



**BUILDING INTEGRITY
SELF-ASSESSMENT
PEER REVIEW REPORT**

December 2015

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA¹
BUILDING INTEGRITY SELF-ASSESSMENT
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Overview

1. The Building Integrity (BI) Programme is part of NATO's commitment to strengthening good governance in the defence and security sector. It was established by the Euro-Atlantic Partnership Council (EAPC) in November 2007 in support of the implementation of the Partnership Action Plan on Defence Institution Building (PAP-DIB) agreed at the Istanbul Summit in 2004. The NATO Building Integrity Programme is focused on providing practical assistance with defence reform and helping nations meet their anti-corruption obligations within the UN and other frameworks.

2. The Building Integrity (BI) Self-Assessment and Peer Review Process is part of the practical tools developed within the framework of the Building Integrity (BI) Programme to help nations assess the risk of corruption and strengthen good governance in their defence institutions. The Self-Assessment Questionnaire (SAQ) is designed to provide nations with a snapshot of current structures and practices. The subsequent Peer Review process helps nations to confirm areas of good practice and identify those that may require further effort.

3. In line with the Government's support of Building Integrity within the framework of the South Eastern Defence Ministerial (SEDM), expressed in a joint statement by SEDM Ministers of Defence at their meeting in October 2012, and with a letter addressed to the NATO Assistant Secretary General for Political Affairs and Security Policy, the Minister of Defence confirmed the determination of the former Yugoslav Republic of Macedonia to join the NATO Building Integrity Programme in February 2013. Since then, personnel of the Ministry of Defence have participated in numerous BI activities. Training efforts for civilian and military staff have resulted in an increasing number of personnel becoming familiar with the risks and challenges in fighting corruption in the defence sector. In February 2014, a new Partnership Goal on Integrity Development was added to the country's Partnership Goals Package.

4. In June 2015, the former Yugoslav Republic of Macedonia submitted to NATO the completed BI Self-Assessment Questionnaire, which provided the basis for the conduct of the subsequent Peer Review. This report is therefore focused on the Peer Review of the Self-Assessment Questionnaire completed by the Ministry of Defence to which all directorates and agencies, and the armed services responded. Further, the completed Self-Assessment Questionnaire was distributed to all relevant Institutions and Agencies, some of which had submitted suggestions and remarks. Meetings and interviews were conducted in Skopje on 6-8 October 2015 by a NATO-led Peer Review team with key personnel of the Ministry of Defence (both civilian and military), and with representatives of the State Commission for Corruption Prevention (Annex A).

¹ Turkey recognises the Republic of Macedonia with its constitutional name.

5. The replies to the Self-Assessment Questionnaire were relatively thorough and provided essential information in most areas. During the Peer Review meetings, senior leadership and officials of the Ministry of Defence have demonstrated strong commitment to improving all aspects of integrity and ethics among their staff. Understanding of corruption risks among the staff of the Ministry of Defence and the Armed Forces is increasing but is yet not widespread. Plans are to develop a more robust train-the-trainer approach to ethics and integrity training for all personnel of the Ministry of Defence and the Armed Forces.

6. A National Anti-Corruption Programme and Strategy is managed by the State Commission for Corruption Prevention. A wide range of laws, regulations and policies address corruption matters. Sufficient legal and other policies related to understanding corruption risks and ethics are in place, but routine enforcement is a concern. The effectiveness of existing legislation is recognised as being limited due to what is felt to be a lack of routine application of these laws at the national level.

7. Efforts to address corruption risks in the defence sector are in their initial stages. The Ministry of Defence is in the process of developing an Integrity Plan/Anti-corruption Action Plan in accordance with guidance in the related Partnership Goal and based on the recommendations of this Peer Review report. A Working Group has been established at the Ministry of Defence with a view to developing the Integrity Plan.

8. The Peer Review Team noted that anti-corruption training for civilian or military personnel is at present conducted centrally by other government bodies. The potential risk of encountering corruption while on operations is not specifically highlighted during pre-deployment training but there is an understanding among senior leadership and officials of the Ministry of Defence of the importance to address this issue.

9. The Peer Review Team noted the following examples of good practice:

- a. The use of electronic tenders for all public procurement.
- b. The establishment and use of a whistleblowing phone number and web address for reporting of irregularities in the MOD.
- c. The requirement for procurement commission members to sign conflict of interest statements prior to serving on tender board proceedings.
- d. The requirement that both elected and appointed officials of the government declare all assets which are then published on an open website (dksk.org.mk).
- e. The publication of any public procurement projects worth over 50,000 EUR in the Official Journal of the European Union.

10. The Peer Review Team offers the following general recommendations for consideration:

- a. Initiate within the Ministry of Defence and the Armed Forces systematic and comprehensive anti-corruption and ethics training for all civilians

and military personnel. Encourage senior leadership to continue to openly promote programmes to build integrity and increase transparency and accountability.

b. Implement special unscheduled audits of high-value procurement projects and asset disposals, especially as related to major programmes projected in the Long Term Development Plan.

c. Develop a pre-deployment Building Integrity training module for all deploying units and consider specialist training on procurement and financial management for those personnel being sent abroad.

d. Require the Ministry of Defence Human Resources Sector and the J1 to determine which positions in the Ministry of Defence and the Armed Forces are at highest risk of corruption and designate such sensitive positions for special vetting and rotation.

e. Review the conflict of interest regime within the Ministry of Defence and the Armed Forces to ensure its effective implementation.

f. Develop an Integrity Plan of the Ministry of Defence and the Armed Forces to address the recommendations from this report. Establish a forward-looking and robust public affairs programme for informing Ministry of Defence and Armed Forces personnel as part of the Integrity Plan.

g. Make maximum use of existing partnerships tools and mechanisms to embed transparency, accountability and integrity in the defence and related security sector.

11. Building Integrity Subject Matter Experts (SMEs) could be requested to return for any follow-on action as necessary, to perform a review of progress or other assistance as determined by the Ministry of Defence in consultation with the NATO Building Integrity Programme.

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

BUILDING INTEGRITY SELF ASSESSMENT

PEER REVIEW REPORT

I. Detailed Findings and Comments

Democratic Control and Engagement

1. Democratic control of the armed forces is regulated by the Constitution, while the Defence Law prescribes responsibilities in the security and defence area. The Assembly of the former Yugoslav Republic of Macedonia is responsible for: supervising security and defence of the nation, declaring when there is an immediate military threat; declaring a state of war; approving a wartime budget; allocating funds for defence; ratifying treaties related to collective security and defence systems; ratifying international agreements which pertain to entry or transit of national territory for exercise and training activities, approving participation in peacekeeping and humanitarian operations as well as participation of the units of the armed forces in similar activities abroad; and approving national security and defence concepts. The work of the security services is overseen by several parliamentary committees.

2. The Assembly has a Committee on Defence and Security which is composed of a president, twelve members and their deputies from the elected parliamentarians in the Assembly. This committee has very broad oversight in all areas related to the defence of the nation. The President of the former Yugoslav Republic of Macedonia is the Supreme Commander of the Armed Forces and President of the Security Committee. He also has very wide ranging powers in relation to the Ministry of Defence (MOD) and the Armed Forces. The Security Council is comprised of: the President, the President of the Assembly, the Prime Minister, ministries leading state bodies in the areas of defence, security and foreign affairs and three members who are appointed by the President. The Security Council reviews issues related to security and defence and makes proposals to the Assembly and the Government.

3. Key strategic documents include the National Defence and Security Concept (2003), the National Security Strategy (2008), the Defence Strategy (2010), the White Paper on Defence (2012) and the Long-Term Defence Development Plan 2014-2023. These are all public documents, published in the Official Gazette and are also available on the website of the Ministry of Defence. Consideration is being given to the development of a new Defence Strategy in the near future.

4. The Defence Law guides the functioning of the Ministry of Defence and the Armed Forces. The General Staff is separate from the Defence Ministry and performs its duties in accordance with the law and under the authority of the President and Defence Minister. The Ministry of Defence submits an annual report to the government on issues related to the status of the defence system, plans for defence development, equipment, combat readiness and other key responsibilities.

5. The Department for Communications, Analytics and Operational Support and its Media Section maintain contact with the population through the Ministry's web page, social media as well through normal media. This section was established to improve transparency and public relations. It routinely publishes magazines and other documents, cooperates with all media on defence issues and replies to questions from the public, media and NGOs. Unclassified documents on matters that may be of interest to citizens are published on the web page of the Ministry of Defence. The Law on Free Access to Information of a Public Character allows defence-related information to be released to the public. According to Article 8 of this law, "[e]very holder of information should appoint one or more official mediator persons for implementation of the right to free access to information".² In the case of the Ministry of Defence, one person from the Legal Department is officially appointed to deal with requests related to access of information. The Law on Classified Information contains procedures for the release of classified information on a need-to-know basis.³ The Department for Communications, Analytics and Operational Support receives and responds to questions from representatives of the media. The Legal Department and the appointed mediator receive and respond to official requests for access to information of public character (usually official documents). Both questions from the public and the official responses are published on the website of the Ministry of Defence. Approximately 30-40 requests are received each month and the goal is to reply within 48 hours. The law stipulates that replies must be given within 30 days. The Ministry of Defence maintains good relations with NGOs interested in defence topics, while the public in general views the Ministry of Defence and the defence sector in a positive light.

Recommendations:

- a. Prepare a strong internal communication campaign to support implementation of Building Integrity initiatives.
- b. Prepare a forward-leaning and robust strategy for informing and engaging Ministry of Defence and the Armed Forces personnel in the implementation of the Integrity Plan when developed and approved.
- c. Consider a separate information effort to reinforce the use of the whistleblowing hotline.
- d. The newly established Building Integrity (BI) Working Group within the Ministry of Defence should continue to support ongoing cooperation with NATO HQ to take advantage of Building Integrity capacity building educational programmes and activities. The establishment of the BI Working Group is a good practice which should be shared with others BI stakeholders.
- e. The Ministry of Defence may consider publishing this report on the Ministry of Defence website and update information as well as progress made on a regular basis.

²The Law on Free Access to Information of a Public Character is published at http://www.mio.gov.mk/files/pdf/en/LAW_ON_FREE_ACCESS_TO_PUBLIC_INFORMATION.pdf

³ The Law on Classified Information published in "Official Gazette of the Republic of Macedonia", no. 9/2004.

National Anti-Corruption Laws and Policy

6. The former Yugoslav Republic of Macedonia has ratified numerous UN and Council of Europe conventions on anti-corruption instruments. It has been a member of GRECO (Group of States against Corruption) since October 2000 and successfully completed the fourth assessment cycle in 2014. The report from that cycle is publicly available on the website of the Council of Europe as well as on the webpage of the Ministry of Justice. A State Commission for Corruption Prevention is responsible for the coordination of anti-corruption measures. It is an independent body whose members are elected by Parliament. It is tasked to provide an annual report to the National Assembly which is published in the media. The commission must adopt an action plan covering a four-year period which is then updated annually. The state programme for 2016-2020 is being finalised at present. In addition, the State Audit Office, the Public Prosecution office and the Ombudsman all have varying responsibilities in support of anti-corruption efforts.

7. Numerous laws address corruption and associated illegal activities and these include the Criminal Code, the Law on Prevention of Corruption, the Law on Conflict of Interests, the Law on Money Laundering and Financial Terrorism, the Law on State Audit and the Law on Public Internal Financial Control. These laws collectively address the prevention and reduction of corruption, bribery, false identification and information, forgery, blackmail, theft, conspiracy, embezzlement, illegal seizure and other related crimes. The EU has noted that laws as regards conflict of interest and protection of whistle-blowers need revision, and a working group led by the Ministry of Justice is working with the State Commission for Corruption Prevention on redrafting the appropriate laws. The fight against corruption and crime and establishing a more efficient rule of law through major reforms in the judiciary and public administration are among the top five priorities of the government for the period 2011-2015.

8. The Ministry of Defence is cooperating with Transparency International (TI) and in 2014 the State Secretary signed a letter stating that the MOD will take part in the project: "Enhancement of the National Integrity System in countries of the Western Balkans and Turkey and monitoring the development of anti-corruption efforts". This project is now more focused outside of defence matters and thus there has been no further work taking place between the MOD and TI.

9. The State Commission for Corruption Prevention is specifically tasked with anti-corruption, integrity and ethics matters, while the Public Administration conducts more practical work in training government employees on these topics. Ethics rules for soldiers and public servants are contained in the respective laws. To raise awareness, educate the public and gain public support for its anti-corruption strategy, the government should consider providing additional resources to promote anti-corruption awareness among the population.

Recommendations:

- a. Develop a plan to raise awareness and education of the general public with a view to fostering public support for implementing the Anti-Corruption Strategy.

- b. Develop a plan for integrity in state institutions.
- c. In addition to reliance on background checks and financial disclosure reporting requirements for persons in senior positions, initiate efforts to develop respect for the rules on conflict of interest as well as broader initiatives to embed an integrity mindset and culture in public institutions.

Anti-Corruption Policy in Defence and Security

10. The Minister of Defence works in a targeted manner with the Internal Audit Department to improve existing policies and processes in combating corruption and identifying risks. The Chief of the General Staff issued a directive in 2014 which reminded all military personnel of their service responsibilities and the requirement to demonstrate appropriate knowledge of rules and regulations, to use all equipment, infrastructure, facilities and real-estate appropriately as well to correctly execute required tasks. The Ministry of Defence intends to work on improving the current level of awareness concerning issues of integrity and corruption risks, and the establishment of a special Building Integrity Working Group should greatly assist this effort. In addition, the Ministry of Defence agreed a new NATO Partnership Goal on Integrity Development as part of its 2014 Partnership Goals Package. This goal requires: the development of a national plan for integrity development by the end of 2015; development of a pool of trained experts to assist national training centres in the area of integrity building by the end of 2016 and the development and implementation of training for raising the awareness of integrity by the end of 2016. The Minister of Defence has recently developed a special “Statement of Guiding Values” to support anti-corruption measures and to emphasise the key ethical principles expected from all personnel.

11. The Inspectorate of the Ministry of Defence is tasked to coordinate anti-corruption measures of the MOD and a comprehensive internal anti-corruption/integrity plan of the Ministry of Defence is under development. The Internal Audit Department assessed the most vulnerable areas of corruption risks in the defence sector, notably procurement; selection of personnel to be deployed on missions abroad; selection of personnel for education and expert training; recruitment of professional soldiers and selection of personnel for assignments abroad. Routine actions through such measures as national security checks, use of declarations of property, training programmes and aggressive promotion of the code of ethics and conduct should be reviewed by the Inspectorate and the BI Working Group to see where such tools need to be adapted and implemented.

12. The Ministry of Defence has undertaken the following measures in the fight against corruption and integrity building: published on the Ministry’s webpage a telephone number and e-mail account for the fight against corruption and appointed an individual in the cabinet of the Minister to manage such reports. A reporting system and protection mechanisms for whistle-blowing and the necessary administration to handle such reports is in place in the Ministry of Defence. However, the phone number and the web address need to be more visible in workplaces throughout facilities of the Ministry and the Armed Forces. The use of this hotline has been infrequent and during the past three years, only two reports of potential irregularities have been reported, with neither of them being determined as

justified. Information submitted using the webpage or through email is recorded as classified and submitted to the Chief Inspector of the Ministry of Defence who handles reports on suspicion of fraud or corruption. The Chief Inspector then has 15 days to inform the Public Prosecutor's Office, the Ministry of Finance – Financial Police Office and the Financial Inspection of the Public Sector upon suspicion of illegal activity and within fifteen days must inform the person who reported the irregularity as to the measures that have been taken. Individuals can request anonymity and are entitled to protection. The Ministry of Defence has also initiated a joint programme with Norway to address anti-corruption and ethics building work.

13. Acceptance of honorariums for public appearances connected with service duties is not permitted. The Army Service Law and the Code of Conduct of the Ministry of Defence delineate issues such as accepting corporate hospitality, gifts, transport, accommodation and meal costs during performance of official duties and other undesirable actions. The Defence Minister, Deputy Defence Minister and State Secretary must make a property declaration prior to assuming their duties. The law requires all elected officials and political appointees to declare their assets which are then published on a website (dksk.org.mk).

14. The Internal Audit Department covers all organisations, structures, programmes, activities and processes in the Ministry of Defence and performs its work based on priorities set out in accordance with risks assessment of the Head of the Department and with the concurrence of the Minister of Defence. This larger office was established in 2010 and operates in accordance with international standards, with the Ministry of Finance conducting a national certification process. The Internal Audit office is authorised to have 18 personnel, but at present there are only four trained auditors. The office is subordinate to the Minister and all reports go directly to him. A Strategic Audit Plan is developed for a three year period and focusses on identified weaknesses and areas for improvement and also takes account of recommendations from the State Audit Office. The plan also contains “spare” hours for ad hoc audits which are conducted upon the order of the Minister of Defence, as well as other activities related to internal audit. The number of planned audits is limited due to available resources, but in 2014 there were four planned audits and two ad hoc.

15. The Department for Inspection monitors implementation of the Defence Law and other regulations in the defence area. It has the responsibility to detect, investigate and document corrupt activities within the Ministry of Defence and the Armed Forces and cooperates with internal audit in this work. In addition, the Military Service for Security and Intelligence has a supporting role in the vetting of personnel of the Ministry of Defence which it conducts in cooperation with the Ministry of Interior.

Recommendations:

- a. Review responsibilities of both the Internal Audit Department and the Inspectorate of the Ministry of Defence to ensure that there is minimal overlap of their authority.

- b. The Ministry of Defence should urgently develop its own comprehensive anti-corruption strategy and Integrity Plan and ensure it is coordinated with efforts being made by the State Commission for Corruption Prevention. Make use of existing methodologies for development of Integrity Plans in the defence sector and determine the need for additional expertise.
 - c. Consider establishing a permanent special office outside of the Inspectorate of the Ministry of Defence whose sole responsibility is coordinating all ongoing and future anti-corruption work of the Ministry of Defence.
 - d. The Building Integrity Working Group should be tasked to make recommendations in all areas noted in this report as part of the development of Integrity Plan of the Ministry of Defence and the Armed Forces. Identify selected personnel from across the staff to support the implementation of the Integrity Plan and ensure they cooperate effectively with the NATO Building Integrity Programme, including with the BI pool of experts, and make full use of BI education and training activities.
- a. Conduct a separate information effort to promote the new Guiding Values Statement for employees of the Ministry of Defence and the Armed Forces.

Personnel- Behaviour, Policy, Training and Discipline

16. The Ministry of Defence has adopted a Code of Conduct for employees of the Ministry of Defence and the Armed Forces and this sets the general approach to individual conduct and performance of assigned duties. This Code defines acceptable professional behaviour that is consistent with moral and professional principles. The provisions of the code do not contradict the provisions in the rules and regulations for service in the armed forces and the Code of Ethics for administrative servants, as well as being in line with regulations concerning corruption and illegal behaviour. A new Code of Conduct for officers is being drafted with input from throughout the force and should be adopted in the near future. A communication campaign to promote programmes to combat corruption and raise ethical standards needs to be developed as an integral part of the overall anti-corruption effort. Widespread knowledge of all rules, regulations and procedures regarding ethical conduct needs to be a major objective of the Integrity Plan. The media office can play a major role with a wide-ranging and robust internal information campaign to help spread such information throughout the Ministry of Defence and the Armed Forces.

17. The Law on Administrative Servants requires that all government civil servants are obliged to perform their duties professionally and should act impartially, and without being influenced by political parties, should not allow their political beliefs to influence their duties, not consider personal financial interests in performing their tasks, not misuse their power and status as a civil servant and should protect the reputation of the organisation. Civil servants are subject to disciplinary action for such actions as: unlawful disposal of tangible assets, causing material damage, receiving gifts during the execution of official tasks; leaking classified information; and placing themselves in the situation of a personal financial conflict of interest. The Army Service Law contains almost the same provisions as

the Administrative Servants Law. A Code of Ethics for civil servants refers to the behaviour and work of government employees and copies are made available to all personnel of the Ministry of Defence.

18. The military does not designate any particular posts which are sensitive and no special review is performed for personnel engaged in acquisition or procurement. There is no official military policy as regards rotation of personnel in either normal or sensitive posts. There is also no prohibition against relatives of service members serving in the same unit or being under the command of a family member.

19. During the last two years the Ministry of Defence has not reported any case of bribery, corruption or a violation of the code of conduct by either civilian or military personnel. There are pending cases of "misuse of official duty and authorisation" which are publically known as the "Army armament case" and "Tank parts case", where former high officials from the Ministry of Defence and the Armed Forces have been involved. The cases are currently in litigation. There are no military courts and all crimes that occur in the Armed Forces are referred to the competent civil courts. Within the past three years, a procedure was initiated against one defence company for corrupt mediation during the procurement of aircraft parts. This case is still under investigation.

20. Policies, procedures and criteria for promotion and advancement of civil servants and of military personnel are set forth in the respective laws (Army Service Law and the Law on Administrative Servants). These laws also regulate recruitment and hiring of civilians and the enlistment of military personnel. Current policies have prevented the advancement of any civilian employees in the Ministry of Defence for over seven years. This has created serious morale problems and highlighted disparities between civilian personnel working in different ministries yet performing the same types of duties.

21. The Ministry of Defence cooperates with the State Commission for Corruption Prevention and the Ministry of Justice in the area of training. From 2013 to 2014, close to 160 personnel to include Ministry of Defence administrative servants and military personnel have completed a basic course on "Corruption Prevention and Conflict of Interest". The Ministry of Defence is also working with the Ministry of Information and Administration to determine if its on-line courses offered on anti-corruption and integrity may be suitable for use by the Ministry of Defence and the Armed Forces personnel. At present, the Ministry of Defence does not conduct any internal courses, but sends its civilian and military personnel to international courses and training dedicated to the fight against corruption. There are plans to develop more routine training and classes related to ethics, integrity and aspects of the conduct of officers and NCOs by using a train-the-trainer approach.

22. The potential for corruption in the hiring of civilian personnel and in the recruiting of new volunteers for the military is significant and is recognised as such by the Ministry of Defence. The need for the Ministry of Finance to approve the hiring of personnel to fill authorised vacancies in the Ministry of Defence or to bring in new soldiers for posts already funded in the budget needs to be examined

closely and a more reasonable solution needs to be found for these routine actions. Training and education abroad is another high risk area which is now being addressed. To increase transparency, once the Ministry of Defence receives notice of such opportunities, they are advertised to all units throughout the Armed Forces and a special board is commissioned by the Minister to select the best qualified individuals for such training.

23. The Financial Department of the Ministry of Defence calculates salaries and other payments for personnel, makes payroll and salary reports, pays the salary and keep records on salaries and other income. There is an established scoring system according to the Army Service Law for military personnel and employees in the Armed Forces that calculates final monthly pay and allowances; however, the process is not transparent. The salaries of civil servants are regulated by the Law on Administrative Servants. Civilian and military retirement pensions are paid by the Retirement and Disability Insurance Fund of the former Yugoslav Republic of Macedonia. The chain of command is separated from the chain of payment.

Recommendations:

- a. Develop an internal MOD public information campaign with an appropriate anti-corruption message to further reinforce all on-going work.
- b. Review personnel management policies to include performance evaluations, promotions, recruiting, rotation polices and all other aspects of career progression, based on merit and transparency.
- b. Review all posts in the MOD which are deemed to be exposed to the risk of corruption and specifically designate corruption-sensitive positions as those requiring special vetting and review procedures.
- c. Initiate as soon as practical, a systemic anti-corruption training programme and training in detection of potentially corrupt activities within the MOD and Armed Forces for both civilian and military. Consider development of an e-learning module to support such training.
- d. Consider expanding the use of special boards for both key assignments and field grade promotions (major through colonel).
- e. Cooperate with the Finance Ministry to resolve the current situation as regards the hiring of personnel to fill authorised vacancies in the MOD or to bring in new soldiers for posts already funded.
- f. Consider forming a working group to study the compensation system in moving to a more transparent, fair and manageable system for both civilian and military personnel.

Planning and Budget

24. A special Rulebook regulates the budget process of the Ministry of Defence. The Finance Department compiles requirements from the Armed Forces and the Ministry of Defence and this draft budget goes to a programme group led by the State Secretary. The final budget proposal then is presented to a steering group led by the Minister of Defence for final decisions. Once the Ministry of Defence develops its draft budget for the following year, it is submitted to the Ministry of Finance by the prescribed deadline of 1 September. The draft budget can be subject to further adjustment by either the Ministry of Defence or the Ministry of Finance. The Ministry of Finance unites all of the government ministries' proposals and submits the draft budget to the government not later than 1 November. The government reviews the draft budget and submits it to Parliament not later than 15 November. The Parliament cannot begin to review the draft budget until 20 days from the day it was delivered. The Minister of Defence must defend his budget before the Parliamentary Committee on Defence and Security. Once the government's budget is adopted, it is published in the Official Gazette.

25. The resource planning process begins during the development of the proposed budget for the next year. In the initial phase of draft budget development, procurement requests are planned by the organisational units in the Ministry of Defence and the army, according to their requirements. After the adoption of the budget of the Ministry of Defence, the Ministry and the Armed Forces align future procurement according to the budget appropriations. The procurement requirements are then converted into procurement plans which are approved by the senior leadership of the Ministry of Defence.

26. In addition to the central annual budget, revenues are also generated from leasing facilities, catering services, renting recreational facilities. The amount of revenues from this type of sources accounts for approximately 100 million Denar. The total budget of the Ministry of Defence, including these revenues, is 5.9 billion Denar. The revenue from the sale of the surplus equipment and other property that the Ministry of Defence uses must be in accordance with the Law on Exploitation and Disposing with Property in State and Municipal Ownership and is paid into the central budget. The Finance Department in the Ministry of Defence conducts procedural budget controls.

27. At the end of the budget year, the Ministry of Defence develops its final financial statements by type of income or funds received from the central budget revenue authorities, income from self-financing activities and income from donations which is essentially foreign aid from Allies for specific projects. The expenditures are listed in categories and groups of expenditures (items) in the final financial statements and this is submitted to other government authorities, including the Ministry of Finance. The Ministry of Finance, based on the final financial statements of all government agencies, develops a final financial statement for the budget of that year.

28. The internal audit process is stipulated in the Law for Public Internal Financial Control and the Rulebook for Execution of Internal Audit. Internal audit reports are submitted to the Minister of Defence and to the audited organisations of

the Ministry of Defence and the Armed Forces. Audited units have an obligation to develop an action plan for implementing the recommendations contained in the internal audit report. They must also report on the implementation of the recommendations to the Minister of Defence and the Head of the Internal Audit Department. The Ministry of Finance supervises the work of the Internal Audit Department of the Ministry of Defence. An annual report on the quality and effectiveness of financial management and control in the Ministry of Defence is submitted to the Ministry of Finance. A recent audit of the newly acquired Logistics Information System (LIS) was performed in 2014.

29. The Department for Real Estate Services is responsible for managing all property of the Ministry of Defence and divesting the Ministry of non-essential property. The sale of non-essential property is regulated by the Law on the Use and Disposal of Goods of State Organisations. The valuation of assets and pricing for leasing arrangements is determined by the Ministry of Justice, Bureau of Judicial Forensics. The Ministry of Defence reports on the receipt of such income to the Ministry of Finance. All proceeds from such disposals are returned to the state budget. In the Armed Forces, the divestiture of materiel for any reason (inoperable, obsolescence, modernisation etc.), is done in accordance with the Guidelines for Disposal of Tangible Assets, issued by the Minister of Defence. The Ministry of Defence is implementing a special project “Old Barracks for New Local Development”, which encompasses the Ministry of Defence divesting itself of non-essential property.

Recommendations:

- a. Consider increasing the number of auditors based upon comparisons to similar sized defence organisations.
- b. Consider seeking government support for a change in policy so that the income from the sale of Ministry of Defence excess assets can be returned to the budget of the Ministry of Defence.
- c. Consider introducing measures to strengthen the system of internal financial control and to develop a culture of managerial accountability based on lessons learned and good practices.

Operations

30. There is no specific military doctrine on how to address corruption issues for peace and conflict. Anti-corruption matters related to operations are included in pre-deployment training for military personnel based upon lessons learned by contingents returning from the mission area. However, issues related to corruption are not considered as a separate topic in terms of participation in missions. At present there are no dedicated training modules on the subject. The resources spent by units on missions are minor due to the relative size of deployed elements and do not pose a high risk of corruption. Before mission deployment, if appropriate, key personnel are trained in any necessary financial or materiel requirements. There appears to be no legal arrangements in place for procurement in conflict environments when urgent operational requirements are encountered.

Recommendations:

- a. Include a module on anti-corruption in pre-deployment training as a matter of policy.
- b. Develop a system to capture specific anti-corruption lessons learned when units redeploy.
- c. Assess whether special training for contracting officials who may be deployed abroad in support of units is necessary.

Procurement

31. Procurement in the defence and security sector is conducted in accordance with the Public Procurement Law (PPL) which regulates the manner and procedures for awarding public procurement which in most cases is announced using the Electronic System for Public Procurement (EPPS). The use of the electronic system is mandatory for all published listings. The PPL provides for competition between suppliers, equal treatment and non-discrimination as well as for the rational and efficient use of funds in the award of public procurement. Tender documentation is submitted for approval to the Public Procurement Council as a control mechanism in order to ensure open and fair competition. As a measure to promote transparency, public announcements for procurement worth over 50,000 Euros are published in the Official Journal of the European Union. When contracts are signed, the Contractual Obligations Law and the Law on Financial Discipline govern the manner and terms of payment. The Law on Production and Trade of Arms and Military Equipment regulates the conditions for the manufacturing and sale of arms and military equipment, as well as the obligations of the Ministry of Defence and other administrative bodies in that regard. Exceptions to Public Procurement are detailed in the law and are permitted when it may lead to disclosure of information that threatens the essential security interest of the country, or when it threatens national security when related to the manufacture or trade in weapons, ammunition and military materials and systems pursuant to a law. Other exclusions are varied and concern highly classified projects, joint international contracts for public works or services and support of international missions or collective defence operations.

32. The Ministry of Defence is obliged to inform the government, by the end of January of the current year at the latest, as to its annual procurement plans for the current year based on financing availability. The Logistics Department, Management and Procurement Section, is responsible for the planning and execution of procurement in the Ministry of Defence. Some minor local procurement actions, once authorised by the Minister of Defence, are executed by Armed Forces units (battalion and brigade level) which receive an annual budget of 500 euros. The procurement plan contains the expected timing for beginning procurement procedures, the assessed value of contracts and the type of procurement procedure. The plan is approved and signed by the Minister of Defence and is

based upon both an analysis of needs and the approved budget of the Ministry of Defence. A new system of establishing integrated project teams will be used for acquisition requirements specified in Partnership Goals.

33. A decision for public procurement is developed based on the Public Procurement Plan and the submitted specifications developed by the stakeholders for the procurement of the designated goods, services and works. The procurement decision contains: the type of procurement with the required quantities, financing sources and value of the procurement, type of procurement procedure, chairman and members of the public procurement committee and their deputies, as well as engagement of external experts and if needed, selection criteria for the most favourable offer. Once the public procurement decision is passed, tender documentation is prepared which contains the technical specifications to be met by the bidders. If criteria for acquiring the capability is set for which there are an insufficient number of bidders that can fulfil the requirements in accordance with the Law, then it is an obligation to request approval from the Public Procurement Council before the announcement is published. The public procurement procedure commences with an announcement to award a public procurement contract. Public procurements executed by the Ministry of Defence are all accessible to the public and are required to be published on the Electronic Public Procurement System.

34. For procurement of arms and equipment that are exempted under the exclusions of the Public Procurement Law, only companies that fulfil certain conditions can be invited to participate. They must be certified by the Ministry of Economy to trade military arms and equipment and meet measures and actions for the industrial security of classified information stipulated in the relevant decree. There is no special law that regulates classified procurements related to defence and security acquisition.

35. Oversight of the procurement process is regulated by law and the State Audit Office and Internal Audit Department of the Ministry of Defence play major roles. The planning, execution and application of auditing and reporting is carried out in accordance with the three-year strategic plan. Unscheduled audits may be performed and are normally the result of a senior official's request. Procurement actions that are exempt from the Public Procurement Law are not regulated by law. This is recognised as a weakness in the system and also affects the control mechanisms that are in place. Previous experience has highlighted that classified procurements have been at the highest risk for corrupt behaviour of participants in the process.

36. The procurement committee which evaluates tenders is selected from the Department of Management, Section for Procurement and Management and from other sections within the Logistics Department such as standardization, codification, Armed Forces representatives, as well as external experts if necessary. The committee, depending on the procedure for awarding the contract, performs the following activities: conducts technical dialogue with potential bidders; opens bids and develops minutes of the committee's work; determines the ability of bidders to meet contract specifications; selects eligible bidders; checks the technical proposals submitted by bidders; checks the financial proposals of bidders regarding price, financial and other conditions stipulated in the tender documentation;

determines which offers are unacceptable and states the reasons why; decides which offers are acceptable and selects the most favourable bid; prepares a report on the procedure; notifies the participants of the outcome of the procedure and performs other activities in accordance with the Public Procurement Law. The report of the tender committee is prepared and submitted in writing (or electronic form if the procedure was electronic). The Minister of Defence signs each tender process at its initiation and also signs all final contracts.

37. Personnel participating in the procurement process are required to declare if a conflict of interest exists in a case and if so, are not allowed to represent the contracting authority. There is no apparent established policy as regards rotation of persons working in sensitive posts in the procurement field and no written policy as regards the selection of tender committee members.

38. The Quality Control Section in the Logistics Department is responsible for determining the quality of procured items or services before delivery, according to the technical qualities specified in the contract. When goods or services do not meet the specified requirements, the contractor is requested to if possible correct the discrepancy. If this still results in the specifications not being met, then the Ministry of Defence can cancel the delivery and if the problem is not solved then termination of the contract is possible. The company which failed to meet the contract specifications can be subject to sanctions according to the Public Procurement Law. When rejected goods require a laboratory analysis, and if the goods still do not meet the requirements, there is the possibility for additional tests performed by an independent laboratory. The results of the additional laboratory tests are final.

39. The Ministry of Defence does not use agents and intermediaries in the procurement cycle. Because of the unique requirements of the Long-Term Defence Development Plan (LTDDP: 2014-2023), an assessment has determined that offset arrangements may be required in order to meet the long term acquisition needs of the Ministry of Defence. An interdepartmental working group chaired by the Ministry of Economy and with representatives of the Ministry of Defence, Ministry of Interior and Ministry of Foreign Affairs representatives conducted this analysis. This group developed a law to amend and supplement the Law for Production and Trade of Arms and Military Equipment which now for the first time will include offset provisions. A key article of the amendments to the law states that the government will establish a special committee to review requests for import-export, transit, broker services and offsets for the armed forces.

40. Single source procurement is used under certain conditions, regulated by the Public Procurement Law (Article 99). In 2014, less than one per cent of all procurement of the Ministry of Defence was sole source.

Recommendations:

- a. Ensure that ethics and integrity are included in the procurement procedure manual of the Ministry of Defence.

- b. Initiate work with the Parliamentary Committee on Defence and Security to develop a law which will regulate procurement actions that are exempt from the Public Procurement Law, especially those actions that are classified.
- c. Develop a policy on the rotation of persons serving in sensitive, at risk positions that are involved with acquisition and procurement.
- d. Review the conflict of interest regime within the MOD and the Armed Forces to ensure its effective implementation.
- e. Consider developing a written policy on selection of personnel to serve on tender boards.
- f. Provide training to procurement staff.

Engagement with Defence Companies and Other Suppliers

41. Payment to defence suppliers is routinely made by opening a letter of credit which can be paid after the quality and quantity of the goods and services are received per the contract or using advance payment with the previous provision of a bank guarantee for the advance payment. A recent effort has been initiated by the Ministry of Defence to advise companies of upcoming annual procurement actions.

42. At present, companies competing for contracts issued by the MOD have not been requested to have an established ethics programme in order to be able to bid on defence projects. The Ministry of Defence does determine if the company has had a negative reference published in the E-procurement system. Companies which are cited with a negative reference cannot participate in the public procurement process for one year.

43. The Public Procurement Law enables companies to complain about perceived malpractices in the procurement system. In the case of unlawful practices related to procurement, the State Committee for Complaints on Procurement is the responsible organization for resolving the complaint. This committee is independent in its work and is a legal entity. The State Committee is composed of a Chairman and four members who are appointed by a public advertisement for a period of five years and have the right to re-election. In 2014, only one tender process was contested as being unfair and the State Commission for Appeals upheld this complaint causing the process to be rebid.

Recommendations:

- a. Review procurement procedures to ensure the process for lower value contracts is simple and efficient.
- b. Determine if legislation is necessary in order to require companies which do business with the Ministry of Defence to have a written code of ethics.

- c. Consider working with defence companies to help them raise their standards of integrity and have in place an ethical code for business as related to defence acquisition.

II. Conclusions

44. The Ministry of Defence is committed to anti-corruption efforts and the building of integrity is clearly a significant priority for its leadership. Many new programmes and projects are in their early stages and will require time and experience to yield tangible results.

45. The interviews conducted by the NATO-led Peer Review Team were open, frank and wide ranging, as the team had full access and availability to the most senior leadership of the Ministry of Defence as well as key personnel in important management positions. Personnel were generally aware of the NATO Building Integrity Programme and knew the importance of the mandate for this work. A cohesive effort will need to be made to ensure that all personnel of the MOD and the Armed Forces are more fully aware of efforts aimed at building integrity and prevention of corruption.

46. Building Integrity education and training for the personnel of the Ministry of Defence and the Armed Forces needs to become a priority. Ethics and integrity modules need to be incorporated in all courses of instruction. This effort can be facilitated by establishing “train-the-trainer” programme as regards Building Integrity and the routine use of anti-corruption modules in pre-deployment training. To the extent possible, the resources provided through the NATO Building Integrity Programme should be taken advantage of in improving anti-corruption awareness and building integrity.

47. Efforts need to be focused on the long-term sustainability of the anti-corruption initiatives. Embedding Building Integrity into the organisational culture and institutional mindset will require a sustained approach and concerted efforts at all levels of the Ministry of Defence and the Armed Forces as well as strong leadership and commitment. A first step to this end should be the development of an Integrity Plan of the Ministry of Defence and the Armed Forces, accompanied by an Action Plan for implementation with delineated responsibilities, timelines and sequencing of activities.

**BUILDING INTEGRITY PEER REVIEW VISIT
SKOPJE, 6-8 October 2015**

NATO-led Peer Review Team:

Dr Nadja Milanova, NATO IS, PASP
Dr Aleksejs Loskutovs, Parliament of Latvia, PEER
Ms. Patricia Shearing, SME, UK
Mr. Bruce Bach, SME, US

Meeting was held with the Minister of Defence H.E. Zoran Jolevski on 7 October 2015

Personnel Interviewed:

1. Mr. Sasho Markovski, Head of the BI WG, MOD
2. Ms. Biljana Miloshevska Trajkovska, BI WG, MOD
3. Mr. Pero Petrovski, Inspector General, MOD
4. Mr. Selji Halili, Member, State Anti-Corruption Commission
5. Mrs. Sofka Pejovska Dojchinovska, State Secretary, Anti-Corruption Commission
6. Mr. Ivan Petrushevski, Media Section, MOD
7. Mr. Dushko Avramovski, Department for Communication Analytics and Operational Support, MOD
8. Mr. Antonijo Todorovski, Acting Head, HR Department, MOD
9. Maj Goce Milkovski, Staff Officer, J1
10. Colonel Sasho Kocevski, J3
11. Colonel Ljupcho Spasovski, Commander of the Training and Doctrine Command
12. Colonel Ljube Dukoski, Head, Policy and Planning Department, MOD
13. Colonel Zoran Temelkovski, Head of Internal Audit Department, MOD
14. Colonel Spasoja Damjanovski, Head of Financial Department, MOD
15. Mr. Ljubisha Chadikovski, Head of the Sector for Real Estate Services, MOD
16. Colonel Bojancho Apostolovski, Assistant Head of Logistics Sector, MOD
17. Mrs. Plamenka Makedonska, Management and Procurement Section, MOD
18. Mrs. Zhivkica Smilkovska, Deputy Head, Legal Department, MOD
19. Mr. Ferdinand Odzakov, Head, Military Service for Security and Intelligence, MOD