

A black silhouette of a city skyline with various buildings and structures, including a Ferris wheel, set against a white background.

### On the Draft Public Finance Reform Program 2018 - 2021

22. September 2017

Finance Think considers that the [draft Public Finance Reform Program 2018-2021](#) developed by the Ministry of Finance is a positive step towards creating clear and concise guidelines for improving the management of public finances in Macedonia. In addition, such documents are one of the few that are available to the public and having a public discussion about this program is a step towards increasing transparency in the management of public finances. Finance Think expects that such processes will continue in the future. Finance Think believes the program is ambitious and, while fully committed to reforming public finance management, leaves the impression that reforms would face challenges in their implementation.

Finance Think has a few comments and suggestions for the program, in order to improve it. More details in the following points:

- Although the draft program consists a time frame for implementation, Finance Think recommends that it be re-examined in relation to the **difficulty of implementing the proposed reforms**. By appropriate prioritization, the measures of the program would be easier to implement and realized, and at the same time sufficient space would be left for finding ways to mitigate and address the challenges in implementing the riskier activities.
- The plan for improving and developing a clear and concise Fiscal Strategy is accurate. In goal of improving this very important document, Finance Think recommend when expressing capital expenditures, they should be related with a clear and easily measurable economic goal. Consequently, the document must also show the reason why such **capital investments are prioritized, and how much their effect would be on the economic growth, regional and revenue distribution and living standards**. Additionally, the current [Fiscal Strategy 2017 - 2019](#) estimates reduction of the budget deficit under the Maastricht criterion of 3% of GDP, but such identification with the Maastricht criterion may create a perception that the public debt is at a sustainable level, given that it is below the level of Maastricht criterion of 60% of GDP. **Such definitions can create a perception that there is further room for borrowing, which has a potential to be harmful if indebtedness is not strictly intended for both productive and priority purposes.**

- Bearing in mind that the program has a special emphasis on public debt management, the plan for adopting a public debt management strategy as a separate document is a positive direction towards transparency related to the sustainability and public debt management. The management and maintenance of the public debt in the context of local characteristics is of paramount importance. **Hence, the implementation of public debt sustainability tests will help alleviate and remove any risks that may arise in the public debt management and maintenance.** For the purpose of more transparent operations, Finance Think proposes that such tests be made available for public review and debate.
- Finance Think believes that Macedonia needs the institutionalization of a Fiscal Council. Bearing this in mind, Finance Think proposes that the **fiscal council should have power in decisions, not just an advisory role in the management of public finances.** Consequently, the council should have all or part of these powers: participation in setting priorities for public funding, making cost-benefit analyses of proposed public investments, contribution to determining the amounts and sources of public borrowing (especially for external public debt), contribution in determining the amount of the budget deficit, and projections for the economic cycle and the amount of debt. The fiscal council should be composed mainly of independent domestic experts with strictly defined qualifications and selection criteria, and the Minister of Finance will be also a member in the council with the right to vote.
- Publishing Citizen Budget is an important step towards increasing budget transparency. Citizens' budgets increase the awareness and interest of citizens towards public money spending. In addition, the citizens' budgets increase the interest for citizens' participation in the budgetary processes. Consequently, **publishing citizen budgets should remain a regular annual practice and any public policy that has great influence and importance for the population should be published in a clear, understandable language, in order to reach a larger audience with no technical knowledge.**
- As one of the advocates of greater budget transparency and budgetary participation, Finance Think believes **that a mechanism for involving stakeholders (communities, NGO sector, associations, etc.) should be established in the creation and financing of policies that have a direct or indirect impact on those stakeholders (for example, gender-responsive budgeting).**
- As an organization that closely monitors Macedonia's budget transparency and accountability, we were witnesses of failures to comply with deadlines for adopting a draft budget, adopting the budget and publishing the final accounts. In relation to this, increasing budget transparency and accountability should be focused on compliance with legal deadlines. Additionally, the tendency of change and revision throughout the year should be minimized, except in unforeseen circumstances. Consequently, Finance Think considers that in the presentation of the budget and the final accounts, **the rulebook on the classification of [revenues](#) and [expenditures](#) should be respected; apart from the listing of the budget items, all budget sub-items should be mentioned in order for a clearer and more transparent picture of the budget of the Republic of Macedonia. In this context, a monitoring mechanism and penalties should be created in case the [Law on Budgets](#) is not respected and legal deadlines are violated.**
- Finance Think considers that it is **time for thinking and creating a transition strategy from cash to accrual accounting.** This long-term reform is essential for Macedonia. Accrual accounting enables recording of all assets and liabilities of the state, improves the monitoring of liabilities and contingent liabilities, and consolidates the financial accounts of all entities under government control (as well as extra-budgetary funds and public enterprises). Such a transition will cause increased transparency, integrity and accountability of the financial performance of all entities under government control.

The Public Finance Management Reform Program 2018-2021 is the first step that assures that public financial management will improve, which is essential for the future of the Macedonian fiscal economy. The implementation

and publication of such documents should continue in the future, thus becoming a basic benchmark for good governance, transparency and accountability of the country.