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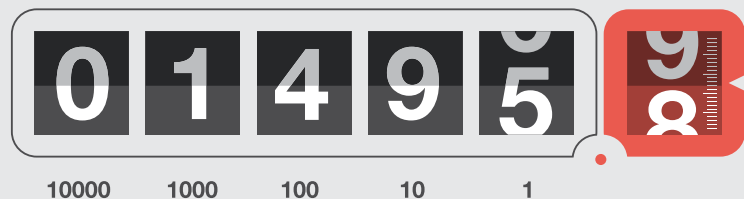


CENTER FOR ACTIVE CITIZENS
ЦЕНТАР ЗА АКТИВНИ ГРАЃАНИ



Research
ON CONSEQUENCES
OF INCREASED
BUDGET SPENDING
DUE TO 2022 CRISIS
IN AREAS THAT
AFFECT THE LIFE
OF CITIZENS

kWh

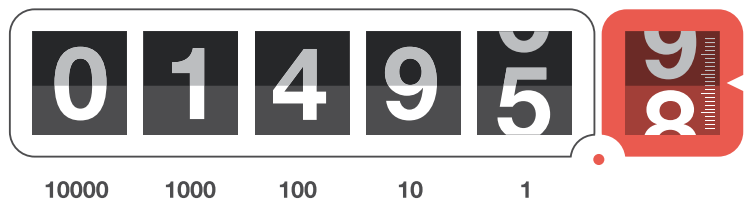


Project:

Effects of the Financial and Energy
Crisis on Policies and Citizens

Research
ON CONSEQUENCES
OF INCREASED
BUDGET SPENDING
DUE TO 2022 CRISIS
IN AREAS THAT
AFFECT THE LIFE
OF CITIZENS

kWh



"Research on Consequences of Increased Budget Spending due to 2022 in Areas that Affect the Life of Citizens".

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| *Citizens for change!*

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KEY FINDINGS

- To compensate growing expenditure due to the energy crisis in 2022, the Government has scapegoated a series of capital projects in total value of at least 170 million EUR, including projects for refurbishment of healthcare facilities, procurement of medical equipment, construction of kindergartens and care centres for elderly people, construction of roads, reconstruction of student dormitories, and environmental projects. When this amount is combined with capital projects in the value of 50 million EUR that should have been implemented by local authorities, it could be inferred that, due to the energy crisis, the state has scapegoated projects that are of significance for the citizens in total value of at least 220 million EUR.
- In 2022, realized capital expenditure accounted for 163 million EUR less than funds anticipated for that purpose. In that, high 28%, i.e. 113 million EUR, of the total sum of 465 million EUR intended as capital expenditure were spent on payments that cannot be qualified under the category of "capital". These concern a number of payments made to JSC Power Plants of North Macedonia to overcome the energy crisis in the amount of 97 million EUR, payment of loan guarantees on behalf of JSC State Roads and Railways of RNM Transport JSC Skopje (30 million EUR), and payments to JSC Postal Office (2 million EUR) and JSC Water Economy (1.8 million EUR), also related to the energy crisis.
- In the crisis year of 2022, total budget support for JSC Power Plants amounted to 230 million EUR. When this amount is combined with budget support of 86 million EUR for the same purpose, paid to this state-owned company in the last quarter of 2021, and 62 million EUR paid in the first nine months of 2023, it could be inferred that total support for in-country electricity generation due to the energy crisis amounts to 378 million EUR.
- Increase of budget expenditure for heating in 2022 is estimated at 59 million EUR compared to 2021. In addition to expenditure paid and recorded in the financial account of the Budget of RNM, the calculation of this type of expenditure, which is estimated in total amount of 108 million EUR, also include unpaid liabilities that have matured for payment in the current year. Of these, 83 million EUR are paid, while 25 million EUR are matured, but not paid.
- The crisis year of 2022 is reflected on the central budget in the form of increased heating costs, increased borrowing, reduced capacity of the institutions to timely settle liabilities and growing need for greater interventions from the central budget.
- Total amount of liabilities reported by budget entities at the end of 2022 amounted to 800 million EUR and have increased by new 186 million EUR, i.e. 30%, compared to 2021.
- In the area of HEALTH CARE, budget cuts in the crisis year of 2022 mainly affected reconstruction and expansion of healthcare facilities, planned in the amount of 14 million EUR, of which only 3.5 million EUR were spent, representing an underperformance by 75%.
- In the area of SOCIAL PROTECTION, implementation of 7 construction projects in the value of 5.5 million EUR was neither realized nor started in 2022. These concern facilities intended for elderly persons, persons with special needs and preschool children.
- 2022 investments in the area of EDUCATION were almost halved from initially budgeted 20 million EUR, resulting in implementation of only 10 million EUR.
- The budget program on ENVIRONMENTAL PROMOTION, worth 30 million EUR, was reduced to implementation of only 13 million EUR.
- In the area of AGRICULTURE, FORESTRY AND WATER ECONOMY, budget subprograms on "hydro-system Zletovica" and "agriculture modernization" were planned in the amount of 4.5 million EUR, of which slightly more than 1 million EUR were spent.

- Under 2022 central budget, investments in ROAD INFRASTRUCTURE were initially planned in the amount of 96 million EUR and were later fully cancelled. Budget cuts were also made to water supply and waste water collection projects.
- Major budget cuts are observed in respect to REFORM OF CORRECTIONAL AND PENITENTIARY INSTITUTIONS. Among 4.6 million EUR initially planned for this purpose, only 127 thousand EUR were realized.
- Plans for refurbishment of embassies, consular offices and residences of the Republic of North Macedonia in Brasilia, Canberra, Athens, Budapest, Zurich and Harare were not implemented as well.
- In 2022, IT EQUIPMENT for the Public Revenue Office (PRO) was not purchased, nor was the existing equipment upgraded, together with consolidation of databases, in the value of 800 thousand EUR.
- High budget expenditure in respect to salary and salary contributions, subsidies for the energy sector, and the overall trend of increased costs, including transfers to social funds and systemic increase of catchment rates from funds collected on the ground of personal income tax and VAT transferred to municipal budgets, have overstretched public finances, annulling the effect of the inflation dividend on budget revenue, with budget deficit and borrowing being default options to compensate the shortages. Based on conditions agreed for financing the budget deficit, borrowing will be a burden on future budgets (expenditure).
- The amount of non-collected receivables based on public fees and levies (i.e. VAT on in-country trade and imports, profit taxes, personal income taxes, excise and custom duties) is enormous, and, according to records of the Public Revenue Office, amounts to 143 million EUR. Effects from possible collection of such receivables and legal measures taken to effectuate collection thereof are not presented in public.
- The research indicates to weaknesses of the cash-based budget accounting, non-harmonization of financial reporting and differences in recording the same type of legal and economic transactions.
- The institutions have demonstrated exceptionally low level of transparency in terms of projects planned, but not implemented, which – in some cases – raises doubts about purposefully withheld information from the public.
- Adoption of decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds, without developing and publishing the adjusted budget, hinders the public's insight in changes made and imposes the need for urgent changes in that regard.
- On the account of an error in 2022 Draft Final Account for the Budget of RNM, it was impossible to analyse the effect of the multiple crises on the functions of the state such as: general public services; defence; public peace and order; economic matters; environmental protection, habitats and community development; health care; recreation, culture and region; education and social protection.

BACKGROUND

Citizens of North Macedonia are facing the economically most unpredictable and most difficult period in the last 20 years. What had started as health crisis with the outbreak of the COVID-19 pandemic, quickly turned into economic and financial crisis, and last year, especially after the war in Ukraine, the country and the citizens are facing an energy crisis and high inflation.

All these crises have decreased budget revenue due to significantly reduced economic activity in general, with simultaneous increase of demand for and prices of many basic goods. In addition to their negative impact on public finances, the multiple crises had an expressly negative effect on the people, especially in terms of their living standards and, in some instances, in terms of their fundamental human rights. Particularly affected are poor and marginalized groups of people whose already disadvantaged status has further deteriorated. All this has short-term and long-term impact on the citizens and their lives, both directly and indirectly, and evident in declining conditions and ambiance for life and work.

On the other hand, the crises have undermined the already fragile democracy and rule of law, given that limited resources of central and local authorities were mainly directed at addressing different states of emergency. By implementing, mostly ad hoc, measures to deal with these crises, the authorities have forgone responsibility, accountability, transparency and even dissemination of public information about the effect of the crisis and the measures implemented on citizens, their life and work, as well as their rights.

Policies and measures taken by the central and local governments in response to the financial and energy crisis (manifested as double-digit inflation, energy fuel shortages and high prices, continuous decline of the citizens' living standard and economic stagnation) are reflected in the budgets.

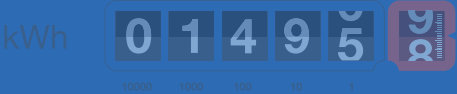
The civil society organizations, and citizens in general, were insufficiently active in monitoring these process-

es and accordingly did not identify specific weaknesses, which has led to the public interest being overshadowed by political interests and short-term "peace offerings" in respect to the economic crisis. Information provided to the public exclusively concern the aspects of budget spending deemed relevant by those in power, both at central and local level. Not only was the actual problem not analysed and discussed throughout this entire period, but it was pushed aside by new political developments in the country which, in some form or manner, removed from the public discourse the crucial issues addressed by this project. Namely, instead of adding the negative impact of ongoing crises on people's life in analyses, discussions and activities, dominant was the topic about the effect of these crises on public finances. Moreover, narratives on public finances, borrowing, budget "gaps" and the like are still being led as something "alien" and distant from people, instead of something that directly concerns the citizens, their lives and (non) exercise of their human rights.

Hence the urgent need to locate such impact on the people and to use it as roadmap for taking action in the event of prolonged or newly emerged crisis. On that account, this analysis aims to detect areas that are most affected by the energy crisis, i.e. areas characterized by biggest budget cuts (spending) to compensate higher costs (payments) emerging as a result of the crises. In particular, the analysis aims to determine the effect of budget spending by the state and by the municipalities in 2022, as it changed due to the economic crisis (inflation, economic stagnation and energy crisis), and how it impacted the citizens, by mapping segments characterized with biggest weaknesses and by proposing measures that should facilitate budget spending in the best interest of citizens.

As regards the methodology applied, data necessary for this research and analysis were collected from primary sources (directly from analysed institutions, their official websites, interviews and the instrument for free access to public information) and from secondary sources (i.e.

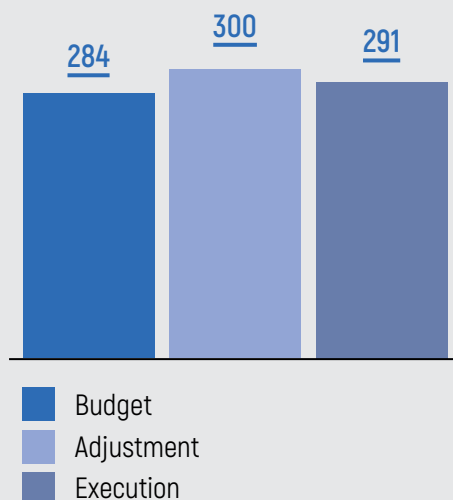
from other institutions, websites, international organizations, etc.). Collected data when then catalogued and processed by using computing programs and tools to render them suitable for quality analysis. In particular, data was analysed quantitatively, by means of mathematical computations, and qualitatively, by means of descriptive and contextual analysis of state-of-affairs, reasons and consequences. The research focuses on budgets of the state and of the municipalities, providing an overview of planned policies and public spending (adopted budget), the crisis' impact on budget revenue and expenditure, changes and corrections made to budgets (budget adjustments and decisions on reallocation of budget funds), as well as actual developments and level of policy implementation, and allows insight in the effects on the life of citizens (in terms of budget execution, i.e. the final budget account).



DETAILED RESEARCH ON CONSEQUENCES OF INCREASED BUDGET SPENDING DUE TO 2022 CRISIS IN AREAS THAT AFFECT THE LIFE OF CITIZENS

2022 Budget of the Republic of North Macedonia was initially adopted with expenditure projected at the level of 284 billion MKD (4.6 billion EUR). Amendments to the budget were enacted in July 2022, resulting in expenditure increase by 5.73%, i.e. 16 billion MKD (265 million EUR). Following the budget adjustment from July 2022, two decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds were adopted in November and December 2022, respectively. The budget was executed at the level 96.28%, i.e. in the amount of 291 billion MKD (4.7 billion EUR).

2022 Budget of RNM (billion MKD)



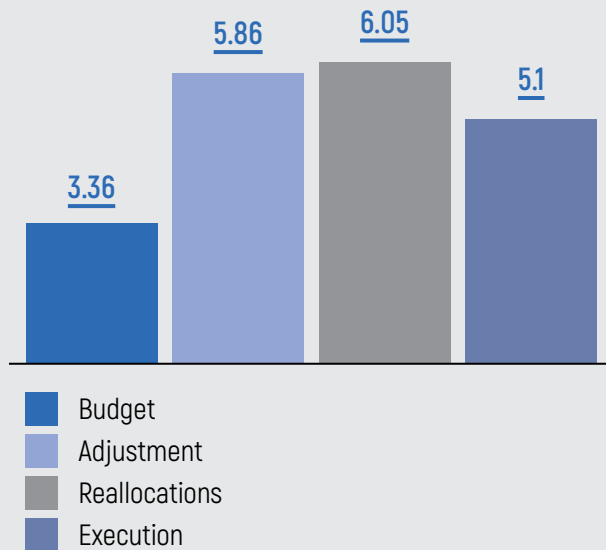
At the level of individual budget items, the biggest increase in expenditure is noted with budget items 421 (communal services, heating, communication and trans-

port), 464 (various transfers), 471 (social benefits) and 485 (investments and non-financial assets). All these budget items were changed as a result of increasing electricity costs and relief measures of the government to mitigate consequences of the energy crisis.

- Increased expenditure under budget item 421 (communal services, heating, communication and transport) is connected to 2022 growth of energy fuel prices. In 2022, this type of expenditure is estimated in the amount of 108 million EUR, which is by 59 million EUR more compared to budget expenditure for this purpose in 2021. The total amount of this type of expenditure, in addition to expenditure spent (according to the Final Account of the Budget of RNM), also includes liabilities on this ground that are matured for payment in the current year, but are still not settled. Hence, it is estimated that 83 million EUR were paid, but 25 million EUR are matured, but not settled with funds under budget item 421 (communal services, heating, communication and transport).

Increase of energy expenditure is best represented by budget item 421 (communal services, heating, communication and transport). In 2022, a total of 5,104,225,873 MKD (82,995,543 EUR) was paid from this budget item, which is significantly more than 2021 expenditure for the same purpose, in the amount of 3,031,113,099 MKD (49,286,391 EUR). Budget expenditure paid on this ground has increased by 68.4%, i.e. 2,073,112,774 MKD (33,709,150 EUR). However, the overall image is not complete only with this det of budget data. Actually, based on data published on the Ministry of Finance's website designated for reported liabilities per type of expenditure, it could be inferred that matured, but unpaid liabilities under budget item 421 (communal services, heating, communication and transport) in 2022 have increased by 1,567,444,134 MKD (25,486,896 EUR) compared to 2021.

**Overview of budget item 421 –
communal services, heating,
communication and transport
(billion MKD)**



The need for the calculation of heating costs to also include matured, but unpaid liabilities is underlined by the fact that, according to data from the final budget account, some institutions have increased expenditure under budget item 421 by as much as 70%, while other institutions reported very small increase, and even decrease of this type of costs. This is utterly illogical given the growth of energy fuel prices in 2022. Therefore, the actual calculation of increased costs imposed the need to also include data on the institutions' reported liabilities. According to these data, in December 2021, matured but unpaid liabilities under budget item 421 amounted to 3,207,237,251 MKD (52,150,199 EUR), while in 2022 they accounted for 4,774,681,385 MKD (77,637,096 EUR). Increase of such costs accounts for 1,567,444,134 MKD (25,486,896 EUR) and they are included in the calculation of total expenditure by the institutions for that purpose.

- In the crisis year of 2022, budget support for JSC Power Plants of the Republic of North Macedonia accounted for 14 billion MKD, i.e. 230 million EUR. This support has resulted in increased expenditure under budget item 464 (various transfers), as well as capital expenditure under budget item 485 (investments and non-financial assets) be-

cause portion of this support was paid from budget item 485580 (shares and other capital). When this amount is combined with budget support of 86 million EUR paid to JSC Power Plants for the same purpose in the last quarter of 2021, as well as 62 million EUR paid in the first nine months of 2023, it could be inferred that total support for in-country electricity generation due to the energy crisis accounts for 378 million EUR. As part of its relief measures, the Government also made payments to PE National Forests, JSC Water Economy of RNM and JSC Postal Office, in total amount of 662,000,000 MKD (10,764,228 EUR).

The budget item 464 (various transfers) was used to make 6 payments to JSC Power Plants in total amount of 8,183,808,808 MKD (133,070,062 EUR). These payments were made on the basis of the Decision on Declaring State of Crisis in Respect to Heat Energy Supply (Official Gazette of RNM no. 188/2022), wherein it is clearly indicated that measures and activities will be taken to secure additional quantity of heat energy according to the crisis situation. Five from total of six payments were made under P1 budget program (measures to deal with the COVID-19 crisis and other relief measures), and only one payment was made under S5 budget program (green growth), in the amount of 10.9 million EUR.

**Payments by the Government to JSC Power Plants
from budget item/account 464990 – other transfers**

Date	Program	Amount (MKD)	Amount (EUR)	JSC Power Plant's account to which payment was made
18.1.2022	S5	670,000,000	10,894,308	Account designated for budget support
21.1.2022	P1	360,000,000	5,853,658	Budget support for heat energy supply
31.1.2022	P1	53,808,000	874,926	Account designated for budget support
9.2.2022	P1	2,900,000,000	47,154,471	Account designated for budget support
5.9.2022	P1	3,100,000,000	50,406,504	Account designated for budget support
30.9.2022	P1	1,100,000,000	17,886,178	Budget support for heat energy supply

The budget item 485580 (shares and other capital) was used to make 6 payments to JSC Power Plants in total amount of 5,980,000,000 MKD (97,235,772 EUR).

**Payments by the Government to JSC Power Plants
from budget item/account 485580 – shares and other capital**

Date	Program	Amount (MKD)	Amount (EUR)	JSC Power Plant's account to which payment was made
21.1.2022	P1	615,000,000	10,000,000	Account designated for budget support
17.2.2022	P1	665,000,000	10,813,008	Account designated for budget support
30.11.2022	P1	800,000,000	13,008,130	Budget support for heat energy supply
30.11.2022	P1	700,000,000	11,382,113	Account designated for budget support
21.12.2022	P1	1,500,000,000	24,390,243	Account designated for budget support
28.12.2022	P1	1,700,000,000	27,642,276	Account designated for budget support

In 2022, the Government made payments under P1 budget program on relief measures to three other state-owned companies, i.e. PE National Forests, JSC Water Economy of RNM and JSC Postal Office, in total amount of 662,000,000 MKD (10,764,228 EUR).

A condition for use of funds under this budget item is active investment account, which means that these records should be used to increase equity capital of the

Government in JSC Power Plants, followed by enlistment in the trade register and equity capital of the state-owned company. Recording this payment under budget account "shares and other capital" would have made sense only when it is a matter of long-term planned investments, not when it is a matter of payment intended to ensure company liquidity related to current operational expenses for procurement of electricity and heat.

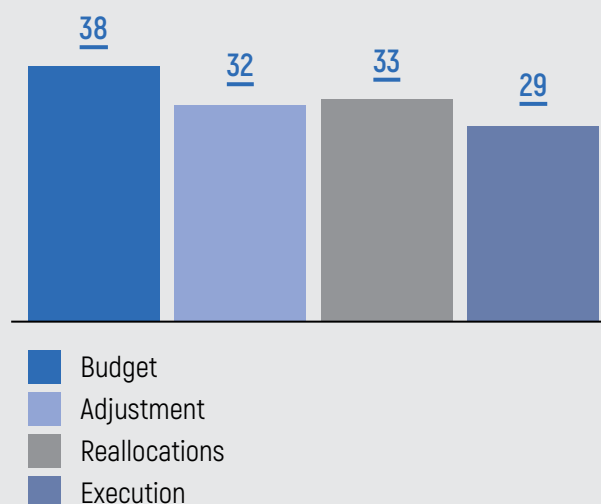
Payments by the Government to other state-owned companies from P1 budget program

Date	Program	Recipient	Budget account	Amount (MKD)	Amount (EUR)
30.9.2022	P1	PE National Forests	464990	332,000,000	5,398,373
30.9.2022	P1	JSC Water Economy of RNM	464990	100,000,000	1,626,016
29.12.2022	P1	JSC Water Economy of RNM	485580	110,000,000	1,788,617
9.12.2022	P1	JSC Postal Office of North Macedonia	485580	50,000,000	813,008
21.12.2022	P1	JSC Postal Office of North Macedonia	485580	70,000,000	1,138,211

- High 28% of realized capital expenditure, i.e. 8 billion MKD (131 million EUR), were spent on payments that cannot be attributed to the category "capital" and are directly or indirectly related to the energy crisis. It is a matter of payments made by the Government to JSC Power Plants and other state-owned companies, but also payments of loan guarantees by the Ministry of Finance – functions of the state on behalf of state-owned companies. This method of payment creates an unrealistic image that vast portion of budget funds was used for capital investments.

In 2022, capital expenditure of the state was realized at the level of 28 billion MKD (465 million EUR), which is by around 10 billion MKD (163 million EUR) less than funds initially planned under the Budget of RNM, projected in the amount of 621 million EUR. 2022 budget execution at the level of 28.6 billion MKD, i.e. 465 million EUR, resulted in record-high level of capital expenditure. However, this seemingly positive trend conceals expenses that cannot be qualified as capital and, therefore, as expenses that contribute to improved quality of life for citizens.

48 – capital expenditure under 2022 Budget of RNM (million MKD)



Overview of group 48 synthetic accounts (capital expenditure) shows the biggest increase of capital expenditure under budget account 485 (investments and non-financial assets). On the contrary, budget item 481 – construction facilities (construction of new and reconstruction of existing residential and commercial buildings) and budget item 482 – other construction facilities (streets, roads, motorways, bridges, treatment plants and collectors, landfills, water supply facilities, bridges, energy facilities and other facilities) are almost at the same level over the analysed period of five years. More specifically, in 2022, these two budget items accounted for 6.4 billion MKD (104 million EUR), which is only 1.81% more funds compared to 2021.

Overview of group 48 synthetic accounts – capital expenditure (MKD), per year

Account	2018	2019	2020	2021	2022
48 Capital expenditure	12,146,473,832	17,812,576,221	16,114,683,918	23,407,879,779	28,637,112,919
480 procurement of equipment and machinery	2,287,359,619	2,973,704,244	2,396,719,272	4,640,315,692	4,638,165,150
481 construction facilities	304,662,972	528,725,327	527,413,753	896,927,546	726,987,804
482 other construction facilities	5,463,604,361	5,014,633,125	4,457,740,586	5,389,523,241	5,673,397,308
483 procurement of furniture	99,617,820	114,636,229	57,273,506	125,745,745	83,439,297
484 strategic goods and reserves	262,706,940	1,398,484,375	1,079,241,485	267,992,885	1,432,996,208
485 investments and non-capital assets	747,783,019	3,266,191,758	3,448,365,467	8,647,597,460	11,008,485,642
486 procurement of vehicles	110,947,925	188,060,297	58,724,624	55,890,903	90,751,515
488 capital grants to LSGUs	799,994,236	1,456,614,043	1,289,760,788	954,502,529	1,839,325,178
489 capital subsidies for enterprises and NGOs	2,069,796,940	2,871,826,823	2,799,444,437	2,429,383,778	3,143,564,817

The biggest increase of capital expenditure is noted under budget item 485 (investments and non-financial assets), which amounts to 11 billion MKD and which was actually used for portion of budget support aimed at overcoming the energy crisis and payments to JSC Power Plants (97 million EUR), but also to other state-owned companies: JSC Postal Office (2 million EUR) and JSC Water Economy (1.8 million EUR). On the other hand, this budget item was used for payments by the Ministry of Finance – functions of the state related to loan guarantees on behalf of JSC State Roads (24 million EUR) and Railways of RNM Transport JSC Skopje (6.3 million EUR).

According to data obtained from the Ministry of Finance – functions of the state, it could be noted that payments made in 2022 under budget item 485 as state guarantees are in compliance with provisions from contracts signed in the cases when a state-owned company for

which guarantees are issued is unable, at that moment, to settle its liabilities in terms of repayment of loan and interest. As shown in the table below, in 2022, the Ministry of Finance engaged in such loan payments on behalf of JSC State Roads and Railways of RNM Transport JSC Skopje.

This mechanisms for recording payments on the ground of state guarantees is occasional and the same is not planned in advance.

Overview of 2022 payments by the Ministry of Finance – functions of the state from budget item 485 – investments and non-financial assets

485 – investments and non-financial assets	Date	Amount (MKD)	Amount (EUR)
Payment of loan, interest and fee guarantee on behalf of PE State Roads	21.01.2022	930,461,968	15,129,463
Payment of loan, interest and fee guarantee on behalf of Railways of RNM Transport JSC Skopje	21.03.2022	156,728,741	2,548,435
Payment of loan, interest and fee guarantee on behalf of Railways of RNM Transport JSC Skopje	19.04.2022	37,717,077	613,286
Payment of loan, interest and fee guarantee on behalf of PE State Roads	21.07.2022	536,764,183	8,727,873
Payment of loan, interest and fee guarantee on behalf of Railways of RNM Transport JSC Skopje	20.09.2022	156,925,967	2,551,642
Payment of loan, interest and fee guarantee on behalf of Railways of RNM Transport JSC Skopje	17.10.2022	37,642,370	612,071

Source: Data obtained from the Ministry of Finance in response to FOI request.

Finally, increased spending under budget item 471 (social benefits) due to the energy crisis is noted under 2022 budget program on protection of vulnerable energy consumers. According to information presented in the 2022 Final Budget Account, measures intended for protection of vulnerable groups of consumers were implemented with fiscal effect of 7 million EUR.

- **To compensate growing expenditure due to the energy crisis in 2022, the central budget and municipal budgets have scapegoated, i.e. die not implement, a series of capital projects in total value of at least 220 million EUR, which would have otherwise contributed to improved quality of life for citizens.**

It is a matter of non-constructed and non-refurbished healthcare facilities, non-constructed care centres for elderly people, non-constructed kindergartens, non-constructed streets and roads, non-implemented reconstructions and refurbishments of healthcare facilities, lower investments in education, lower investments in environmental promotion, non-purchased equipment

and machinery (medical equipment, monitoring station for air quality measurements, filter stations for hydro-systems, etc.).

These findings are result of in-depth analysis of 2022 budget, budget adjustment and decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds adopted in November and December 2022, 2002 Final Budget Account, the institutions' 2022 planned and implemented public procurements, as well as data secured under the instrument for free access to public information, i.e. FOI requests, addressed to 18 institutions at central level. The selection of institutions to be addressed with FOI requests was made upon preliminary analysis of data which showed biggest changes to relevant budget items with these institutions, either in respect to decrease of initially planned capital expenditure or in respect to other budget spending.

In the case of some projects, implementation is transferred for 2023, but others have disappeared from annu-

al plans on public procurements of institutions at both central and local level. Having in mind the widespread practice whereby institutions settle accrued liabilities from the current year's budget and defer payment for current project to the next fiscal year, analysis of planned projects and activities that remain unrealized would have been futile, i.e. imprecise, if it relied solely on the institutions' publicly available documents. Therefore, large portion of data were additionally secured directly from the institutions, allowing identification of major differences between projects planned and actually realized.

It is lack of public information about activities planned and their level of implementation that impose the need for introduction of an accrual accounting system for financial reporting to replace the current cash-based accounting method. The municipalities reported their planned and realized activities in the form of quarterly and annual reports adopted by their respective municipal councils.

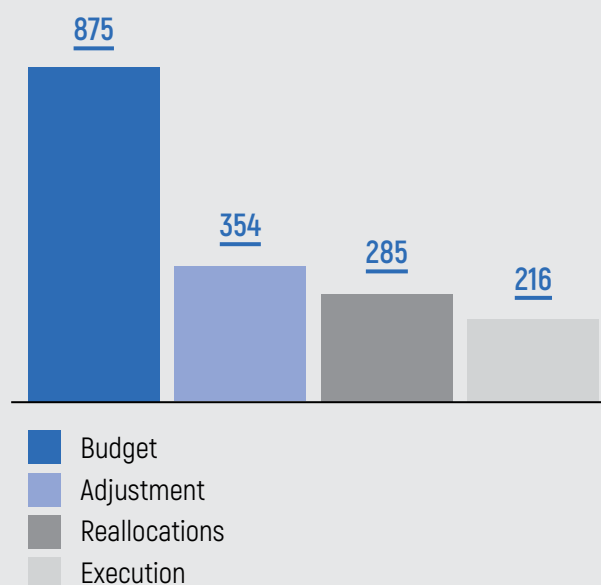
Below we elaborate the state-of-play observed in individual sectors with significant impact on the life of citizens

In the area of HEALTH CARE, budget cuts mainly concerned reconstruction and expansion of healthcare facilities, planned in the amount of 875 million MKD, i.e. 14 million EUR, of which only 216 million MKD, i.e. 3.5 million EUR, were spent.

Amidst the crisis year of 2022, capital projects in the healthcare sectors most affected by budget cuts concern the programs for reconstruction and extension of healthcare facilities, construction of General Hospital in Kichevo and construction of new Clinical Centres in Skopje and Shtip. Only 3.5 million EUR were spent from the initially planned amount of 14 million EUR.

Under 2022 Budget of the Republic of North Macedonia, these three subprograms, i.e. reconstruction and expansion of healthcare facilities, construction of General Hospital in Kichevo, and construction of new Clinical Centres in Skopje and Ship, were planned in total amount of 874,670,000 MKD (14,222,276 EUR).

Reconstruction and extension of healthcare facilities in 2022 (million MKD)



Adoption of amendments to 2022 budget has reduced these funds by 59.54%, i.e. 520,769,000 MKD (8,467,789 EUR). At the level of individual subprograms, as shown in the table, the biggest budget cuts were made in respect to funds intended for construction of new Clinical Centres in Skopje and Shtip (77.30%), while budget cuts for the other two programs accounted for 29.27% in the case of reconstruction and extension of healthcare facilities and 26.25% in the case of new General Hospital in Kichevo.

This was followed by new round of budget cuts under these three subprograms of the Ministry of Health, brought about with two decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds, adopted in November and December 2022.

With the adoption of these decisions by the Parliament of RNM, the value of these three programs was decreased by total of 68,658,724 MKD (1,116,402 EUR), i.e. 19.40%. Ultimately, funding made available for these three programs, in reduced amount of 285,242,276 MKD (4,638,086 EUR), was not fully realized, i.e. only 215,928,603 MKD (3,511,034 EUR) were spent, accounting for only 24.30% from initially planned investments under 2022 Budget of RNM.

Subprograms of the Ministry of Health affected by biggest budget cuts in 2022 (MKD)

Subprogram	2022 budget	2022 budget adjustment	Amount after 2 decisions on reallocation of funds	Execution
1A – Reconstruction and extension of public healthcare facilities in RNM	259,670,000	183,651,000	150,744,276	117,366,570
1E – General Hospital in Kichevo	60,000,000	44,250,000	39,130,000	28,451,169
Construction of new Clinical Centres in Skopje and Shtip	555,000,000	126,000,000	95,368,000	70,110,864
Total (MKD)	874,670,000	353,901,000	285,242,276	215,928,603
Total (EUR)	14,222,276	5,754,488	4,638,086	3,511,034

In order to have better insight and infer quality observations, the research team analysed the 2022 plan for public procurements, whereby projects planned for **reconstruction and extension of public healthcare facilities** include:

- reconstruction and refurbishments of KARIL;
- construction and adaptation of PHI HOPS Oteshevo;
- reconstruction and adaptation of surgical theatres at PHI University Clinic for Digestive Surgery;
- reconstruction and adaptation at PHI University Clinic for Dermatovenerology;
- reconstruction and extension of PHI Clinic for Surgical Diseases “St. Naum of Ohrid” Skopje;
- construction and extension of fifth surgical theatre and installation of elevators at “St. Erasmus” Hospital – Ohrid;
- façade repairs and façade windows (performance of construction works, project documents and project revision, and supervision of construction works) – Clinics for Internal Medicine; and

- construction and installation of elevator at PHI University Clinic for Haemathology.

It is a matter of projects whose implementation had also been postponed in past. The same projects are planned for implementation in 2023 and are integral part of the Ministry of Health's 2023 plan on public procurements. However, by end of July 2023, no procurement procedures were initiated for any of these projects.

Status of projects on reconstruction and expansion of public healthcare facilities

Procurement subject	Planned start of procurement procedure in 2023	Status in July 2023
Reconstruction and refurbishment at KARIL – Clinic for Anaesthesia, Reanimation and Intensive Care	February	Procurement notice is not published.
Construction works and adaptation at PHI HOPS Oteshevo	February	Procurement notice is not published.
Reconstruction and adaptation of surgical theatres at PHI University Clinic for Digestive Surgery	February	Procurement notice is not published.
Reconstruction and adaptation at PHI University Clinic for Dermatovenerology	February	Procurement notice is not published.
Reconstruction and extension of PHI Clinic for Surgical Diseases "St. Naum of Ohrid" Skopje	February	Procurement notice is not published.
Construction works and expansion of fifth surgical theatre at PHI Special Hospital for Orthopaedics and Traumatology "St. Erasmus" – Ohrid	March	Procurement notice is not published.
Façade repairs and façade windows – construction works at Clinics for Internal Medicine	March	Procurement notice is not published.
Façade repairs and façade windows – development of project documents and project review – Clinics for Internal Medicine	March	Procurement notice is not published.
Façade repairs and façade windows – performance of expert supervision at Clinics for Internal Medicine	March	Procurement notice is not published.
Construction works and installation of elevator at PHI University Clinic for Haemathology	April	Procurement notice is not published.

The negative effect of this approach to cutting budget spending is best presented by the number of patients who use the services of said healthcare institutions. According to data from the Institute of Public Health, on annual level, the Clinics for Internal Medicine have 180,000 patient visits, the Clinic for Dermatovenerology – around 75,000 visits, St. Erasmus – Ohrid – 34,000 patient visits, etc.

Decreased investments in the area of health care are further reflected in the budget of the Ministry of Finance, i.e. budget item 482 (other construction facilities), which was initially planned in the amount of 161,000,000 MKD (2,617,886 EUR) and intended for reconstruction of healthcare facilities as part of the project on public sector energy efficiency with funds in total amount of 25 million EUR secured as loan from the International

Bank for Reconstruction and Development – the World Bank. The Ministry of Finance confirmed that the budget adjustment resulted in reduction of funds for reconstruction of healthcare facilities from 161,000,000 MKD (2,617,886 EUR) to 20,000,000 MKD (325,203 EUR) and that these funds are reallocated to budget item 485 (municipal loans) in the amount of 50,000,000 MKD (813,008 EUR) to ensure greater performance of capital expenditure at local level. Nevertheless, the Ministry of Finance did not provide any explanation for delays in terms of planned reconstruction of healthcare facilities.

In the area of SOCIAL PROTECTION, implementation of 7 construction projects in the value of 342,598,121 MKD (5,507,701 EUR) and intended for elderly people, persons with special needs and preschool children was neither nor started in 2022.

More specifically, these concerns construction of care centre for elderly people in Municipality of Kochani, performance of construction works for daycare centre for persons with mental and physical disabilities in Municipality of Kavadarci, performance of construction works for adaptation and repurposing a care centre for infants and toddlers into kindergarten in Municipality of Bitola, construction of kindergarten building in Municipality of Bitola, extension of kindergartens in Municipalities of Delchevo and Debar,, and expansion of existing kindergarten building “Kokiche” in village Tarinci, Municipality of Karbinci. Most likely, some of these projects were planned for implementation for several years now.

The Ministry of Labour and Social Policy provided a list of facilities that should have, but were not implemented with funds from budget item 481 (construction facilities) in 2022. However, they claim that 5 of these 7 projects will be continued, leaving implementation of only two facilities uncertain, those being: construction of kindergarten in Municipality of Bitola and construction works on extension of care centre for elderly people in Municipality of Kochani.

No reasons were indicated for cancellation of some projects. At the same time, the analysis of data available in the Electronic Public Procurement System shows that, in 2023, among the remaining five projects whose continuation is announced, contract on construction works was signed only for adaptation and repurposing

of the care centre for infants and toddlers into kindergarten in Municipality of Bitola, and procurement notice is published for construction works on new kindergarten in Municipality of Delchevo. As regards the other three projects, it remains unclear whether they will be implemented in the course of this year.



Status of capital projects of the Ministry of Labour and Social Policy

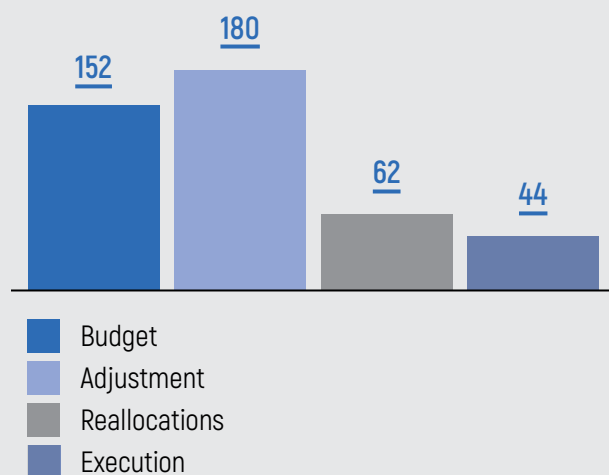
Construction facility	Amount (MKD)	Planned start of procurement procedure in 2023	Status in July 2023
Performance of construction works for extension of kindergarten building in Municipality of Debar	7,400,000	April 2023	Procurement notice is not published.
Performance of construction works for new kindergarten in Municipality of Delchevo	43,330,383	April 2023	Procurement procedure no. 06567/2023 is underway
Performance of construction works for expansion of existing kindergarten building "Kokiche" in village Tarinci, Municipality of Karbinci	13,993,028	March 2023	Procurement notice is not published.
Performance of construction works for adaptation and repurposing the care centre for infants and toddlers into kindergarten in Municipality of Bitola	10,536,656	February 2023	Contract was signed in June 2023.
Performance of construction works for new kindergarten building in Municipality of Bitola, construction and craftsmanship stage	20,033,900	Not part of 2023 public procurement plan	/
Performance of construction works for new care centre for elderly people in Municipality of Kochani	213,649,374	Not part of 2023 public procurement plan	/
Performance of construction works for new daycare centre for persons with mental and physical disabilities in Municipality of Kavadarci	33,654,780	Transferred to 2023 public procurement plan	Procurement notice is not published.

As a result of processes elaborated above, based on data from the 2022 Final Budget Account relating to programs of the Ministry of Labour and Social Policy, it could be determined that biggest budget cuts were made to 3A budget program (construction, equipment and maintenance of child protection buildings), whereby the budget adjustment and decisions on reallocation of funds have reduced the initially planned funds in the

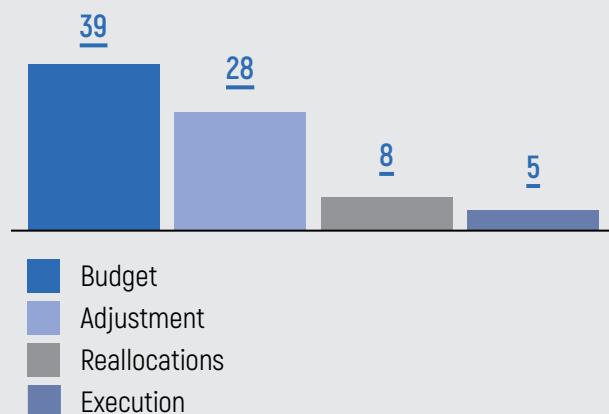
amount of 152,035,000 MKD (2,472,114 EUR) by 59.39% to the final amount 61,748,111 MKD (1,004,023 EUR), of which only 44,465,029 MKD (723,009 EUR) were spent.

CHANGES TO BUDGET PROGRAMS OF THE MINISTRY OF LABOUR AND SOCIAL POLICY

3A program – construction, equipment and maintenance of child protection buildings in 2022 (million MKD)



4A program – construction, equipment and maintenance of social protection buildings and care centres for elderly people in 2022 (million MKD)



In the case of the Ministry of Labour and Social Policy, analysis of the 2022 Final Budget Account also shows low performance under budget item 480 (procurement of equipment and machinery). Initially, this budget item was planned in the amount of 269,400,000 MKD (4,380,488 EUR), but the budget adjustment increased funds to 431,761,442 MKD (7,020,511 EUR). Nevertheless, the performance rate of this budget item accounted for only 3.6%, i.e. modest 15,564,668 MKD (253,084 EUR).

The explanation provided by the Ministry of Labour and Social Policy concerning implementation of budget item 480 (procurement of equipment and machinery) in 2022 implied that equipment being purchased is related to P1 budget program (measures to address the COVID-19 crisis and other relief measures), as well as that planned equipment was procured, but was not fully paid in 2022, meaning that vast portion of payments will be made in 2023. Moreover, the Ministry of Labour and Social Policy indicated that: "According to the request made and the approval obtained from the World Bank, the date for project completion was extended to 30.12.2022 with 4-month payment period, i.e. by 30.04.2023. Accordingly, the budget adjustment requested more funds in order to procure medical equipment for the needs of medical institutions across the state. The procurement of medical equipment was completed in October 2022 and advance payment was made in line with contracts signed with the vendors, i.e. Philips Medical Systems Nederland B.V and Siemens Healthcare GmbH."

**Payments from budget item 480 – procurement of equipment and machinery
by the Ministry of Labor and Social Policy transferred to 2023**

Procurement contract		Date of contract	Contractor	Implementation in 2023 (payment in MKD)
Procurement, delivery and installation of equipment for expansion of kindergarten "Goce Delchev", building "Srnichka in Municipality of Probishtip	Lot 4 – outdoor playground	17.10.2022	Kiro Lend Trade LLC Skopje	555,072
Procurement, delivery and installation of medical equipment for the needs of Clinical Hospital Tetovo, Clinical Hospital Bitola, Clinical Hospital Kumanovo, General Hospital Strumica, Specialized Hospital for Prevention and Rehabilitation of Cardiovascular Diseases – Ohrid, City General Hospital "8th September", University Clinic for Surgical Diseases "St. Naum of Ohrid", University Clinic for Radiology	Azurion 7 B20 Clarity Azurion 5 C12 Clarity DigitalDiagnosis C50 ClearVue 850 (Urology) ClearVue 850 (Cardiology) ClearVue 850 (Gynecology & Obstetrics) ClearVue 850 (Abdominal & Thyroid) Egiq CVx ClearVue 850 (Radiology)	14.10.2022	Philips Medical Systems Nederland B.V	148,455,441
Procurement, delivery and installation of medical equipment for the needs of Clinical Hospital Shtip, University Clinic for Cardiology, University Clinic for Cardio Surgery, City General Hospital "8th September", Clinical Hospital Tetovo., University Surgery "St. Naum of Ohrid", University Clinic of Neurology, General Hospital Kumanovo, University Clinic for Radiology, General Hospital Strumica, General Hospital Struga, General Hospital with expanded activity Debar	MAMMOGRAPHY SYSTEM – Mammomat Revelation MAMMOGRAPHY SYSTEM – Mammomat Inspiration CT SCCANER 128 – Somatom go. Top C-ARM SYSTEM – Cios Select w ANGIOGRAPHIC SYSTEM – Artis Q ANGIOGRAPHIC SYSTEM Floor mounted, for interventional cardiovascular procedures and electrophysiology – Artis Icono ANGIOGRAPHIC SYSTEM Floor mounted, for interventional cardiovascular procedures – Artis one Cardio	28.10.2022	Siemens Healthcare GmbH	355,564,902

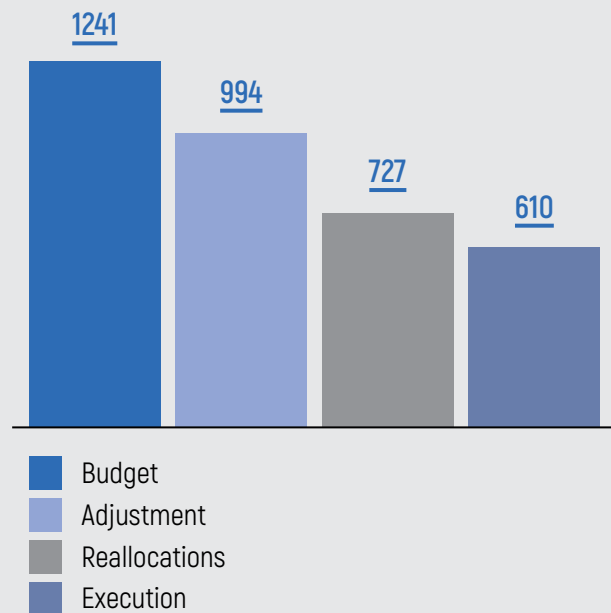
2022 investments in the area of EDUCATION were almost halved from the initially budgeted 1.2 billion MKD, i.e. 20 million EUR, with performance rate of only 10 million EUR.

Projects related to student dormitories suffered the biggest effect of budget cuts. While budget subprograms for construction of secondary schools and construction/reconstruction of student dormitories were reduced to zero, the biggest budget cuts, as well as under-performance, are observed in relation to the program on energy-efficiency refurbishment of student dormitories.

2022 budget was adopted with education investments projected in the amount of 1,241,059,000 MKD (20,179,821 EUR) and intended for construction of primary schools, reconstruction of primary schools, construction of sport halls at primary schools, construction of secondary schools, reconstruction of secondary schools, construction and reconstruction of student dormitories, and energy efficiency refurbishment of student dormitories.

First round of budget cuts for education investments was made under 2022 amendments to the budget, accounting for a decrease by 19.88%, i.e. 246,646,000 MKD (4,010,504 EUR) and resulting in investments projected in the amount of 994,413,000 MKD (16,169,317 EUR). This was followed by new round of budget cuts affecting capital investments in the field of education effectuated with two decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds, adopted in November and December 2022, respectively. Adoption of these decisions by the Parliament of RNM resulted in reduction of capital investments in education by additional 26.92%, i.e. 267,716,043 MKD (4,353,106 EUR), leaving them in the final amount of 726,696,957 MKD (11,816,211 EUR). In total, budget funds intended as investments in education were reduced by 514,362,043 MKD (8,363,610 EUR).

2022 investments in the area of education (million MKD)



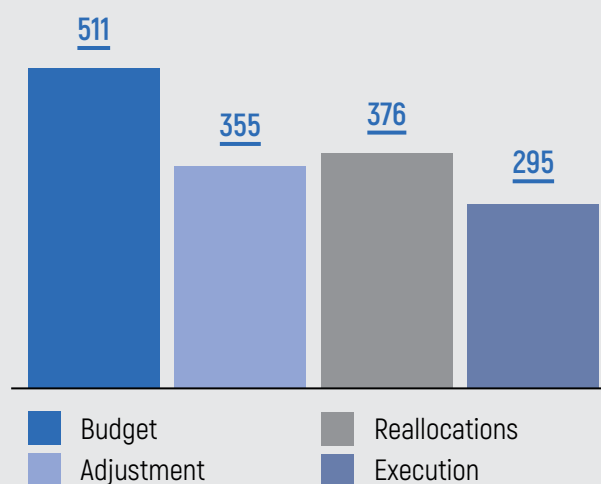
As shown in the table that provides overview of changes made to and performance of subprograms under the program on capital investments in education, subprograms on construction of secondary schools and construction/reconstruction of student dormitories were reduced to zero, while biggest budget cuts and under-performance are noted in respect to the subprogram on energy efficiency refurbishment of student dormitories.

Ministry of Education and Science's 2022 program on capital investments in education (in MKD)

Subprograms under the program on capital investments in education	2022 budget	2022 budget adjustment	Amount after 2 decisions on reallocation of budget funds	Execution
TA – construction of primary schools	92,000,000	92,000,000	80,526,828	73,479,002
TB – reconstruction of primary schools	293,000,000	293,000,000	249,810,000	232,991,941
Construction of sport halls at primary schools	399,090,000	288,368,000	242,019,536	184,433,709
Construction of secondary schools	700,000	700,000	0	0
TD – reconstruction of secondary schools	86,500,000	86,500,000	56,683,233	56,250,526
Construction of sport halls at secondary schools	1,550,000	3,350,000	3,290,486	3,290,486
Construction and reconstruction of student dormitories	25,000,000	25,000,000	0	0
Energy efficiency refurbishment of student dormitories	343,219,000	205,495,000	94,366,874	59,287,604
Total (MKD)	1,241,059,000	994,413,000	726,696,957	609,733,268
Total (EUR)	20,179,821	16,169,317	11,816,211	9,914,362

As regards 2022 budget underperformance in the education sector, due consideration should be made of cuts made under budget item 480 (procurement of equipment and machinery). Analysis of this budget item established that, under the initial budget for 2022, this item was projected in the amount of 511,145,000 MKD (8,311,300 EUR), but was later reduced to 354,675,000 MKD (5,767,073 EUR) with the budget adjustment and was insignificantly increased with the decisions on reallocation of funds to total amount of 375,751,801 MKD (6,109,785 EUR), of which 295,492,701 MKD (4,804,759 EUR) were spent.

2022 funds for procurement equipment in the area of education (million MKD)



In response to the FOI request inquiring about the list of equipment and machinery planned, but not procured due to reduction of initially planned budget funds, the Ministry of Education and Science disclosed a list whose value does not match data from the 2022 Budget of RNM, as it includes a much lower amount.

Overview of budget item 480 – procurement of equipment and machinery in 2022, FOI response from MES (MKD)

Subprogram	Budget	Adjustment	Amount after decisions on reallocation of budget funds	Execution by 31.12.2022
10 – Administration	2,000,000	2,000,000	622,977	85,956
14 – Agency for Quality in Higher Education	140,000	140,000	49,000	46,260
16 – National Council for Higher Education	400,000	400,000	40,000	0
20 – Primary education	720,000	720,000	720,000	570,830
21 – Projects in primary education	25,000,000	23,150,000	15,169,068	12,361,208
30 – Secondary education	1,600,000	1,600,000	1,043,743	825,890
33 – Centre for Adult Education	150,000	150,000	52,000	52,000
40 – Higher education			265,500	225,453
41 – University “Ss Cyril and Methodius”	10,000,000	10,000,000	10,000,000	9,866,805
42 – University “St. Clement of Ohrid”	1,500,000	1,500,000	1,500,000	1,500,000
43 – University of Tetovo	1,500,000	1,500,000	1,500,000	1,500,000
44 – University “Goce Delchev” Shtip	3,000,000	3,000,000	3,000,000	2,424,677
45 – University “Mother Theresa”	15,000,000	15,000,000	6,071,462	4,545,062
46 – University of Information Technology – Ohrid	200,000	200,000	200,000	199,860
50 – Student standard	6,000,000	6,000,000	0	0
60 – Student standard	44,000,000	44,000,000	2,600,000	0
72 – Science institutions	3,500,000	2,800,000	1,985,051	1,700,801
TC – construction of sport halls at primary schools	130,000	130,000	0	0
Total (MKD)	114,840,000	112,290,000	44,818,801	35,904,802
Total (EUR)	1,867,317	1,825,853	729,249	583,818

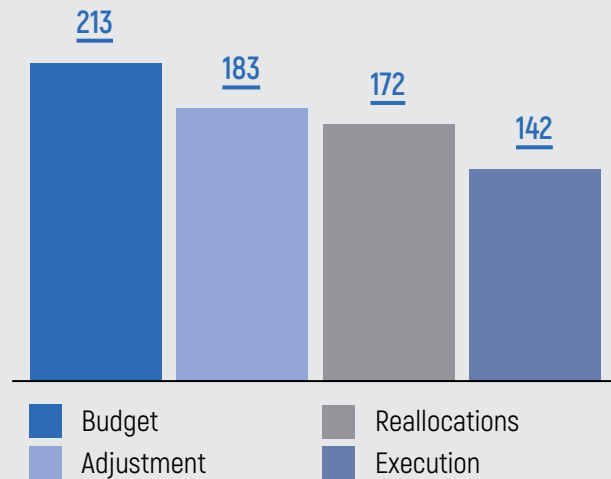
The program on ENVIRONMENT PROMOTION which, in 2022, was initially budgeted at around 1.9 billion MKD, i.e. 30 million EUR, was implemented at the level of only 13 million EUR, with most of these funds being transferred by the Government to JSC Power Plants of North Macedonia for implementation of the project for photovoltaic power plants in Oslomej.

The program on environment promotion is comprised of two subprograms, as follows; S1 program (environment promotion) implemented by the Ministry of Environment and Spatial Planning and S5 program (green growth) implemented through the General Secretariat at the Government.

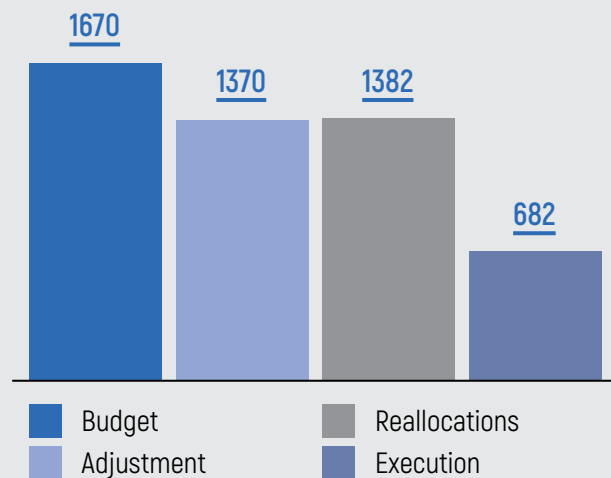
Under the 2022 Budget of RNM, the program on environment promotion was projected in total amount of 1,882,706,000 MKD (30,613,105 EUR). The budget adjustment resulted in these funds being reduced by 329,750,000 MKD (5,361,788 EUR), representing a decrease by 17.51%. With the decisions on reallocation of funds, the value of this budget item was insignificantly increased by 1,306,500 MKD (21,243 EUR). However, program implementation has proved to be the biggest problem as only 823,983,949 MKD (13,398,112 EUR) were spent from the total funds in the amount of 1,554,262,500 MKD (25,272,561 EUR). In that, performance rate of the subprogram on environment promotion accounts for 82.63%, while the much voluminous subprogram on green growth is marked by performance rate of 53.01%. According to treasury data, the Government has transferred vast portion of funds available under the green growth subprogram to JSC Power Plants, i.e. 670,000,000 MKD (10,894,309 EUR), and the remaining amount of funds were transfers made to non-resident accounts. According to published information, funds transferred to JSC Power Plants are intended for photovoltaic power plants in Oslomej, developed in compliance with the Government's Strategy on Energy Development by 2040, based on the EU Green Deal.

2022 SUBPROGRAM ON ENVIRONMENT PROMOTION (MKD)

S1 subprogram - environment promotion in 2022 (implemented by MESP) (million MKD)



S5 subprogram - green growth in 2022 (implemented by the Government) (million MKD)



In 2022, major changes to the budget of the Ministry of Environment and Spatial Planning are noted in respect to budget item 480 (procurement of equipment and machinery) and budget item 482 (other construction facilities). More specifically, the budget item intended for procurement of equipment and machinery was decreased from 68,460,000 MKD to only 17,720,000 MKD. The Ministry of Environment and Spatial Planning explained the difference in funds with the following three points:

1. procurement of spare parts for the hydro-system on the Dojran Lake was cancelled because the system did not need any spare parts;
2. in spite of plans for two monitoring stations (20,000,000 MKD), only one station was procured in the value of 8,340,000 MKD based on the communication from the Government of the Republic of North Macedonia no. 02-1824/1 dated 11.03.2022 concerning implementation of relief measures to address the energy and cost of life crisis; unspent funds were returned to the central budget as part of the budget adjustment;
3. procurement of technology for waste balling and wrapping in the value of 37,200,000 MKD under budget item 480 (procurement of equipment and machinery) is transferred to budget item 488 (capital grants for LSGUs) and thereby considered fully implemented.

Based on this response, it is clear that the economic crisis has affected changes made in terms of reduced number of monitoring stations procured. At the same time, it is unclear why funds from budget item 480 were transferred to budget item 488.

Implementation of funds under budget item 482 (other construction facilities) reveals that large share of projects that should contribute to improved environment are not marked by desired dynamics. Notably, the difference between funds planned and funds spent in the amount of 411,378,000 MKD (6,689,073 EUR) is justified as postponed implementation, but not cancellation of enlisted projects.

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**Overview of budget item 482 – other construction facilities
of the Ministry of Environment and Spatial Planning in 2022**

Program	Item	Location	Description	Planned funds	Realized funds	Remaining	Project status
23	Water protection and management	Berovo	Rehabilitation of water supply system with filter station in Municipality of Berovo – total project value of 75,967,390 MKD (multiannual public procurement 2022 – 2024)	7,500,000	0	7,500,000	Contract was signed on 23.12.2022. Project implementation is underway.
		Bogdanci	Reconstruction of water supply network in Bogdanci – project value of 257,897,084 MKD (multiannual public procurement 2022 – 2025)	12,878,000	0	12,878,000	Contract was signed on 29.12.2022. Project implementation is underway.
25	Waste water treatment	Dojran	Reconstruction/ construction of collector and treatment station in Dojran	5,000,000	0	5,000,000	The procurement procedure in 2022 failed due to unacceptable bids. By means of government decision in 2022, funds under budget item 488 were transferred to designated account in the amount of 65 million MKD.
			Expert technical supervision for the project "reconstruction of collector and treatment station in Dojran" "				
		Arachinovo	Regulation of perimeter canal in Arachinovo (multiannual public procurement 2022 – 2024)	7,000,000	0	7,000,000	
		Gazi Baba	Construction of faecal sewage network in Strachinci, Municipality of Gazi Baba (multiannual public procurement 2022 – 2023)	10,000,000	0	10,000,000	Contract was signed on 12.12.2022. Project implementation is underway.

25	Waste water treatment	Law on Borrowing of the Republic of North Macedonia, with loan from the European Investment Bank according to Financial Agreement Signed for the Waste Water Treatment Plant Project in Skopje.	369,000,000	0	369,000,000	The last budget adjustment reduced funds under this budget item to 289,000,000 MKD.
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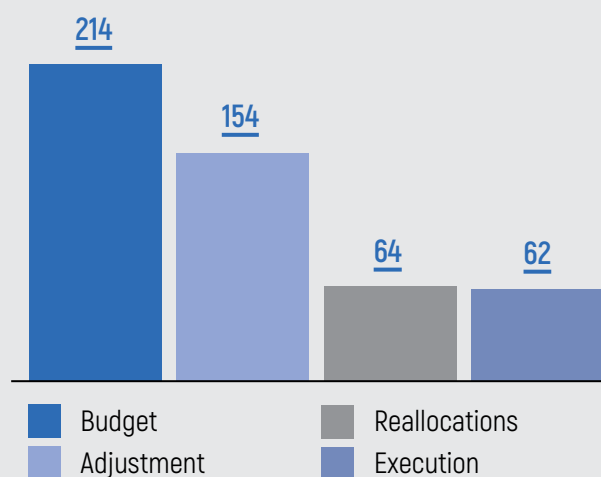
In the area of AGRICULTURE, FORESTRY AND WATER ECONOMY, the analysis underlines two budget items that should have contributed to improved state-of-play, those being: 6A subprogram (Hydro-System Zletovica) and 1A subprogram (agriculture modernization), both of which were affected by budget cuts. From the initial amount of 282 million MKD, i.e. 4.5 million EUR, only 64 million MKD were spent to finance these subprograms, accounting for slightly over 1 million EUR.

Under 2022 budget, the subprogram for Hydro-System Zletovica was initially planned in the value of 214,281,000 MKD (3,484,243 EUR). The budget adjustment reduced these funds by 28.15%, i.e. 60,330,000 MKD (980,976 EUR) to the amount of 153,951,000 MKD (2,503,268 EUR). Later, the decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds adopted by the Parliament of RNM further decreased funding for this subprogram by 90,352,263 MKD (1,469,142 EUR), resulting in the final amount of 63,598,737 MKD. As shown on the chart below, the performance rate under the severely reduced budget program was high.

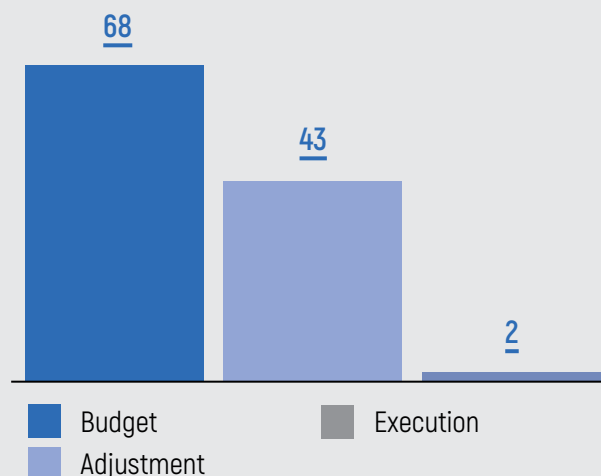
As regards the subprogram for agriculture modernization, the budget adjustment reduced the initial amount of 68,180,000 MKD (1,108,618 EUR) by 31.82% to the final amount of 42,900,000 MKD (697,561 UR). Of these, only 2,258,727 MKD (36,727 EUR) were spent, which accounts for performance rate of 5.26%.

MAFWE'S SUBPROGRAMS MARKED BY MAJOR BUDGET CUTS IN 2022

2022 subprogram on HS Zletovica (million MKD)



2022 subprogram on agriculture modernization (million MKD)



In its FOI response inquiring about low performance under budget item 480 (procurement of equipment and machinery), the Ministry of Agriculture, Forestry and Water Supply does not correlate the low performance to the economic crisis, but rather problems they have encountered in implementation of tender procedures. More specifically, MAFWE's response reads: "The ministry's 2022 budget for 6A program (HS Zletovica), item 480 (procurement of equipment and machinery), lots 2, 3, 4, and 5 (shown in the table below) was not executed because priority was given to construction of filter sta-

tion in Sveti Nikole (lot 2). Tender documents for implementation of these activities were being developed over longer period of time but, unfortunately, the procurement notice was annulled in late 2022 and there was no time in the fiscal year for announcement of new notice. From these reasons, MAFWE adopted an official position to delegate implementation of this program to PE Hydro-System Zletovica and discontinued all further activities in relation to announcement of public procurement for remaining lots under budget item 480".

6A program – HS Zletovica, budget item 480 – procurement of equipment and machinery under MAFWE's 2022 budget

No.	Description	Budget	Adjustment	Execution	Elaboration of reasons for budget cuts and non-performance of certain lots
1	Upgrade to HS Zletovica (SCADA) at PE HS Zletovica – Probishtip	9,532,500	9,532,500	1,321,622	The project is co-financed with donation from the Center for International Cooperation and Development of the Republic of Slovenia and is comprised of two parts: electronics and machinery. The reason behind budget underperformance is the fact that the donation agreement was signed on 05.05.2022 and not in the beginning of the year, resulting in annulment of the first public procurement concerning machinery. Hence, payment was made only for advance invoice issued by the contractor of the first part. Most certainly, the project will be implemented in 2023.

2	Construction of filter station UC 100 l/s with supervision, Sveti Nikole	105,575,500	66,560,500		MAFWE's 2022 budget for 6A program – HS Zletovica – budget item 480 – was not implemented in respect to lots 2, 3, 4, and 5 for procurement of equipment and machinery because priority was given to construction works on filter station in Sveti Nikole (lot 2). Tender documents were being developed over longer period of time but, unfortunately, the procurement notice was annulled in late 2022 and there was no time in the fiscal year to announce new notice. From these reasons, MAFWE assumed an official position to delegate implementation of this program to PE Hydro-System Zletovica and discontinued all further activities in relation to implementation of public procurements for other lots under budget item 480.
3	Procurement, transport and installation of diesel-fuelled aggregator 110 kVA for the filter station in Karbinci	1,500,000	1,500,000		
4	Development of project documents for filter station in Lozovo	500,000	500,000		
5	Improving water supply in the upper zone in Probishtip, with supervision	6,000,000	6,000,000		
Total (MKD)		123,108,000	84,093,000	1,321,622	

Problems related to the budget are further evidenced by the outcome of program 60 (water economy) in 2022. The budget did not anticipate any funds for this program, but the budget adjustment allocated 18,956,000 MKD for this purpose. The response obtained from the Ministry of Agriculture, Forestry and Water Economy to the inquiry for additional information reads: "After the third quarter of 2022, the Ministry of Finance reduced funds from budget item 480 in the amount of 12,327,250 MKD and reallocated them to account 414480 (capital reserve for equipment procurement), whereby by the end of October 2022, this account was left with 6,637,750 MKD. Of this amount, 6,637,000 MKD were removed from the account 480 by means of the decision on reallocation of funds among budget beneficiaries of the central government and among the state funds adopted by the Parliament of RNM (Official Gazette of RNM no. 232/22) leaving the final balance at 750 MKD by the end of the year. 2022 water supply program (Official Gazette of RNM no. 36/22, 141/22, 188/22 and 273/22) and 2022 annual investment program of the state-owned company JSC Water Economy of the Republic of North Macedonia (adopted at the

government's session held on 12.04.2022 and 23.08.2022) anticipated funds for payment of liabilities arising from contracts signed in 2021 for procurement of machinery, as well as funds for implementation of new tender procedure in 2022 for procurement of machinery for the needs of JSC Water Economy. Liabilities arising from 2021 contracts were paid in full, while payment of invoice for machinery procured for JSC Water Economy in 2022 was settled with funds from 2023 budget due to depleted funds under account 480 (elaborated above)."

Under 2022 budget, investments in ROAD INFRASTRUCTURE were initially projected in the amount of 5.9 billion MKD (96 million EUR), but were later revoked in full, with water supply and waste water collection projects suffering budget cuts.

The Ministry of Transport and Communication's 2022 budget had reduced funds for three programs, those being: 2M – investments in road infrastructure, 3G – water supply and waste water collection projects, and 3L – construction of water supply system in Sopsishte. In that,

the highest amount of funds is allocated to the program for investments in road infrastructure, which covered infrastructure construction along Corridor 8 (section Tetovo-Gostivar - Bukojachani and highway Trebenish-ta-Struga-Kjafasan) and Corridor 10 (highway section Prilep-Bitola) in projected amount of 5,938,874,000 MKD (96,567,057 EUR). The 2022 budget adjustment resulted in reduction of these funds by 37.95%, projecting them at the level of 3,685,000,000 MKD (59,918,699 EUR). Later, these funds are fully cancelled by the decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds. This cancellation is due to preparations for implementation of the agreement signed with the consortium "Bechtel-Enka".

The next important program of the Ministry of Transport and Communications covers projects related to water supply and waste water collection and was initially budgeted in the amount of 448,210,000 MKD (7,287,967 EUR), but was later reduced by 45% to the level of 246,518,000 MKD (4,008,423 EUR) with the budget adjustment and decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds. Even the reduced amount of budget funds were not realized in full, but in the amount of 178,831,617 MKD (2,907,831 EUR).

Next in terms of budget cuts is the program for construction of water supply system in Sopishte, planned in the amount of 20,000,000 MKD (325,203 EUR), which was fully cancelled with the decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds.

MTC's programs with biggest budget cuts in 2022 (MKD)

Program	2022 budget	2022 budget adjustment	Balance after 2 decisions on reallocation of funds	Execution
2M – Investments in road infrastructure	5,938,874,000	3,685,000,000	0	0
3G – Water supply and waste water collection projects	448,210,000	267,850,000	246,518,000	178,831,617
ZL – Construction of water supply system in Sopishte	20,000,000	20,000,000	0	0

Contrary to budget cuts, the 2022 budget adjustment added a program for construction of social housing under budget item 489 (capital subsidies for enterprises and non-governmental organizations) that did not exist in the initial budget. These construction works were planned in the amount of 200,000,000 MKD (3,252,032 EUR) and fully implemented.

Procurement and placement of traffic signals on railway crossings in the value of 51 million MKD, i.e. 839 thousand EUR, is the biggest project removed from the public procurement plan by the Ministry of Finance – functions of the state. However, worrying is the fact that significant portion of projects that should have been implemented and dominantly financed with the EU Instrument for Pre-Accession Assistance had an exceptionally low performance rate of only 37.78%. It is a matter of budget item 480 (procurement of equipment and machinery) and budget item 482 (other construction facilities), planned with projects in the value of 1,839,286,224 MKD¹ (29,907,093 EUR), of which only 694,849,941 MKD (11,298,373 EUR) were spent.

In terms of planned, but unrealized projects of the Ministry of Finance – functions of the state that are significant for the quality of life for citizen, this analysis notes the cancelled project for procurement and placement of traffic signals on railways crossings in the amount of 51,620,800 MKD (839,363 EUR) under budget item 482, as well as planned development of project documents on improving infrastructure for waste water collection and treatment and water supply network in the Municipality of Arachinovo worth 7,145,600 MKD (116,188 EUR), also removed from the ministry's plans.

However, removal of these two important projects was accompanied by very low implementation of funds intended for projects approved under the EU Instrument for Pre-Accession Assistance. As shown in the table, 2022 plans anticipated implementation of projects in total value of 1,839,286,224 MKD (29,907,093 EUR) dominantly funded by IPA. Due to delays in tender procedures and poor performance dynamics of already awarded contracts, the projects that were implemented account for only 694,849,941 MKD (11,298,373 EUR).

¹ The total amount was deducted by funds planned and obtained as load from EIB in the amount of 67,000,000 MKD, having in mind that the invoice for supervision of the contract for reconstruction and expansion of highway section Demir Kapija – Smokvica indicated an amount (63,197,850 MKD) lower than funds planned and the contract was completed in this lower amount.



2022 planned and realized payments
Ministry of Finance – functions of the state

ME program transport and environment	Funds planned	Funds paid	Difference	Elaboration
Environment				
Procurement of IT and other specific equipment for the environmental monitoring and information system	24,640,000	0	24,640,000	Contract not signed because tender procedure was underway.
Procurement of office and technical equipment and ICT software for operational structure at MESP to implement SOPECA 2014-2020	4,435,200	0	4,435,200	Contract not signed because tender procedure was underway.
Procurement of specific equipment for the water monitoring information system.	17,248,000	0	17,248,000	Contract not signed because tender procedure was underway.
Supervision over implementation of construction work contract for improving waste water collection infrastructure in the City of Skopje	15,612,960	9,596,895	6,016,065	Contractor reported less billable hours from those initially planned for 2022.
Rehabilitation and expansion of the sewage network in Municipality of Kichevo	214,060,610	0	214,060,610	Contract not signed because tender procedure was underway.
Supervision for the contract on expansion of the sewage network in Municipality of Kichevo	7,736,553	7,736,553	0	Payments made according to the planned budget.
Supervision of the construction works contract for waste water treatment plant and rehabilitation and expansion of the sewage network in Municipality of Bitola	16,016,010	0	16,016,010	Contract not signed because tender procedure was underway.
Supervision of the construction works contract for waste water treatment plant and rehabilitation and expansion of the sewage network in Municipality of Tetovo	18,480,010	0	18,480,010	Contract not signed because tender procedure was underway.
Development of project documents for improving waste water collection and treatment infrastructure and water supply network in Municipality of Arachinovo	7,145,600	0	7,145,600	The project is removed from the public procurement plan.

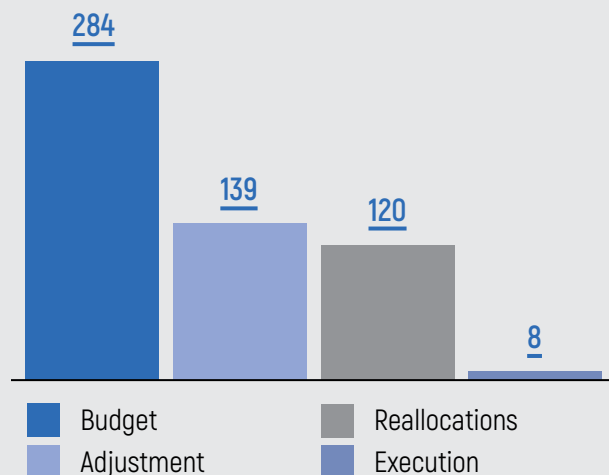
Closure of non-compliant and illegal landfills in the East Reagin – lot 1	203,899,740	51,213,589	152,686,151	Plans were to pay two invoices (advance and performance-based), but the contractor issued only one invoice for advance payment.
Supervision contract for construction works related to closure of non-compliant and illegal landfills in the East and Northeast Regions – first phase	11,567,453	7,317,027	4,250,426	Plans were to pay two invoices (advance and performance-based), but the contractor issued only one invoice for advance payment
Transport				
Construction of road section Gradsko to junction Drenovo as part of Corridor X-d	861,852,920	327,816,914	534,036,005	Contractor reported less billable hours from those initially planned for 2022.
Supervision of construction works on road section Gradsko to junction Drenovo as part of Corridor X-d	51,893,960	66,141,398	-14,247,438	Financial reports submitted cover 2021 and 2022 which explains payment of funds in amount higher than initially planned.
Rehabilitation of state road A2, section Kumanovo – Stracin (first phase)	185,568,690	107,775,162	77,793,527	Contractor reported less billable hours from those initially planned for 2022.
Supervision of construction works on rehabilitation of state road A2, section Kumanovo -Stracin (first phase)	16,583,535	24,784,207	-8,200,672	Financial reports submitted cover 2021 and 2022 which explains payment of funds in amount higher than initially planned.
Technical assistance for implementation of the project for security fence replacement in line with EN standards on identified priority sections along Corridor X highway	59,800	0	59,800	The project is excluded from the public procurement plan.
Procurement and placement of traffic signals on railway crossings	51,620,800	0	51,620,800	The project is excluded from the public procurement plan.
Technical assistance for procurement and placement of traffic signs on railway crossings	2,199,120	0	2,199,120	The project is excluded from the public procurement plan
ME subprogram – justice and home affairs				
Procurement of equipment (office furniture) for public prosecution offices across the country, prosecution office against organized crime and the Ministry of Justice	1,323,358	1,323,358	0	Payment made according to the planned budget.

Procurement of equipment for implementation of business continuity and disaster recovery system and modernization of IT infrastructure at Mol headquarters	40,933,240	40,933,240	0	Payment made according to the planned budget.
ME subprogram – education and employment				
Construction of kindergarten in Municipality of Tetovo – LOT 1	34,726,341	23,440,522	11,285,819	Contractor reported less costs for completed construction works.
Construction of kindergarten in Municipality of Tearce – LOT 2	34,850,623	20,054,089	14,796,534	Contractor reported less costs for completed construction works.
Supervision of construction works contracts –kindergartens in Municipalities of Tetovo and Tearce	52,910	0	52,910	Contractor has not submitted financial report/request for payment.
Procurement of equipment – further support for implementation of the National Framework of Qualifications	16,778,791	6,716,987	10,061,804	Instead of fourth quarter in 2022, the invoice was paid in 2023.
TOTAL (MKD)	1,839,286,224	694,849,941	1,144,436,281	
TOTAL (EUR)	29,907,093	11,298,373	18,608,720	

Major budget cuts are observed in respect to REFORM OF CORRECTIONAL AND PENITENTIARY INSTITUTIONS. This needs to be underlined against the fact that one of the biggest problems in exercise of fundamental rights in the Republic of North Macedonia concerns the rights of persons serving their imprisonment sentences at correctional and penitentiary institutions, which is duly noted by the Ombudsman, non-governmental organizations in the country, as well as in reports of international institutions such as the U.S. State Department and the Council of Europe.

Under the 2022 Budget of RNM, the subprogram on reform of correctional and penitentiary institutions was projected in the amount of 283,801,000 MKD (4,614,650 EUR). The budget adjustment reduced these funds by 51.11% to the level of 138,747,000 MKD (2,256,049 EUR). Additional budget cuts by 13.42% were made with decisions on reallocation of funds, bringing the final amount to 120,123,086 MKD (1,953,221 EUR). Nevertheless, only 6.50% of these reduced funds were ultimately spent, accounting for 7,807,114 MKD (126,945 EUR).

Administration for Execution of Sanctions' 2022 subprogram on reform of correctional and penitentiary institutions(million MKD)



According to data obtained from the Administration for Execution of Sanctions, the list of unrealized facilities and projects planned under budget item 481 (construction facilities) is long and covers a series of multiannual initiatives that have not been implemented in 2022. The biggest among them in terms of value is the project for construction of buildings to accommodate the Central Service Unit, Detention Ward and Closed Ward at CPI Idrizovo, in estimated value of 1,979,134,846 MKD (32,181,054 EUR), which is evident from the multiannual project whose implementation should have started in the crisis year of 2022.

2022 unrealized projects of the Administration for Execution of Sanctions under 3B program – reforms at correctional and penitentiary institutions, planned under budget item 481 – construction facilities

Planned, but unrealized facilities/projects in 2022	Location	Total value (MKD)
1. Reconstruction of power substations and pump station at CPI Idrizovo	CPI Idrizovo	30,680,000
2. Construction of atmospheric water collection system at CPI Idrizovo with drainage to River Vardar	CPI Idrizovo	12,744,000
3. Construction of facilities to accommodate the Central Service Unit, Detention Ward and Closed Ward at CPI Idrizovo (segment 2)	CPI Idrizovo	1,979,134,846
4. Expert supervision over reconstruction of power substations and pump station at CPI Idrizovo	CPI Idrizovo	920,400
5. Expert supervision over construction of atmospheric water collection system at CPI Idrizovo with drainage to River Vardar	CPI Idrizovo	382,320
6. Expert supervision over construction of facilities at CPI Idrizovo – Central Service Unit, Detention Ward and Closed Ward and Infrastructure (segment 2)	CPI Idrizovo	79,165,421

Plans for refurbishments at EMBASSIES, CONSULAR OFFICES AND RESIDENCES of the Republic of North Macedonia in Brasilia, Canberra, Athens, Budapest, Zurich and Harare were not implemented as well.

Differences observed between capital projects planned by the Ministry of Foreign Affairs and implementation thereof have led to the observation that this institution,

according to 2022 plans, should have implemented 7 significant construction projects, i.e. facilities, in total value of 246,150,000 MKD (4,002,439 EUR), and its 2023 plans account for funds in the amount of 130,000,000 MKD (2,113,821 EUR). The projects are presented in the table below, which shows that 6 from total of 7 projects are postponed for implementation in 2024.

Projects anticipated for implementation in 2022 under budget item 481 – construction facilities by the Ministry of Foreign Affairs (MKD)

Description of budget items	2022 approved budget for project implementation	Total value of the project	Postponement
Procurement of construction works for renovation and adaptation of building in Brasilia, obtained as part of SFRY's succession and owned by RNM, for residential purposes of the Embassy of RNM in Brasilia (embassy and apartment for embassy staff member).	27,000,000	27,000,000	Activities postponed for 2024 due to RNM's OSCE Presidency.
Development of project documents – project design and procurement of construction works for renovation and adaptation of building in Canberra, obtained as part of SFRY's succession and owned by RNM, for residential purposes exclusively, as allowed by urban planning regulations (residence and apartments for diplomats).	14,000,000	20,000,000	Activities are postponed for 2024.
Development of project documents – project design and procurement of construction works for renovation with statics repairs of building in Athens, obtained as part of SFRY's succession and owned by RNM, including expansion and upgrade for residential purposes of the Diplomatic and Consular Office of RNM in Athens (embassy, residence and two apartments for embassy staff members).	23,000,000	73,000,000	Activities are postponed for 2024.
Development of project documents -project design and procurement of construction works on statics repairs of building in Budapest that accommodates the Embassy of RNM, owned by RNM, including extension and upgrade for business and residential purposes of the Diplomatic and Consular Office of RNM in Budapest (embassy, residence and two apartments for embassy staff members).	31,000,000	91,150,000	Activities are postponed for 2024.

Procurement of construction works for renovation of building in Zurich, obtained as part of SFRY's succession and owned by RNM, for the needs of the Consular Office (consular office and two apartments for staff members).	27,000,000	27,000,000	Performance of construction works is postponed for 2023 due to prolonged process for obtaining construction permit.
Procurement of plan and project design on changes to existing construction project design for new building of the Diplomatic and Consular Office of RNM in Ankara on land plot owned by RNM.	3,000,000	3,000,000	Activities are postponed for 2024.
Procurement of construction works for basic repairs at building in Harare, obtained as part of SFRY's succession and owned by RNM.	5,000,000	5,000,000	Activities are postponed for 2024 due to the process for enlistment of property ownership in the Cadastre.

Activities related to construction facilities that were not implemented also include reconstruction of the roof terrace on MFA's building in the value of 12,000,000 MKD (195,122 EUR). According to information provided by MFA, implementation is postponed for 2023, under changed project design that now includes construction of a pergola and placement of photovoltaic panels.

Projects not implemented to the benefit of the Public Revenue Office (PRO) include procurement of IT EQUIPMENT and upgrade to existing equipment and consolidation of databases, in the value of 49,000,000 MKD, i.e. around 800 thousand EUR. This project is significant for the citizens in light of the performance audit findings of the State Audit Office wherein it is indicated that the established design of public fees and levies information management systems at PRO do not ensure fully efficient and sustainable management of the process for administration of public fees and levies.

Moreover, in 2022, the Public Revenue Office was deprived of new IT equipment and planned refurbishments for its buildings.

As regard procurement of equipment, 2022 budget initially allocated 49,000,000 MKD (796,748 EUR) to PRO for this purpose, which were later reduced to 17,763,660 MKD (288,840 EUR) under the budget adjustment, of which only 622,659 MKD were spent, i.e. 613,660 MKD for procurement of heating and air conditioning equipment and 8,999 MKD were spent for procurement of kitchen equipment.

As shown in the table below, non-implemented projects include consolidation of workstations and peripheral equipment – procurement of IT equipment, enhanced flow capacity of communication equipment and consolidation of databases in existing IT systems/subsystems into single database for introducing ESB for data exchange and establishment of data warehouse and procurement of system software and database (hardware) licenses.

Equipment for the Public Revenue Office that was not procured in 2022

Item	Value (MKD)
Consolidation of workstations and peripheral equipment – procurement of IT equipment	28,000,000
Enhanced flow capacity for communication equipment and services	13,000,000
Consolidation of databases from existing IT systems/subsystems into single database for introduction of ESB for data exchange and establishment of data warehouse and procurement of system software and database (hardware) licenses.	8,000,000

Refurbishments at PRO's buildings planned in the amount of 45,000,0000 MKD (731,707 EUR) were not realized in 2022.

Below are more prominent examples from the list of planned, but unrealized projects under budget item 481 (construction facilities) in 2022 by other institutions:

- construction of industrial facilities in TIRZ 2 Skopje in the value of 900,000,000 MKD (14,634,146 EUR) by the Directorate for Technology and Industry Development Zones;
- procurement of real estate by the National Security Agency (NSA) in the value of 140,000,000 MKD (2,276,423 EUR);
- expansion of room space at the Operational and Technology Agency (OTA) in the value of 25,000,000 MKD (406,504 EUR);
- construction works for sensitive compartmented information facility (so-called deaf room) in the value of 33,000,000 MKD (536,585 EUR) which should be located in the building of the Parliament of RNM.

* * *

Analysis of consequences arising from the energy and financial crisis in 2022 on individual budget functions was not possible due to an error identified in the 2022 Draft Final Account of the Budget of the Republic of North Macedonia. The Ministry of Finance was duly informed thereof and was asked to make necessary corrections, which was not done by the cut-off date for this analysis.

The purpose of this analysis is to demonstrate the impact of multiple crises in 2022 on the functions of the state by comparing their movements over a five-year time period.

In particular, the analysis covers the functions enlisted below, which allows for more systematized method to identifying trends in policies implemented by the state relative to budget spending, and their impact on the life of citizens:

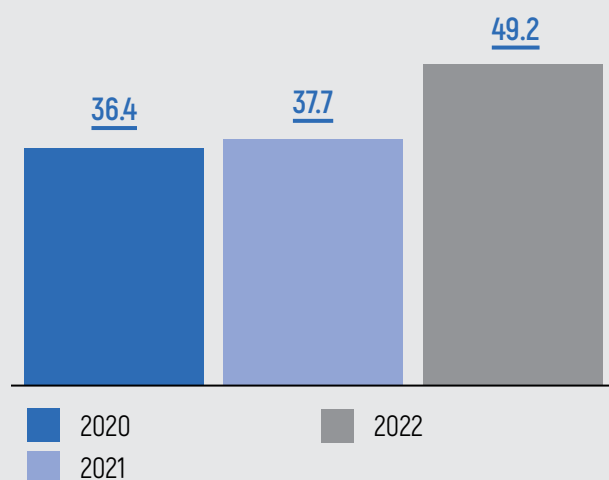
- ▶ general public services;
- ▶ defence;
- ▶ public peace and order;
- ▶ economic affairs;
- ▶ environmental protection;
- ▶ habitats and community development;
- ▶ health care;
- ▶ recreation, culture and religion;
- ▶ education; and
- ▶ social protection.

ANALYSIS OF LIABILITIES INCURRED BY THE INSTITUTIONS

Movements in respect to the institutions' 2022 liabilities are unfavourable, both in terms of matured but unpaid liabilities and in terms of unmatured liabilities deferred for the current or the next two fiscal years. In brief, all these liabilities are marked by increase in 2022 compared to the previous year (2021).

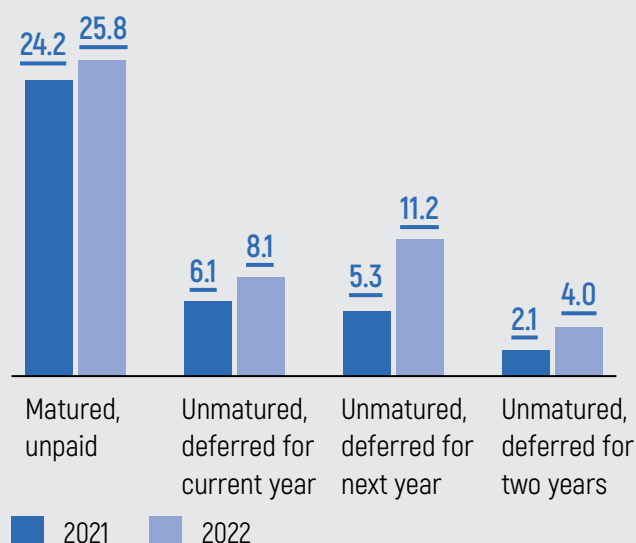
By the end of 2022, total reported liabilities of budget entities amounted to 49 billion MKD, i.e. 800 million EUR, representing an increase by 186 million EUR, i.e. 30%, compared to 2021.

Total liabilities reported by the institutions (billion MKD)



Concerns are raised with the fact that the biggest increase is noted with liabilities incurred in 2022 and deferred for payment in the next two fiscal years.

Reported liabilities per type (billion MKD)



Liabilities that matured in 2022 and remain unpaid amount to almost 26 billion MKD, i.e. 420 million EUR and represent an increase by 7% compared to 2021.

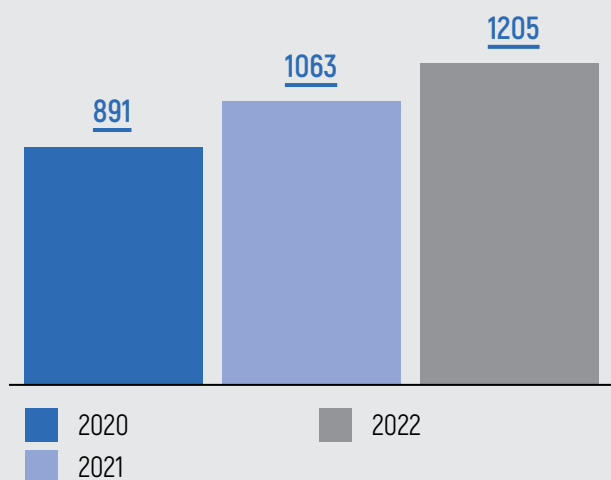
Unmatured liabilities, deferred for the current year of 2022 account for 8 billion MKD, i.e. 132 million EUR, representing an increase by 33% compared to the previous year.

In 2022, additional 11 billion MKD, i.e. 182 million EUR, are reported by budget entities as liabilities that will mature for payment next year, which accounts for an increase by 111% compared to the previous year.

Another 4 billion MKD, i.e. 65 million EUR, are reported as liabilities that will mature in two years, representing an increase by 88%.

In parallel to the institutions' growing liabilities on all grounds – matured and unpaid, deferred for the current year and deferred for the next two years, an increase is noted in the number of institutions that have reported such liabilities. In 2020, their number was 891, the next year (2021) - 1063, with 1205 institutions having reported liabilities in 2022.

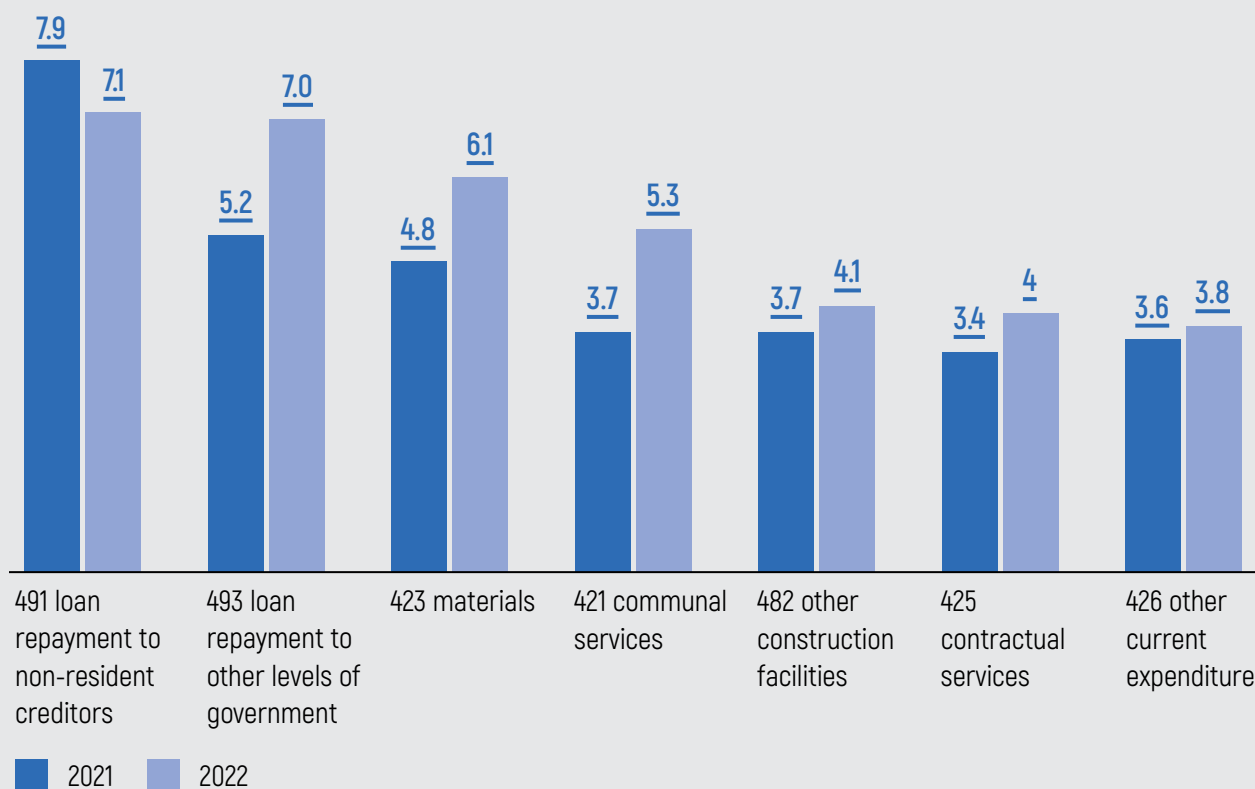
Number of institutions with reported liabilities



Broken down per type of expenditure, the highest amount of liabilities are accrued in 2022 on the ground of loan repayment to foreign creditors – 7 billion MKD, i.e. 116 million EUR, representing a jump by 800% compared to 2021.

The second biggest increase of liabilities in 2022 concerns expenditure for communal services, heating, communication and transport whereby, by the end of 2022, the institutions reported unpaid liabilities on this ground in the amount of 5 billion MKD (87 million EUR), which represents an increase by 45% compared to the previous year.

Highest amounts of liabilities per type of expenditure (billion MKD)



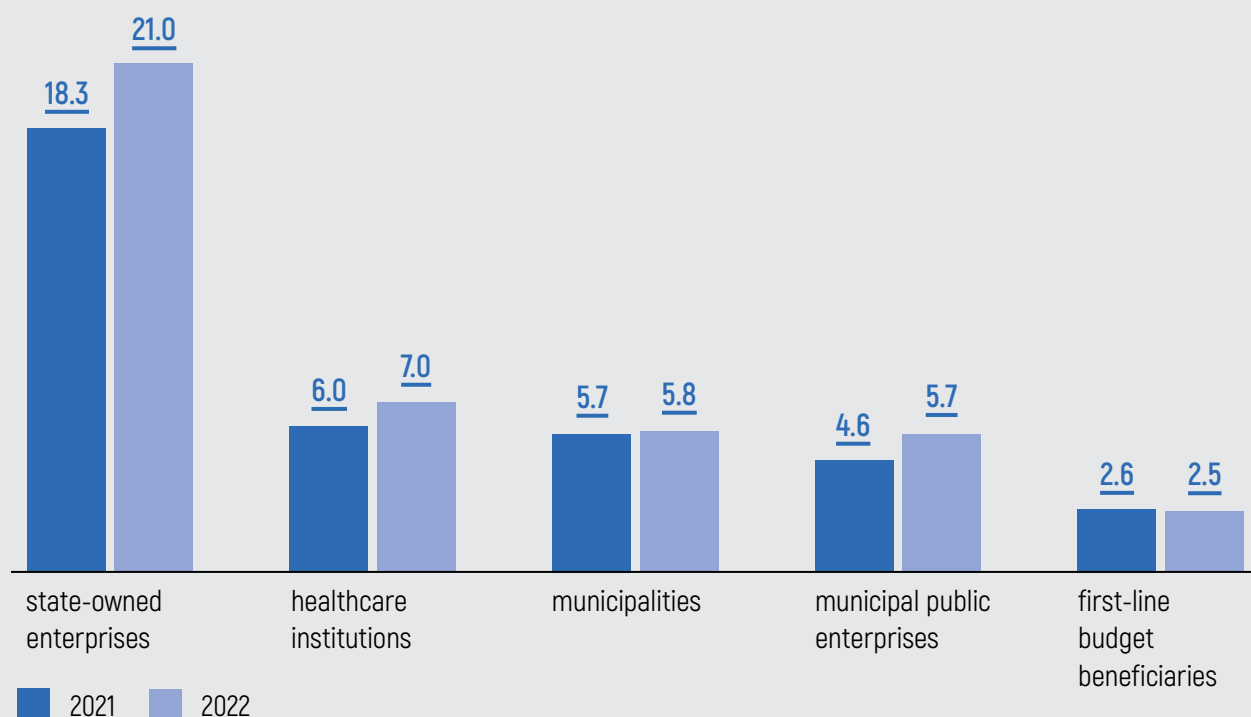
According to the type of entities, the highest amounts of liabilities are reported by state-owned public enterprises which, by the end of 2022, have accrued liabilities in the amount of 21 billion MKD, i.e. 342 million EUR, accounting for 43% of total liabilities reported by all entities.

Next in terms of high amount of liabilities are municipalities and municipal public enterprises, which have

reported liabilities of almost 6 billion MKD, i.e. 93 million EUR. In 2022, their share in the total liabilities accounted for 12%.

The lowest amount of liabilities, around 2.5 billion MKD, i.e. 40 million EUR, are reported by first-line budget beneficiaries.

Entities with highest amounts of reported liabilities (billion MKD)



2022 BUDGET PLANNING AND MONITORING BUDGET EXECUTION – NEED TO HARMONIZE BUDGET FINANCIAL REPORTING

Execution of the central budget in the context of budget revenue collection and implementation of planned budget expenditure, i.e. budget deficit and public debt, is the main tools for attainment of the government's economic policies.

Budget execution, with all possible budget adjustments and decisions on reallocation of funds from the central budget, can be "read" only by those who are well-versed and able to assess government policies, their orientation, direction and movement towards economic growth, and able to detect inconsistent and populist policies which, in the medium- and long-run, contribute to non-attainment of potential growth, i.e. increase the state borrowing.

The research conducted as part of this project identified weaknesses in cash-based budget accounting,

non-harmonized financial reporting and differences in recording same type of legal and economic transactions. Also, central and local institutions have demonstrated some form of distancing from cooperation with the civil society in respect to providing more detailed information on budget spending.

To ensure consistency in analysis of expenditure under the executed versus the planned budget of RNM in 2022, the team made an initial analysis of main trends in terms of basic positions of budget finances over a five-year time period (2018 – 2022), with due consideration of increased expenditure as a result of the COVID-19 pandemic in 2020 and increased expenditure as a result of the energy crisis in 2021 and 2022, as well as the effect of the inflation on both sides of the budget equation (revenue and expenditure) in 2021 and 2022.

Budget specificities of the year 2020 are evident (caused by the COVID-19 pandemic), both in terms of underperformance related to budget revenue collection and sharp increase of budget expenditure, except for capital expenditure marked by poor implementation, but also in terms of increased budget deficit and growing state and public debt. The situation related to the state budget in the period 2018 - 2022 is shown below, and elaborated with tables, charts and brief comments.

Execution of the Budget of RNM in the period 2018 – 2022

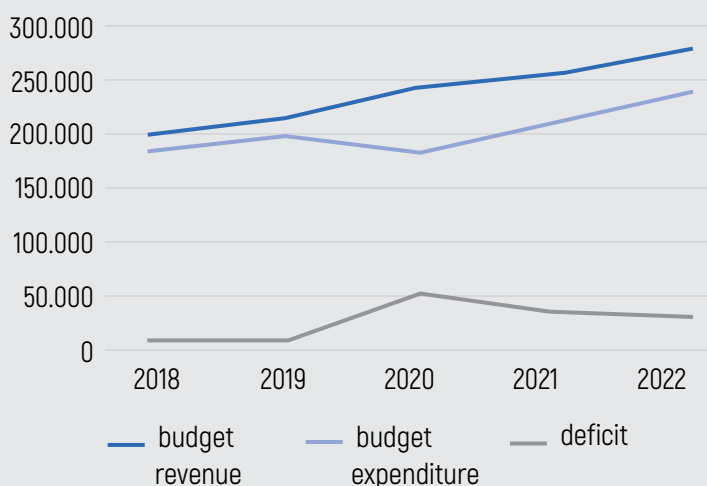
Year	Budget revenue			Budget expenditure			Budget deficit		State and public debt (amount)	
	Status		Difference [mil. MKD] (current to previous year)	Status		Difference [mil. MKD] (current to previous year)	Status		Status EUR (mil.)	Annual growth EUR mil.)
	MKD (mil.)	EUR (mil.)		MKD (mil.)	EUR (mil.)		MKD (mil.)	EUR (mil.)		
2018	188,505	3,065	8,832	200,071	3,253	3,510	11,566	188	5,202.2	415.3
2019	203,822	3,314	15,317	217,445	3,536	17,374	13,623	222	5,540.9	338.7
2020	189,554	3,082	- 14,268	243,421	3,958	25,976	53,867	876	6,483.3	942.4
2021	218,021	3,545	28,467	256,906	4,177	13,485	38,885	632	7,135.3	652.0
2022	243,085	3,953	25,064	278,596	4,530	21,690	35,511	577	7,702.9	567.6

Budget revenue growth stopped in 2020. Actually, revenue collected in that year was on the same level with 2018 budget revenue, with budget expenditure being marked by the biggest growth in 2020. This situation had resulted in high budget deficit for that year (2020) and was double in amount compared to the budget deficit recorded in the previous two years (2018 and 2019). In that, 2020 budget deficit is 4 times higher than the budget deficit recorded in the previous year. The budget deficit generated over the period 2018 - 2022 accounts for 2.5 billion EUR, of which more than 2 billion EUR are deficit accrued in the last three years, i.e. from 2020 to 2022.

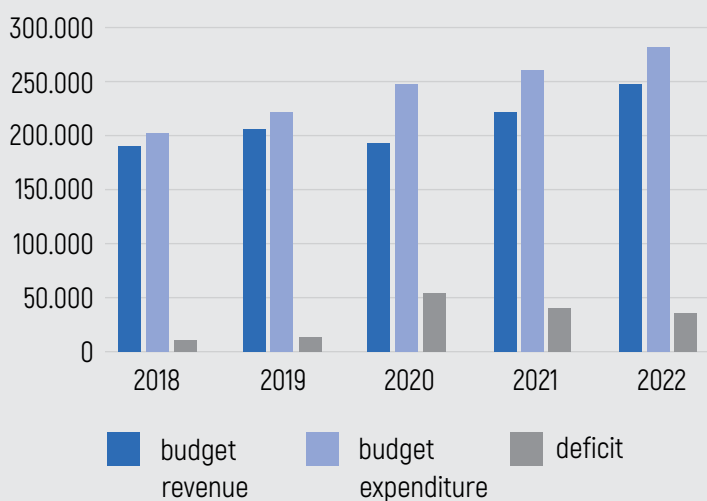
Correlation of growth/drop in budget revenue and expenditure

Year	Budget revenue	Budget expenditure
2018	4.9 %	1.8 %
2019	8.1 %	8.7 %
2020	-7.0 %	11.9 %
2021	15.0 %	5.5 %
2022	11.5 %	8.4 %

Budget revenue, expenditure and deficit



Budget revenue, expenditure and deficit



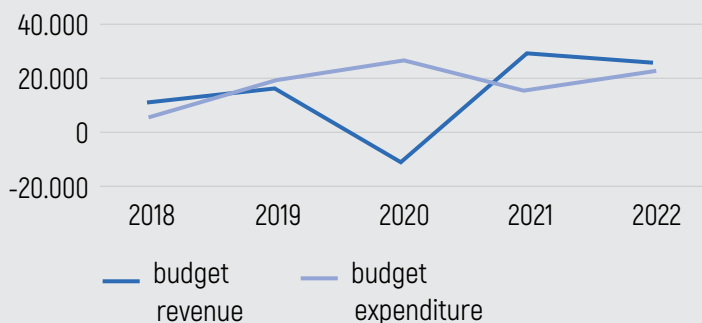
Multiannual indices refer to 2020 as the year of budget uncertainty and deficit financing. 7% drop in budget revenue and 11.9% growth of budget expenditure illustrate the deficit character of 2020 as budget year, caused by high costs imposed by the COVID-19 crisis.

It seems that 2021 marks the start of budget recovery, while 2022 marks the return to usual budget finances. Increase of budget revenue accounted for 11.5%, with increase of budget expenditure accounted for 8.4%. Nevertheless, both years are characterized by high budget expenditure caused by subsidies for import of electricity and natural gas, as well as subsidies for heat energy generation to meet the needs of the City of Skopje. While still lower than 2020, the budget deficit in 2021 and 2022 has stabilized in the amount of more than half billion EUR, i.e. 632 million EUR in 2021 and 577 million EUR in 2022.

On the account of poor revenue collection and high expenditure, the budget deficit shows exceptionally high growth of almost 4 times in 2020 compared to the previous year. Such deficit growth results in sharp increase of state and public debt which, in 2020, rose from 40.5% (state debt) and 49.1% (public debt) to 50.8% (state debt) and 59.7% (public debt), measured against the gross domestic product.

High budget deficit from 2020 onwards further confirms the observation about the poor capacity of public finances in the country, i.e. the state spends too much compared to what it collects as revenue or it collects very little revenue compared to what it spends. In the field of public finances, this results in deficit financing and increased borrowing.

Correlation of growth/drop in budget revenue and expenditure



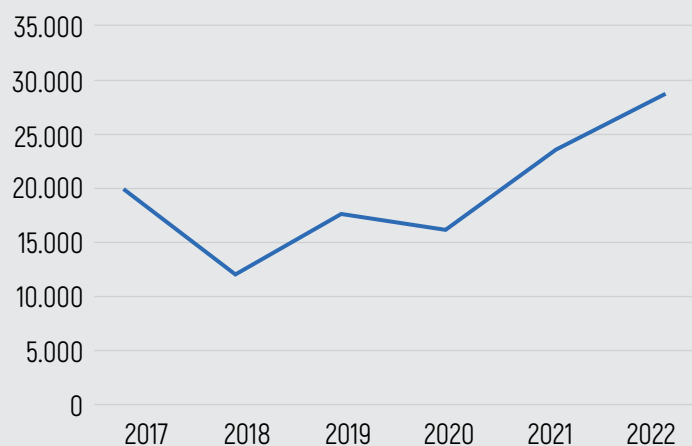
Capital expenditure (mil. MKD)

Year	Capital expenditure
2018	12,147
2019	17,812
2020	16,115
2021	23,408
2022	28,637

In the analysed five-year period (2018 - 2022), the lowest level of capital expenditure is noted in 2020, marked by sharp drop compared to 2019. In 2021, capital expenditure reassumed its path of growth. Special attention should be paid to the sharp drop by 28.8% of capital expenditure in 2018 and its sharp increase by 46.6% in the next year. 2020 drop in capital expenditure accounts for 9.5%, followed by two years of recovery, with growth rates of 45.3% in 2021 and 22.3% in 2022.

Having in mind the inconsistent financial reporting and differences in recording same type of business transactions, the resulting perception is indicative of poor quality of data on the amount, movements and status of capital expenditure and reporting expenditure in this group of budget items (accounts) that, in their essence, does not represent capital expenditure.

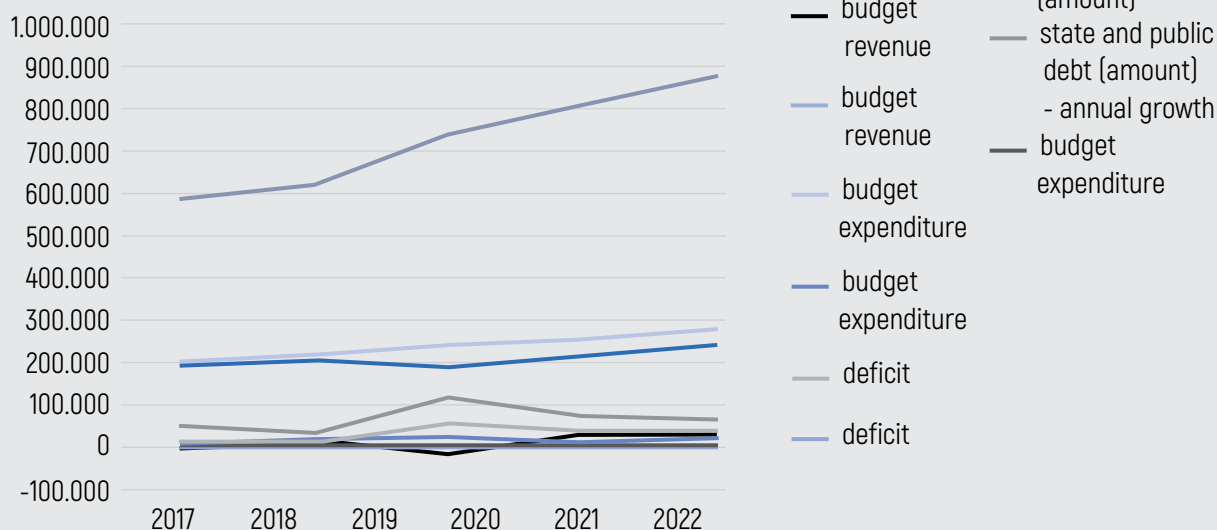
Movement of capital expenditure



Correlation table on growth/drop in capital expenditure

Year	Capital expenditure
2018	-38.8 %
2019	46.6 %
2020	-9.5 %
2021	45.3 %
2022	22.3 %

State and public debt (amount): annual growth in the period 2018 – 2022



Budget revenue – initial budget, adjustment and budget adjustment execution

Year	Revenue. (mil. MKD)	Difference (%)	Adjustment ² (mil. MKD)	Difference against initial budget (%)	Execution (mil. MKD)	Performance (%) of budget adjustment
2018	193,512	3.1 %	192,484	- 0.5 %	188,505	97.93 %
2019	210,848	9.0 %	210,551	- 0.1 %	203,822	96.80 %
2020	222,308	5.4 %	196,343	- 11.7 %	189,554	96.54 %
2021	212,630	-4.4 %	222,542	4.7 %	218,021	97.97 %
2022	238,899	12.4 %	245,758	2.9 %	243,085	98.91 %

High underperformance is noted in respect to execution of 2020 initial budget. Actually, after the budget adjustment that reduced budget revenue by 11.7%, budget execution shows underperformance of 3.46%. The main reason for lower collection of budget revenue was the economic downturn caused by the COVID-19 crisis. In 2020, the total decrease in terms of executed versus planned budget revenue accounted for 14.7%. In the period 2018 - 2022, budget revenue collected is regularly lower than budget revenue planned, while revenue collection in 2021 and 2022 surpassed the amount of budget revenue planned.

² Two budget adjustments were adopted in 2020.

GROSS DOMESTIC PRODUCT – TRENDS

At the onset of 2008 global financial downturn, the previously recorded GDP growth of 6.5% (2007) and 5.5% (2008) took a negative turn in 2009 (-0.4%) and has slowed down in the period that followed. The highest GDP drop of almost 5% was noted in 2020. The table below shows GDP movements over the analysed period.

Gross Domestic Product, 2007 – 2021						
Year	GDP at current prices (mil. MKD)	GDP per capita (EUR) (at current exchange rate)	GDP per million EUR (at current exchange rate)	Real GDP growth rate (%)	GDP deflator	Inflation rate (cost of life average) (%)
2007	372,889	2,982	6,095	6.5	104.6	2.3
2008	414,890	3,308	6,772	5.5	105.5	8.3
2009	414,622	3,300	6,767	-0.4	100.3	-0.8
2010	437,296	3,459	7,109	3.4	102.0	1.6
2011	464,186	3,665	7,544	2.3	103.7	3.9
2012	466,703	3,680	7,585	-0.5	101.0	3.3
2013	501,891	3,948	8,150	2.9	104.5	2.8
2014	527,631	4,141	8,562	3.6	101.4	-0.3
2015	558,954	4,382	9,072	3.9	102.0	-0.3
2016	594,795	4,659	9,657	2.8	103.5	-0.2
2017	618,106	4,839	10,038	1.1	102.8	1.4
2018	660,878	5,175	10,744	2.9	103.9	1.5
2019	692,683	5,423	11,262	3.9	100.9	0.8
2020	669,280	5,236	10,852	-4.7	101.4	1.2
2021 ^{1) 2)}	720,414	6,365	11,690	3.9	103.6	3.2
¹⁾ Previous data						2022
²⁾ Data on GDP per capita in EUR is calculated according to the number of total resident population from the 2021 Census.						14.2

2022 BUDGET OF THE REPUBLIC OF NORTH MACEDONIA

The 2022 Budget of RNM (central budget and state funds) was initially adopted in the amount of 284,001,434,000 MKD (4,617,909,495 EUR). The 2022 budget adjustment resulted in increase of funds by 16,279,140,000 MKD, i.e. 5.73%. Moreover, two sets of budget reallocations were made by means of two decisions taken in 2022. The budget execution rate stood at 98.9%, in absolute amount of 243,085 million MKD (around 3.95 billion EUR).

Both the budget adjustment and two decisions on budget reallocations introduced changes to initial fiscal projections under the 2022 budget.

Budget revenue increase was made in coordination with budget deficit financing sources, while planned increase of budget revenue was aimed at implementation of government relief measures to mitigate the energy crisis.

Tax-based revenue in 2022	Revenue collection in 2022 (mil. MKD)	Revenue collection in 2021 (mil. MKD)	Difference 2022/2021
Profit tax	15,776	10,871	45.12%
Personal income tax	23,852	20,552	16.05%
Value added tax	64,764	58,194	11.29%
TOTAL	104,392	89,617	16.49%
Excise	24,039	24,086	0.00%
Motor vehicle tax	1,477	1,603	- 7.86%
Other import duties and taxes	8,496	6,877	23.54%
One-time special taxes	20	22	- 10.00%
Communal taxes	13	9	54.00%
License fees	637	610	4.43%
TOTAL	139,074	122,824	13.23%

The table below provides an overview of nominal data that have not been corrected with the deflator. For illustration purposes, 2022 average inflation rate measured against the cost-of-life increase stands at 14.2%. This piece of information shows that increase of revenue, and especially revenue from value added tax, is mainly due to increased prices, not increased volume of trade.

In 2022, the budget deficit accounted for 4.5% of GDP and is by 0.3 percentile points above the projected level of 4.2%. In 2021, the budget deficit accounted for 5.4%, indicating to certain stabilization in terms of budget deficit financing and decrease in 2022.

In spite of 2022 budget deficit decrease, its share in GDP is higher compared to the years before the COVID-19 crisis.

On the account of using the cash-based accounting method, the quality of information on budget deficit and revenue collected, i.e. expenditure realized, is not high, which is caused by the possibility for transfer/deferment of unpaid liabilities to the next budgeting period for the purpose of presenting lower budget deficit in the reporting year.

As regards financing, there is an evident drop in 2022 expenditure related to loan repayment in the amount of 11.4 billion MKD compared to 42.6 billion MKD reported in 2021. Lower loan repayment is a result of full repayment of the 3rd Eurobond issued in 2014 that matured in 2021. Interest payments have a similar share in 2022 total expenditure (3.3%) compared to 2021 (3.5%).

The budget transfer intended to finance the deficit at the Pension and Disability Insurance Funds in 2022 amounted to 78,394 million MKD, accounting for 28% of total budget expenditure, and is approximately same as the budget transfer in 2021.

As regards 2022 budget execution, state-of-play presented in relevant documents could have an impact on planning and collection of budget revenue and other budget finances, planning and execution of budget expenditure and other budget spending, budget deficit financing, controls established at PRO and the Customs Administration to cover risks related to calculation, recording and collection of tax-based revenue. In 2022, total revenue and expenditure amounted to 243,085 million MKD, which is by 11.5% more compared to 2021. As regards tax-based revenue whose administration greatly falls under competences of PRO and the Customs Administration and whose amount accounts for 69% of 2022 budget revenue, this analysis observed an increase compared to the previous year, especially in respect to profit tax revenue, which has increased by 45%. It was established that receivables and payables on the grounds of taxes, contributions and other public fees and levies are not presented in the financial reports, which hinders transparency of budget projections, while lack of data on the age structure of tax-based receivables creates a risk of expired statute of limitation and inability for collection.

The Ministry of Finance plans non-tax and capital revenue as expected budget revenue on the basis of re-allocation of surplus funds achieved by state-owned public enterprises and joint stock companies according to available information on profits earned because the ministry is not presented with documents on the manner in which profit gains are allocated, i.e. what portion of these funds is paid directly to the budget.

In 2022, total budget revenue and expenditure amounted to 278,596 million MKD and are by 4.4% higher compared to 2021. All 2022 budget expenditure is marked by increase compared to the previous year, with the highest increase noted in respect to capital expenditure and reserves and non-defined expenditure. The biggest decrease by 73% is noted with budget expenditure for loan repayment, mainly because the 3rd Eurobond issued in 2014 matured and was fully repaid in 2021. To compensate the deficit of the Pension and Disability Insurance Fund which, in 2022, accounted for 22% of total funding sources for pensions, budget funds in the amount of 14,851 million MKD were transferred, representing a decrease by 7% compared to 2021.

Based on the government's decisions, in 2022, the budget program on functions of the state has paid 1,051 million MKD which, compared to 2021, represent a significant decrease of 49%. Vast portion of these funds (59%) were intended to increase equity capital in the Developmental Bank.

The biggest share in structure of governmental programs is observed with A program – decentralization, followed by P1 program – measures to deal with the COVID-19 crisis and other relief measures, while the government's developmental programs that are part of the budget's developmental section account for only 13.86% of total expenditure planned for government functions.

In spite of the significantly improved transparency compared to past practices, especially after the launch of the platform Open Finances, information on budget spending per analytical account (six-digit accounts) is inconsistent, insufficient and could lead to erroneous conclusions, thereby affecting decisions taken by budget beneficiaries and individual beneficiaries.

On several occasions and by means of government decisions on approving funding to overcome the emergency state in respect to electricity/heat supply, capital expenditure account 485 (investments and non-financial assets) had been used for 2022 budget payments to JSC Power Plants (funds secured under P program – measures to address the COVID-19 crisis and other relief measures), P1 subprogram (measures to address the COVID-19 crisis and other relief measures).

Transfers of budget funds to JSC Power Plants were also made under the same program, but different budget item, i.e. 464 – various transfers (Decision no. 188/2022).

Such inconsistency in financial reporting for same type of expenditure under different budget account further enhances the need for uniformed application of financial reporting standards in order to ensure reports that would be of use value for policy-makers.

JSC Power Plants of North Macedonia – ESM (annual financial reports, in million MKD)

DESCRIPTION	2021 година	2022 година
Total revenue	15,957	34,093
Subsidies from the Government (calculated in total revenue)	5,924	10,232
Total expenditure	17,685	31,579
Financial result before taxation	- 1,728	2,514

Source: 2022 Financial Report of JSC Power Plants of the Republic of North Macedonia no. 05-1173/1 dated 28.02.2023, available at: <https://www.esm.com.mk/wp-content/uploads/2023/04/AD-ESM-Godisen-Finansiski-izvestaj-za-2022.pdf>

In the last quarter of 2021, the Government supported JSC Power Plants with budget funds in the amount of 5,294 million MKD, i.e. 96 million EUR. In 2021, these funds were recorded as 2021 company revenue.

Of these funds, JSC Power Plants has spent 4,504,835 thousand MKD, i.e. 73.2 million EUR for procurement of electricity in 2021, while the remaining amount of 789,165 thousand MKD, i.e. 12.8 million EUR, were spent for the same purpose in 2022.

By transferring 2021 unspent funds, in 2022 JSC Power Plants disposed with 178.8 million EUR (11,021,514 thousand MKD) for procurement of electricity. This amount accounts for 4% of total expenditure under the 2022 Budget of RNM.

Analysis of capital expenditure³ as budget function that should imply state spending with a developmental component shows that the group of accounts 48 (capital expenditure) include heterogenous payments, significant

³ Rulebook on the Content of Separate Accounts in the Budget Accounting Plan no. 79/03; 96/04; 88/09 and 175/11.

portion of which cannot be qualified in the category "capital".

To ensure transparency of the budgeting process and to improve records that serve as baseline for relevant decision-making on the part of budget policy-makers, some expenditure needs to be separated from this group of accounts. In that, capital expenditure will be purged from budget spending that does not belong to this group because they hinder the quality, but also the quantity of this budget account.

These remarks concern "capital" expenditure such as:

- ▶ VAT paid for equipment purchased with donations – account 480;
- ▶ procurement of furniture (office furniture) – account 483;
- ▶ medicines and sanitary supplies, foodstuff and industrial products – account 484;
- ▶ deposits, securities, loans to municipalities, student credits, loans for public and private enterprises, payment of loan guarantees, shares and other capital from domestic and foreign investors, books for libraries and textbooks – account 485;
- ▶ procurement of vehicles – account 486;
- ▶ transfers to non-budget funds, the Pension and Disability Insurance Fund, the Employment Service Agency, the Health Insurance Funds, the Agency for State Roads – account 487;
- ▶ subsidies paid to enterprises, non-governmental organizations, institutions – account 489.

Analysis of budget execution has detected weaknesses in respect to data on established debtor-trustee relations for which payments are not made, i.e. shows lack of information in the budget accounting system about the status of uncollected receivables and unsettled payables.

Combination of these two types of financial reporting into single information system will ensure control over the current liquidity, as well as adequate analysis of the state's long-term financial goals and needs, including records on the state's total assets.

The accrual accounting method is more important for budget managers (budget planners and analysts) than for politicians who are not preoccupied with effective budget collection and spending during their term of office. Given the quality of information ensured by the accrual-based budget reporting, it is evident that this system incorporates information from cash-based accounting and adds the value of transactions expected in the future – a piece of information that holds special significance for politicians in terms of budget planning.

Except for calculation of receivables and payables that have resulted in debtor-trustee relations, no data is available on the status of the state's assets compiled under single balance sheet.

The process for development of this analysis/research identified inconsistencies in financial reporting on same type of budget expenditure recorded under different budget accounts. In addition to lack of harmonized approach, another possible reason for such inconsistencies could be the attempt to conceal unjustified budget spending, i.e. transfer of budget items that have been depleted and are not accompanied by active financial plans.

RECOMMENDATIONS

- To ensure transparency of the budgeting process and to improve record-keeping as baseline for adoption of relevant decisions by budget policy-makers, some types of expenditure under budget item 48 (capital expenditure) need to be removed from this group of accounts. In that, capital expenditure will be “purged” of budget costs which, in their essence, do not belong to this group, i.e. hinder the quality, but also the quantity of this account.
- Budget beneficiaries should make additional efforts to ensure full realization of their budgets, to the highest extent possible. In particular, efforts are needed to accelerate the implementation dynamics of projects financed as capital expenditure in order to overcome the current practice whereby implementation of significant projects is transferred from one to another year.
- Analytical records with six-digit analytical budget accounts and all related documents need to be made publicly available, in a format adequate for analysis. At the same time, all quarterly reports should be accompanied with explanatory notes on individual budget items whereby expenditure is recorded under sub-analytical accounts, including reasons for differences presented.
- Records need to be codified in order to avoid the phenomenon whereby same type of expenditure, revenue, assets or liabilities are reported differently by different budget beneficiaries and individual beneficiaries.
- Payment of arrears from current budget and deferral of payment for ongoing projects to the next year’s budgets prevent maximum precision in determining the value of planned projects and activities that were not implemented. This is a general problem noted with many institutions. It enhances the need for greater accountability before the citizens at the level of projects and activities, not budget items.
- Information on the institution’s accrued liabilities need to be publicly available, both in terms of matured but unsettled liabilities and in terms of unmatured liabilities to be paid in the current or the next fiscal years. This practice would allow public pressure to be exerted for priority-setting on the part of the institutions and the need to ensure greater cost-effectiveness and efficiency of budget spending.
- Gradual shift to full application of the accrual accounting method is needed, to replace the current cash-based accounting. Partial reporting on liabilities according to their maturity, i.e. payables, should be replaced with complete accrual accounting methods. For that purpose, all International Public Sector Accounting Standards should be translated and published, followed by relevant legislative changes and adoption of secondary legislation (rulebooks). This process should be implemented gradually and should be accompanied by training for staff members tasked with public sector/budget accounting.
- Budget beneficiaries need to increase transparency and accountability in terms of providing more detailed and user-friendly information on budget spending. This recommendation was inferred on the basis of extraordinary efforts taken by the project team to secure data on unrealized capital projects. In that vein, standardized evidence-based information needs to be annually recorded and published about projects planned, their implementation, reasons for postponed implementation and over-drafted financial plans.
- An obligation should be introduced for dissemination of information to citizens about all planned, but non-implemented projects on annual level and about budget cuts that directly concern and affect the life of citizens.

- In the future, mechanisms and methods should be devised to avoid compensation of budget cuts due to states of emergency with new loans and “appropriation” of funds from projects and assets that directly affect the lives of citizens, but ensure that reallocations are made from budget “items” that do not have such direct or indirect impact on the citizens and their lives.
- In the future, decisions on reallocation of funds among budget beneficiaries of the central government and among the state funds adopted by the Parliament of RNM should be conditioned with an obligation for development of amended budget document. Actually, the current practice prevents the public to have insight in actual items under the approved budget.
- Given that the last field mission of the International Monetary Funds was aimed at identifying the state-of-play concerning budget expenditure and proposing an adequate structure to institutionalize expenditure overview in the country, it should be noted that other stakeholders, in addition to state institutions, are fully excluded from this process. Such action is a consequence of the Ministry of Finance being closed towards civil society organizations, which was showcased in the last year.
- The Ministry of Finance should be more responsive to correction of errors in budget data published in order to ensure timely and accurate information to the public. This recommendation arises from the fact that 2022 and 2020 draft final budget accounts and 2020 final budget account feature inaccurate information on budget expenditure at the level of individual functions such as: general public services; defence; public peace and order; economic affairs; environmental protection; habitats and community development; health care; recreation, culture and religion; education; and social protection.
- All data related to budget spending, such as budgets, final budget accounts, reports on revenue and expenditure of budget beneficiaries, etc., should be published in open format that facilitates their further use, processing and analysis.

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