the three years.

Table 4: Variance of Revenue Composition (2015 framework)

MKD million

	2012				2013				2014			
Revenue type	**Budget**	**Adjusted Budget**	**Actual out-turn**	**Absolute difference**	**Budget**	**Adjusted Budget**	**Actual out-turn**	**Absolute difference**	**Budget**	**Adjusted Budget**	**Actual out-turn**	**Absolute difference**
Personal Income Tax	10,788.0	9,501.6	9,615.9	114.3	10,425.0	9,882.9	10,309.4	426.5	10,769.0	9,929.0	12,375.9	2,446.9
Profit Tax	3,990.0	3,515.2	3,789,7	274.5	4,114.7	3,900.7	4,577.8	677.1	4,293.0	3,958.1	5,283.8	1,325.7
VAT	44,966.0	39,615.0	38,541.9	1,073.1	45,533.5	43,165.8	39,897.9	3,267.9	48,818.0	45,010.2	43,943.2	1,067.0
Excise taxes	17,228.0	15,177.9	16,594.7	1,416.8	14,678.0	13,914.7	16,093.3	2,178.6	16,006.0	14,757.5	17,685.4	2,927.9
Customs duties	5,800.0	5,109.8	4,066.6	1,043.2	3,942.0	3,730.0	4,254.5	504.5	4,086.0	3,767.3	4,221.8	454.5
Social contributions	42,619.1	37,547.4	40,922.3	3,374.9	42,990.9	40,755.4	42,437.2	1,681.8	45,153.0	41,631.1	44,192.5	2,561.4
Licence fees ,etc	5,655.0	4,982.1	6,148.6	1,166.5	4,019.0	3,810.0	3,422.0	388.0	4,734.3	4,365.0	1,614.2	2,750.8
Charges for services	6,719.1	5,919.5	5,718,0	201.5	6,548.3	6,207.8	5,519.1	688.7	7,115.3	6,560.1	5,854.4	705.9
Dividends, etc	3,968.1	3,495.9	2,740.3	755.6	2,915.0	2,763.4	2,469.1	295.3	2,960.0	2,729.1	1,266,	1,462.9
Other domestic revenues	7,726.2	6,806.8	4,558.6	2,248.2	6,549.6	6,209.0	5,886.6	322.4	6,641.5	6,123.5	3,957.3	2,166.2
Capital receipts	4,842.0	4,265.8	2,509.3	1,756.5	3,627.0	3,438.4	1,753.1	1,685.3	4,636.6	4,274.9	1,824.6	2,450.3
External grants	2,365.1	2,083.7	2,833.6	749.9	2,605.4	2,469.9	3,575.0	1,105.1	3,003.7	2,769.4	3,658.4	889.0
Total	**156,691.7**		**138,039.5**	**14,177.0**	**147,948.4**		**140,194.2**	**13,221.2**	**158,216.5**		**145,877.9**	**21,208.5**
Overall difference between Budget and out-turn			**11.9%**				**5.2%**				**7.8%**	
Sum of diffs, as% of out-turn			**10.3%**				**9.4%**				**14.5%**	

Source: MoF

PI-19 Revenue administration compliance

PIs 19 and 20 under the 2015 Framework cover the same ground as PIs 13-15 under the 2011 Framework, but the questions are arranged somewhat differently.

(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government

This dimension in effect draws together the content of dimensions (ii) and (iii) of PI-13 under the 2011 Framework. The highest rating requires that the entities collecting more than 75 per cent of government revenue provide easy access to comprehensive, user-friendly and up-to-date information and administrative procedures, including a right of redress. Although tax advisers have questioned whether information is sufficiently comprehensive on technical issues, with only limited scope for discussion before changes are implemented, both the Public Revenue Office (PRO) and the Customs Administration (CA) maintain user-friendly websites providing all essential information, as well as call centres and other facilities for providing tax information and compliance advice. But the previously functioning administrative appeals system has recently been abolished with the result that appeals now have to be made directly to the Administrative Court. Because of this, rating for this dimension is C.

(ii) Management of risks to revenue

There are currently separate electronic systems for the management and accounting for each main tax, without automatic links between them. The installation of a new integrated system is a government priority. Within the limits of the current system PRO makes substantial efforts to identify individuals and enterprises who should be registered for and be paying taxes, including exploiting information in VAT returns or derived from the fiscal registers which all traders are now required to keep. Both PRO and CA devote considerable resources to inspection and audit, and PRO collects a significant amount of additional revenue as a result (see PI-14 in the main report). New arrangements have recently been enacted to identify non-registrants, while PRO has from September 2015 stronger powers to impose penalties for non-registration and under-declaration. An automatic system is in place which selects 80 per cent of the total number of taxpayers for audit within the VAT system based on the application of risk factors to information in their tax returns; 10 per cent are selected by the Large Taxpayers' Office (LTO), and 10 per cent selected at random. A comparable system is being developed to cover income and profits taxes; meanwhile taxpayers are selected for audit based on their past records and risks factors associated with the types of activity in which they engage. The available statistics (see PI-14 in the main report) suggest that there may have been some improvement in tax compliance, since the amounts of additional taxes assessed have fallen somewhat, while the additional amounts collected have been rising. Given that inspections of taxes other than VAT are not yet fully risk-based, that links between the systems for different taxes have not yet been put in place, and that tougher sanctions against non-compliance are currently being installed, rating for this dimension is C.

(iii) Audit and fraud investigation practices to achieve planned outputs in terms of coverage and additional revenue

Both LTO and the five Regional Tax Offices have inspection and audit programmes with target numbers of inspections to be achieved each year. These arrangements are well-established, and the planned numbers of inspections are mostly achieved, although new requirements for enforcement of the Financial Discipline law have required more attention to be paid to inspections not directed at the main taxes. As noted in PI-14 in the main report, the amounts of additional tax assessed have fallen somewhat during 2012-14, but the amounts actually collected have been increasing. Rating for this dimension: B

(iv) Management of revenue arrears

This dimension is a reformulation of PI-15(iv) under the 2011 Framework. The highest rating requires total revenue arrears to be less than 10 per cent of annual collections. Where this test is not passed, the criteria look at the age of revenue arrears: for the rating B the total must be below 20 per cent of annual collections, and not more than 50 per cent of these should be more than a year old (i.e arrears older than a year must not be more than 10 per cent of current collections). For the rating C the 20 per cent test is maintained, but arrears more than a year old may constitute up to 75 per cent of the total. In practice, as shown in PI-15(i) of the main report, arrears at the end of 2014 were 29 per cent of collections in that year, having fallen from 36 per cent at the end of 2013; information is available about the age of VAT arrears – VAT arrears more than a year old constituted about 35 per cent of total arrears at the end of 2014 – but no information is available about the age of other tax arrears. Since arrears were more than 20 per cent of annual collections at the end of 2014, rating is D.

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-19 (M2)	C	
(i) Information to individuals and enterprises about their obligations and rights concerning payments to the government	C	PRO and CA websites, call centres and other facilities provide ready access to required information. The previously functioning tax appeals process has recently been abolished, with the result that appeals now have to be made direct to the Administrative Court.
(ii) Management of risks to the revenue	C	In the case of VAT taxpayers are selected for inspection by an electronic programme based on risk factors. For other taxes the selection takes account of risks, but an automatic system has not yet been developed. At present each main tax is managed through a separate electronic system, with no automatic links between them, thus limiting the possibility of taking into account individual taxpayers' records in relation to different taxes in selecting them for inspection.
(iii) Audit and fraud investigation practices to achieve planned outputs in	B	Substantial inspection programmes are planned and for the most part implemented by LTO and the Regional Tax Offices

terms of coverage and additional revenue		
(iv) Management of revenue arrears	D	Although revenue arrears have been falling both absolutely and as a percentage of collections, they still amounted to 29 per cent of collections at the end of 2014.

PI-20 Accounting for revenues

This Indicator includes the second and third dimensions of the 2011 PI-15 as its second and third dimensions; the first dimension covers the timeliness of information collected by the Ministry of Finance.

(i) Coverage and timeliness of revenue information collected by the Ministry of Finance

All tax and other revenues collected by the government is paid directly into the Treasury Single Account at the Central Bank of the Republic of Macedonia (CBRM). Payments are made to Treasury offices, and the funds are immediately transferred to CBRM. The MoF Treasury receives daily information about payments of different taxes, as well as other revenues, and produces a monthly report on revenue receipts. Rating for this dimension: A

(ii) Effectiveness of transfer of revenue collections to the Treasury

As noted in PI-15(ii) in the main report, all revenue is paid into the Treasury account at CBRM on the day it is received. Rating for this dimension: A

(iii) Frequency of complete accounts reconciliations between assessments, collections, arrears records and receipts by the Treasury

Reconciliations are undertaken monthly between assessments, collections and arrears for each tax, but no overall reconciliations are performed covering the positions of individual taxpayers in relation to all the main taxes. Rating for this dimension: D

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-20 (M1)	D+	
(i) Coverage and timeliness of revenue information collected by the Ministry of Finance	A	MoF Treasury collects daily information about receipts of different revenues, and produces a consolidated monthly report.
(ii) Effectiveness of transfer of revenue collections to the Treasury	A	All revenue is paid into the Treasury account at CBRM on the day it is received.
(iii) Frequency of complete accounts reconciliations between assessments, collections, arrears records and receipts by the Treasury	D	There are monthly reconciliations in relation to each tax separately, but no overall reconciliations of the positions of individual taxpayers in relation to all taxes.

PI-23 Efficiency, transparency, competition and complaint mechanism in procurement

This PI covers much the same ground as PI-19 under the 2011 Framework, but also asks some new questions.

(i) Monitoring the efficiency and effectiveness of the public procurement system

A high rating under this dimension requires the existence of a system which collects data about all completed procurement processes (contract awards) as compared with procurement plans, and about the actual completion costs of contracts as compared with the original contract values. Monitoring the operation of the system is the responsibility of the Public Procurement Bureau (PPB), which functions as a separate section of MoF. PPB keeps records of all bidding opportunities and of the award of all contracts, but there is no central collection (or any publication) of the annual procurement plans each contracting authority is required to prepare. Where contracts are varied during implementation, PPB treats these situations as new contracts which are separately registered without any link to the original contract. Since data are available for neither of the comparisons – between procurement plans and contract awards, and between original contract values and actual completion costs, the rating is D.

(ii) Use of competitive procurement methods

As the data presented under dimension (ii) of PI-19 in the main report show, over 80 per cent of contracts by value are let by some form of competition. Rating: A

(iii) Public access to complete, reliable and timely procurement information

The highest rating under this dimension requires that the general public have ready access to the legal and regulatory framework for procurement, government procurement plans, bidding opportunities, contract awards and data on the resolution of procurement complaints. The applicable legislation and regulations are published on the MoF website (finance.gov.mk). Bidding opportunities and contract awards are published by PPB on its website (e-nabavki.gov.mk), while the State Appeals Commission on Public Procurement publishes its decisions on its own website (dkzjn.mk). There is no central consolidation or publication of procurement plans. Since four of the five benchmarks are met, the rating is B.

(iv) Effectiveness of an independent administrative procurement complaint system

This dimension largely reproduces dimension (iv) of 2011 PI-19, except that the requirement for the appeal body to be made up of experienced professionals, and to contain members drawn from the private sector and civil society, has been removed. The State Appeals Commission satisfies all the remaining benchmarks, and the dimension is accordingly rated A.

Indicator/Dimension	**2015 score**	**Justification for 2015 score**
PI-23 (M2)	B	
(i) Monitoring the efficiency and effectiveness	D	No information is available to enable comparison between procurement plans and

of the procurement system		contract awards, or between the original value of contracts and the final costs on completion.
(ii) Use of competitive procurement methods	A	Over 80 per cent of contracts by value are let by some form of competition.
(iii) Public access to complete, reliable and timely procurement information	B	There is full public access to the law and regulations, bidding opportunities, contract awards and the results of procurement complaints, but procurement plans are neither consolidated nor published.
(iv) Effectiveness of an independent administrative procurement complaint system	A	The state Appeals Commission satisfies all six benchmarks.