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

kWh

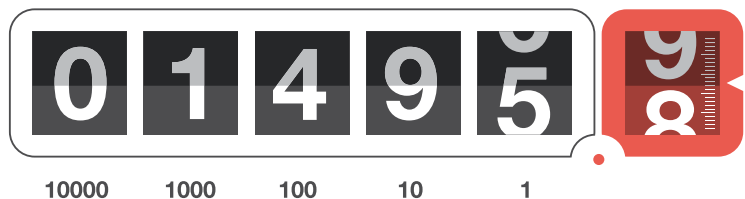


Project:

Effects of the Financial and Energy Crisis
on Policies and Citizens

Research
ON CONSEQUENCES
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“Research on Consequences of Increased Budget Spending by Municipalities Due to 2022 Crisis in Areas that Affect the Life of Citizens”

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KEY FINDINGS

- **In the year plagued by energy crisis, capital projects survived budget adjustments, but were ultimately not implemented in their entirety.** In the midst of 2022 energy crisis, all LSGUs together, including the City of Skopje, made insignificant budget adjustment cuts to investment plans for construction facilities (budget items 481 and 482) from 8.6 billion MKD (140 million EUR) to 8.2 billion MKD (133 million EUR). Be that as it may, they demonstrated significant underperformance in terms of implementation. Actually, only 5.5 billion MKD (89 million EUR) of initially planned funds were actually invested, which means that capital projects in total value of 3 billion MKD (51 million EUR) remain unrealized.
- **Energy costs are equal to investments in construction facilities.** As part of their budget adjustments, all LSGUs increased funds under budget items used for energy payments, i.e. budget item 421 – communal services, heating, communication and transport, and budget item 461 – subsidies for public enterprises, whereby funds for these purposes were cumulatively increased from 3.4 billion MKD (56 million EUR) to 5.3 billion MKD (86 million EUR). By the end of 2022, budget spending under these two items amounted to 4.7 billion MKD (76 million EUR). Hence, it could be inferred that higher energy costs have been fully covered by the financial comfort created with non-realization of 2022 capital investments.
- **In 2022, all LSGUs have spent 74.6% more funds under budget item 421 – communal services, heating, communication and transport compared to 2021.** While the authorities have taken a series of energy saving measures at state institutions, the municipalities' increased annual energy costs are much higher than the inflation rate recorded for the category on electricity, gas and energy fuels, given that 2022 average prices for this category of goods have increased by 16% compared to 2021.
- **As many as 19 LSGUs demonstrated above-average underperformance in implementation of capital projects.** This means that, at the level of individual municipalities, deviation between planned and realized funds ranges from 570 thousand to 12 million EUR. This group of LSGUs is solely "responsible" for 84% of all unrealized capital investments last year. The list of these municipalities and their individual capital projects planned, but not realized in 2022 due to the energy crisis, is an integral part of this analysis.
- **A total of 70 LSGUs have annual capital expenditure per capita lower than 100 EUR.** These municipalities account for 95% of the population in the country, while the remaining 11 municipalities marked by annual capital expenditure per capita higher than 100 EUR account for only 5% of the population.
- **As regards other expenditure, the local authorities have behaved like there is no crisis,** whereby, in 2022, budget expenditure for travel and per diems (budget item 420) has increased by 145% compared to previous years, budget expenditure for salaries (budget item 401) has increased by 5.4%, budget expenditure for contractual services (budget item 425) has increased by 25.9%, and budget expenditure for temporary employments (budget item 427) has increased by 3.3%.
- **Great differences are noted in respect to municipal budget expenditure per capita. The highest municipal budget per capita is observed with Novaci (736 EUR), while Plasnica is at the bottom of this list,**

with six times lower municipal budget per capita (117 EUR).

- In spite of 10% increase under central budget transfers in 2022, facilitated by legislative changes aimed at greater fiscal decentralization, the total annual revenue of all LSGUs has increased by insignificant 0.9 %. This is mainly a result of lower collection rates for local taxes levied on specific services (construction land development fee, communal taxes).
- At the same time, the municipalities have yet again accrued debts in total amount of 4,084,138,029 MKD (66.4 million EUR) on the ground of unsettled liabilities matured by the end of 2022, in spite of the state's effort back in 2019 to settle large portion of their accrued liabilities. By the end of 2022, as many as 14 municipalities had blocked bank accounts.



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.

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 standard 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 for life and work and general ambiance.

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 of

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 processes 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 live 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

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.

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 institutions, etc.). Collected data were 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 BY MUNICIPALITIES DUE TO 2022 CRISIS IN AREAS THAT AFFECT THE LIFE OF CITIZENS

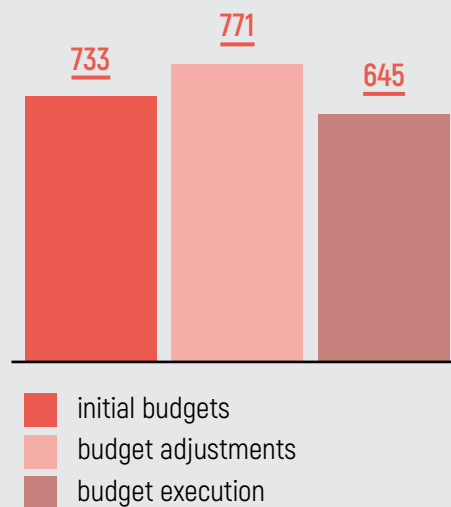
Numerous roads and streets, boulevards, pavements, piazzas, communal infrastructure, kindergartens and schools, gasification projects, etc., were not realized in 2022 because the local authorities, as part of budget adjustments, removed these projects from their capital investment plans on the account of higher energy costs amidst the energy and economy crisis,

Even projects that managed to “survive” budget adjustments were not realized in full and remained only letters on paper under revised municipal budgets,

Throughout this major energy crisis marked by skyrocketing energy prices, but also prices of other goods and products, culminating in annual inflation rate of almost 20% recorded last October, the municipal budget adjustments resulted in increased spending plans, but only for operational needs,

In 2022, the municipalities' initial budgets amounted to 45,050,433,609 MKD (732,527,375 EUR), Budget adjustments increased this amount by 5,24%, i.e, by 2,361,703,989 MKD (38,401,691 EUR), That resulted in the total budget of all LSGUs reaching 47,412,137,598 MKD (770,929,066 EUR), of which only 83,73%, i.e, 39,697,534,979 MKD (645,488,374 EUR), were spent by the end of the year,

2022 value of total municipal budgets and municipal budget execution (in million EUR)



Actual budget expenditure at the level of individual LSGUs ranges from 94 million EUR (the City of Skopje) to 492 thousand EUR (Plasnica), As regards budget spending per capita, Novaci had the highest budget per capita in the amount of 736 EUR, while Plasnica is ranked at the bottom, with six times lower per capita budget of only 117 EUR, A detailed overview of budget execution per LSGU is given in the appendix to this research,

“Affected” Capital Projects

Last year, all 81 LSGUs have spent a total of 6,477,414,780 MKD (105,323,817 EUR) on capital projects, which means they realized only 63,2% of initially planned funds under budget item 48 - capital expenditure, In addition to funds for construction facilities which in the public are known as capital investments, this budget item is much broader and also includes activities such as procurement of equipment and machinery, furniture, vehicles, i.e, other capital goods that are not considered productive investment in the sense of construction facilities, i.e, streets, roads, pavements, kindergartens, communal and other public infrastructure,

At the time of crisis, budget item 480 – procurement of equipment and machinery is marked by lower

LSGU 2022 capital expenditure, in MKD

Budget item	Initial budgets	Budget adjustments	Budget execution
48 – Capital Expenditure	10,253,679,825	9,865,717,403	6,477,414,780
480 – procurement of equipment and machinery	779,642,271	802,359,573	478,390,521
481 – construction facilities	539,539,601	492,531,893	251,646,687
482 – other construction facilities	8,043,958,257	7,706,750,996	5,202,627,818
483 – procurement of furniture	105,411,858	90,372,968	42,891,412
484 – strategic goods and other reserves	151,660	151,660	30,150
485 – investments and non-financial assets	465,075,476	417,760,066	258,668,890
486 – procurement of vehicles	279,394,702	311,131,711	199,156,774
489 – capital subsidies for enterprises and non-governmental organizations	40,506,000	44,658,536	44,002,528

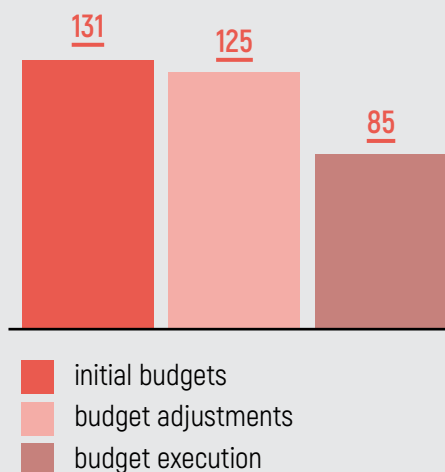
implementation rate compared to 2021 (by 15,9%) and less funds were spent on procurement of furniture and vehicles,

More specifically, in the case of infrastructure projects, the analysis of several budget items which are considered capital investments that could directly improve the quality of life for citizens, i.e, budget item 481 – construction facilities (residential and commercial buildings) shows that 2022 budget adjustments have cut funds allocated for this purpose by 9%, while budget item 482 – other construction facilities (streets, roads, bridges, landfills, telecommunication and energy facilities, and other buildings) suffered a 4% cut,

Furthermore, these important budget items are marked by very low implementation, as follows: projects realized under budget item 481 - construction facilities amounted to 251,646,687 MKD (4,1 million EUR), accounting for only half of funds (51%) allocated under the budget adjustment, When actual budget spending is compared to initial funds allocated for that purpose, the implementation rate is even lower and accounts for 46,6%,

The other, much bigger, budget item 482 – other construction facilities was decreased to 7,706,750,996 MKD (125,3 million EUR) from initially planned funds in the amount of 8,043,958,257 MKD (130,8 million EUR), of which 5,202,627,818 MKD (84,6 million EUR) were spent by the end of 2022, accounting for 67% of funds planned under the budget adjustment, i.e, 65% of funds initially planned at the beginning of 2022,

Budget item 482 – other construction facilities in 2022 (in million EUR)



In 2022, the total amount of investments in construction facilities under these two budget items amounted to 5,454,274,505 MKD (88,7 million EUR), which accounts for only 13,7% of all budget expenditure by the local authorities in that year,

Hence, it could be established that that all LSGUs together, including the City of Skopje, have not implemented capital projects in total value of 3,129,223,353 MKD (50,9 million EUR) compared to the initial plan at the start of 2022,

In the course of time, capital investments show a tendency of not being realized in their entirety, both at central and local level, their implementation in 2022 is much lower compared to capital investments realized in 2021 and 2020,

It is evident that 2021 capital investments represent some form of record in terms of implementation, however, it should be noted that 2021 was an election year marked by much higher dynamics of such projects than usual,

A comparison against 2021 when 7,336,760,741 MKD (119,3 million EUR) were invested in capital projects shows that capital investments under budget item 482 in the crisis year of 2022 have decreased by 2,134,132,923 MKD (34,7 million EUR),

The comparison against 2020 is particularly defeating given that 2020 was the year of pandemic and multiple lockdowns and resulted in slowed construction activity on the part of the state, Hence, the analysis shows that, in 2022, the mayors have built infrastructure whose value is lower than the value of infrastructure built in the pandemic year (2020),

On the other hand, the value of investments made last year, expressed in actual prices, is significantly "overinflated" on the account of the high two-digit inflation characteristic only for that year,

LSGU capital expenditure, in MKD

Budget item	2018	2019	2020	2021	2022
48 - Capital expenditure	5,315,781,679	7,261,426,797	6,525,3714,746	8,788,398,720	6,477,414,780
480 - procurement of equipment and machinery	246,166,793	355,078,650	380,295,620	568,846,632	478,390,521
481 - construction facilities	522,194,359	762,037,783	188,863,000	241,779,200	251,646,687
482 - other construction facilities	4,208,932,787	5,497,688,993	5,502,330,866	7,336,760,741	5,202,627,818
483 - procurement of furniture	42,123,950	63,185,078	37,547,447	53,877,123	42,891,412
484 - strategic goods and reserves	166,488	0	82,065	33,007	30,150
485 - investment and non-financial assets	201,538,731	309,666,353	213,178,886	237,817,105	258,668,890
486 - procurement of vehicles	62,871,246	189,443,321	120,617,923	258,147,913	199,156,774
489 - capital subsidies for enterprises and NGOs	31,787,325	84,326,619	82,455,939	91,136,999	44,002,528

Low level of capital investments is best reflected in the overview of capital expenditure per capita in 2022, It could be noted that as many as 70 local self-government units have annual capital expenditure per capita lower than 100 EUR, These municipalities account for 95% of the population in the country, with only 5% of the population living in the remaining 11 municipalities whose annual capital expenditure per capita is above 100 EUR,

At the level of individual municipalities, annual capital expenditure per capita ranges from 10 EUR in Saraj to 269 EUR in Karbinci,

LSGU 2022 capital expenditure, per capita

Municipality	MKD	EUR
Karbinci	16,521	269
Petrovec	15,085	245
Konche	11,448	186
Novaci	11,116	181
Rosoman	9,249	150
Kavadarci	8,835	144
Demir Kapija	8,594	140
Makedonska Kamenica	8,116	132
Debarca	7,145	116
Gradsko	6,964	113
Ilinden	6,623	108
Dojran	6,017	98
Sveti Nikole	5,852	95
Bogdanci	5,825	95
Sopishte	5,689	93
Novo Selo	5,231	85
Rankovce	5,123	83
Berovo	5,112	83
Zelenikovo	4,918	80
Bitola	4,890	80
Strumica	4,508	73
Brvenica	4,487	73
Centar	4,397	72

Chucher Sandevo	4,137	67
Gazi Baba	4,126	67
Probishtip	4,056	66
Ohrid	3,891	63
Staro Nagorichane	3,823	62
Pehchevo	3,787	62
Vevchani	3,649	59
Makedonski Brod	3,646	59
Kochani	3,598	59
Plasnica	3,552	58
Zrnovci	3,480	57
Kriva Palanka	3,373	55
Lipkovo	3,161	51
Radovish	3,077	50
Vasilevo	2,990	49
Kumanovo	2,964	48
Delchevo	2,906	47
Chashka	2,815	46
Lozovo	2,807	46
Shtip	2,798	46
Mogila	2,782	45
Veles	2,746	45
Jegunovce	2,602	42
Centar Zhupa	2,595	42
Struga	2,540	41
Mavrovo and Rostushe	2,409	39
Gevgelija	2,332	38
Krivogashtani	2,174	35
Negotino	2,169	35
Aerodrom	2,151	35
City of Skopje	2,127	35
Debar	2,118	34
Gjorche Petrov	2,110	34
Resen	2,075	34
Prilep	2,035	33
Valandovo	1,986	32
Karposh	1,928	31

Bosilovo	1,867	30
Kratovo	1,860	30
Studenichani	1,787	29
Zhelino	1,634	27
Krushevo	1,607	26
Kichevo	1,597	26
Tetovo	1,550	25
Gostivar	1,546	25
Vrapchishte	1,499	24
Cheshinovo – Obleshevo	1,428	23
Vinica	1,348	22
Demir Hisar	1,313	21
Tearce	1,249	20
Kisela Voda	1,166	19
Dolneni	1,156	19
Chair	1,099	18
Butel	1,031	17
Bogovinje	1,031	17
Shuto Orizari	659	11
Arachinovo	659	11
Saraj	611	10

Energy Costs as High as Investments in Construction Facilities

At the same time, it could be noted that the adjustment to total budgets of LSGUs at the time of energy crisis has increased funds under budget item 421 – communal services, heating, communication and transport and budget item 461 – subsidies for enterprises, both of which are directly related to higher energy costs on the account of enormous rise of electricity and fuel prices,

2022 budget items 421 and 461, in MKD

Description of budget item	Initial budgets	Budget adjustments	Budget execution
421 – communal services, heating, communication and transport	2,845,869,669	4,243,129,672	3,690,467,075
461 – subsidies for public enterprises	594,001,500	1,014,708,835	991,738,434

Budget item 421 – communal services, heating, communication and transport was initially projected in the amount of 2,845,869,669 MKD (46,274,303 EUR) and later, under budget adjustments made by all local self-government units, was cumulatively increased to 4,242,129,672 MKD (68,977,718 EUR), accounting for an increase by 49%, i.e, by 1,396,260,037 MKD (22,703,415 EUR),

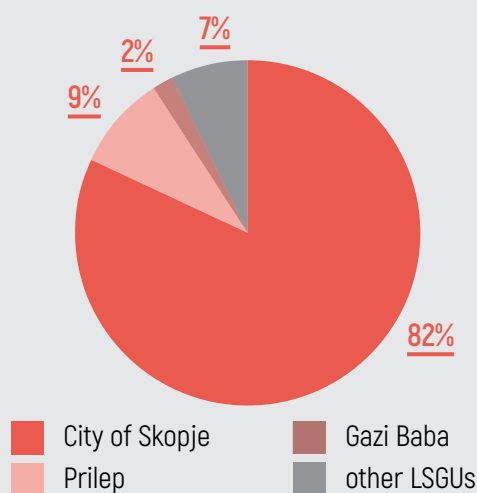
As regards budget item 461 – subsidies for public enterprises, the initial budget allocations amounted to 594,001,500 MKD (9,6 million EUR) and were later increased by 70,8% to 1,014,708,835 MKD (16,5 million EUR), 97,7% of these funds were spent, amounting to 991,738,434 MKD (16,1 million EUR), This level of expenditure is by 19,7% higher than funds spent in 2021,

According to treasury data, obtained by browsing all payments on the platform Open Finances, in 2022, the biggest amount of funds under budget item 461 were transferred by the City of Skopje, i.e, 810,261,867 MKD (13,2 million EUR), which accounts for 81,8% of all expenditure under this budget item, Vast share of these funds were transferred to the Public Transport Enterprise (PTE) through J5 budget programme (local public transport of passengers),

Prilep is the next municipality in terms of highest amount of subsidies for public enterprises, having paid a total of 86,050,800 MKD (1,4 million EUR), most of which were intended for PUE Komunalec through J7 budget programme (maintenance and use of parks and greenery),

Third-ranked municipality according to payments made under budget item 461 is Gazi Baba, which has paid 26,174,877 MKD (425 thousand EUR), all of which were transferred to PUE Gazi Baba 2007 through J8 budget programme (other communal services),

LSGU 2022 subsidies for public enterprises



The fact that planned funds were ultimately not realized in their entirety could be attributed to mild winter conditions, which facilitated lower budget spending for electricity and other energy fuels,

The implementation rate under budget item 421 – communal services, heating, communication and transport, amounted to 3,690,467,075 MKD (60 million EUR) and accounted for 87% of funds planned under the budget adjustment. However, the comparison against energy costs in 2021 shows increased spending by 74,6%, i.e., by 1,576,209,486 MKD (25,629,423 EUR),

While the authorities have taken a series of energy saving measures at state institutions, the municipalities' increased annual energy costs are much higher than the inflation rate recorded for the category on electricity, gas and energy fuels, given that 2022 average energy prices have increased by 16% compared to 2021,

Here it is important to take into account that data on budget expenditure were taken from 2022 draft final budget accounts, which means that the analysis covers only expenditure paid, which does not exclude the possibility for much higher expenditure in reality on the account of unsettled costs that are not recorded as matured or unmatured liabilities,

By the end of 2022, total matured liabilities of all municipalities amounted to 4,084,138,029 MKD (66,4

million EUR) and, on annual level, the final amount of municipal debts is insignificantly decreased from the initial 4,251,965,991 MKD (69,1 million EUR),

An important observation is the fact that, in 2022, the municipalities have assumed twice as much liabilities that will mature for payment after a period of one year. Hence, the amount of unmatured liabilities (deferred payments) of all municipalities that should be settled within a period of one year is calculated at 872,072,131 MKD (14,2 million EUR) and double in amount compared to 2021,

In total, the two budget items used by the local authorities for energy payments (421 and 461) amounted to 4,682,205,509 MKD (76,1 million EUR) and accounted for 11,8% of all expenditure in 2022,

Nevertheless, the actual amount of funds paid by the municipalities for this purpose during the energy crisis is most certainly much higher, having in mind that many LSGUs, at times of uncertainty and in a situation of having exhausted funds available under these budget items, have used funds from the most general budget item, i.e., budget item 426 – other operational expenditure, to make energy payments. Last year, expenditure under this budget item amounted to 458,227,066 MKD (7,5 million EUR). In addition, local utility enterprises were transferred funds from the more general budget item 464 – various transfers, which last year amounted to 1,346,941,535 MKD (21,9 million EUR),

Analysis of these main budget categories shows that the negative effects of higher electricity costs are compensated by cutting investments in construction facilities,

As regards other expenditure, the local authorities have behaved like there is no crisis, whereby, in 2022, budget expenditure for travel and per diems (budget item 420) has increased by 145% compared to the previous year, budget expenditure for salaries (budget item 401) has increased by 5,4%, budget expenditure for contractual services (budget item 425) has increased by 25,9%, and budget expenditure for temporary employments (budget item 427) has increased by 3,3%,

Overview of LSGU 2022 budget expenditure, in MKD

Description of budget item	Initial budgets	Budget adjustments	2022 budget execution	2021 budget execution
TOTAL	45,050,433,609	47,412,137,598	39,697,534,979	39,058,936,425
401 – Salaries	14,164,712,141	14,426,402,426	14,042,038,952	13,325,970,812
402 – Social insurance salary contributions	5,527,523,595	5,645,937,431	5,469,270,890	5,187,369,917
403 – Other salary contributions	60,000	0	0	0
404 – Salary benefits	415,580,970	433,093,978	388,674,551	333,905,813
411 – Financing new programmes and subprogrammes	10,000	10,000	0	0
412 – Reserve (contingency funds)	38,767,000	44,687,000	20,012,012	13,523,039
413 – Operational reserve (various expenditure)	60,635,000	56,755,000	25,497,276	34,206,944
420 – Travel and per diems	399,414,542	459,426,537	227,906,146	93,160,237
421 – Communal services, heating, communication and transport	2,845,869,669	4,243,129,672	3,690,467,075	2,114,257,589
423 – Supplies and small inventory	1,249,940,490	1,300,619,025	838,413,125	776,793,213
424 – Repairs and operational maintenance	2,805,635,552	2,867,505,116	2,153,175,538	2,589,576,647
425 – Contractual services	2,692,244,587	2,783,485,448	1,990,921,940	1,581,711,625
426 – Other operational expenditure	699,540,545	687,894,173	458,227,066	429,195,279
427 – Temporary employments	527,493,867	576,129,671	529,962,738	513,113,867
451 – Interest payments to non-resident creditors	5,960,000	5,221,082	1,907,648	3,413,064
452 – Interest payments to domestic creditors	56,666,424	46,954,556	35,073,296	33,565,444
453 – Interest payments to other government levels	100,000	100,000	41,755	32,566
461 – Subsidies for public enterprises	594,001,500	1,014,708,835	991,738,434	828,243,182
462 – Subsidies for private enterprises	0	0	0	0
463 – Transfers to non-governmental organizations	411,285,712	459,776,775	406,438,269	316,186,302
464 – Various transfers	1,564,818,955	1,860,756,924	1,346,941,535	1,383,118,717
465 – Payments upon acts for execution	231,760,000	134,674,036	133,256,762	125,804,790
471 – Social benefits	71,715,000	82,413,433	66,902,523	55,056,241
480 – Procurement of equipment and machinery	779,642,271	802,359,573	478,390,521	568,846,632
481 – Construction facilities	539,539,601	492,531,893	251,646,687	241,779,200
482 – Other construction facilities	8,043,958,257	7,706,750,996	5,202,627,818	7,336,760,741
483 – Procurement of furniture	105,411,858	90,372,968	42,891,412	53,877,123
484 – Strategic goods and other reserves	151,660	151,660	30,150	33,007
485 – Investments and non-financial assets	465,075,476	417,760,066	258,668,890	237,817,105
486 – Procurement of vehicles	279,394,702	311,131,711	199,156,774	258,147,913
489 – Capital subsidies for enterprises and non-governmental organizations	40,506,000	44,658,536	44,002,528	91,136,999
491 – Loan payments to non-residential creditors	144,984,976	141,673,100	134,729,255	161,197,336
492 – Loan payments to domestic creditors	161,010,735	158,290,735	156,336,188	248,019,542
493 – Loan payments to other government levels	127,022,524	116,775,242	112,187,225	123,115,539

Municipalities with Major Underperformance under Budget Item 482 – Other Construction Facilities

In 2022, all 80 municipalities and the City of Skopje have not spent 2,841,339,261 MKD (46,2 million EUR) of funds initially planned under budget item 482 – other construction facilities, which covers construction of streets and roads, pavements, bridges, kindergartens, gasification and all other capital infrastructure projects that are believed to improve the quality of life for citizens

in their communities, This means that, at the level of individual municipalities, deviation between planned and realized funds ranges from 570 thousand to 12 million EUR,

As many as 19 municipalities, however, demonstrated above-average underperformance in implementation of capital projects,

In that, high 84% of unrealized funds under budget item 482 – other construction facilities, amounting to 2,396,299,660 MKD (38,9 million EUR), are attributed to this group of 19 municipalities,

LSGUs with biggest difference between planned and realized funds under budget item 482 – other construction facilities in 2022*

Municipality	Initial budget allocations	Budget execution (MKD)	Difference (MKD)	Difference (EUR)
(MKD)	Budget execution	944,684,701	744,087,299	12,098,980
(MKD)	Difference	83,263,690	205,276,538	3,337,830
(MKD)	Difference	357,917,588	188,808,229	3,070,053
(EUR)	363,638,041	179,953,200	183,684,841	2,986,745
Strumica	346,832,330	184,264,486	162,567,844	2,643,380
Gazi Baba	435,698,000	273,854,505	161,843,495	2,631,602
Kisela Voda	152,476,024	50,855,507	101,620,517	1,652,366
Kichevo	151,923,000	59,039,543	92,883,457	1,510,300
Prilep	134,462,000	55,878,227	78,583,773	1,277,785
Sopishte	92,705,687	29,757,536	62,948,151	1,023,547
Centar	163,343,600	90,866,400	72,477,200	1,178,491
Chair	118,417,925	58,649,604	59,768,321	971,843
Aerodrom	165,389,000	112,447,716	52,941,284	860,834
Radovish	100,271,156	57,819,299	42,451,857	690,274
Negotino	73,454,613	33,836,236	39,618,377	644,201
Chucher Sandevo	74,824,660	37,103,863	37,720,797	613,346
Tetovo	106,523,524	69,052,234	37,471,290	609,289
Kochani	136,310,000	100,222,370	36,087,630	586,791
Butel	67,890,000	32,431,240	35,458,760	576,565

*According to data on LSGU budget execution for the period 01,01, – 31,12,2022 from the Ministry of Finance,

At the same time, the analysis observed enormous annual increase of expenditure under budget item 421 – communal services, heating, communication and transport with all 19 municipalities, in the range from 30% to 120%. Together, these 19 municipalities have spent 1,597,331,571 MKD (26 million EUR) for this purpose, which means that the entire amount of funds spent could be covered with two-thirds of unrealized capital projects under budget item 482,

In order to identify specific construction projects that were planned, but not implemented in 2022, all 19 municipalities were addressed with FOI requests. More specifically, they were asked to provide a list of all construction works and activities planned, but not realized under budget item 482 – other construction facilities in their respective 2022 budget, including description of the location and planned value of individual construction works and activities,

The data collection process lasted for almost 3 months and included submission of 18 appeals in total, of which 9 appeals were lodged on the grounds of failure to disclose information and another 9 appeals were lodged against FOI responses on the grounds of incomplete data. Moreover, the Agency for Protection of the Right to Free Access to Public Information was addressed with 5 urgency letters on the grounds of failure to take action on the part of the municipalities in line with the decision issued by the Agency to disclose all information requested,

Among this group, only one municipality did not respond to FOI requests,

1. City of Skopje

Top position on the list of municipalities with highest amounts of unrealized funds intended for investment in construction facilities in 2022, i.e. amidst the energy

crisis, is held by the City of Skopje, with almost 12,1 million EUR,

The list of unrealized projects includes:

- ▶ construction of streets according to contracts signed for construction land development;
- ▶ projects for construction of communal infrastructure;
- ▶ construction of main water supply systems;
- ▶ construction of main sewage systems;
- ▶ public lighting on embankment of the River Vardar;
- ▶ installation of public lighting network in Municipality of Saraj;
- ▶ construction of service street S9 connected to St, 1806 and service street S5 connected to St, 1688 and service street S2 connected to St, "Vtora Makedonska Brigada", Municipality of Butel and Municipality of Karposh;
- ▶ construction of junction on Blvd, "Slovenija" at the cross-section with Blvd, "Nikola Karev";
- ▶ construction of residential street ST1 and sections of service streets S1, S2, S3 and S4 pursuant to DUP for District 12;
- ▶ reconstruction/maintenance of bridges (metal framework, motorway, pavements, fences, expansion joints and public lighting);
- ▶ construction of St, "Boca Ivanova" from the roundabout to Blvd, "H, T, Karposh";
- ▶ construction, reconstruction and maintenance of piazzas, squares, avenue tree lines, green spaces, and hard landscaping in vicinity of buildings in the field of culture;
- ▶ construction of Blvd, "Hrvatska" – implementation in stages;
- ▶ construction of Str, "Ljubljanska", section from Blvd, "Ilinden" to Blvd, "Slovenija" (implementation in stages);
- ▶ development of international project for the first information technology innovation park - INNOPARK;

- ▶ construction/reconstruction of Blvd, "Goce Delchev";
- ▶ reconstruction of St, "Ruzveltova" – implementation in stages;
- ▶ reconstruction of Blvd, "K, J, Pitu" and construction of roundabout at the cross-section between "K, J, Pitu" and St, "Kocho Racin" and at the cross-section between "K, J, Pitu" and St, "Mirche Acev";
- ▶ water supply network for section of St, "Skupi", roundabout;
- ▶ atmospheric water collection system (collector) to redirect atmospheric waters, with connection to faecal sewage collector, Municipality of Kisela Voda;
- ▶ construction of section of the faecal sewage system in Municipality of Shuto Orizari; and
- ▶ construction and reconstruction of the Usje Canal (artificial waterway),

At the same time, in 2022, the City of Skopje has spent 570,066,582 MKD (9,3 million EUR) for communal services, heating, communication and transport, which is double in amount, i.e, by 117% more than funds spent in 2021 for the same purpose, i.e, 262,111,285 MKD (4,3 million EUR),

461 – subsidies for public enterprises is the other budget item marked by increased spending in 2022 due to the energy crisis, under which the City of Skopje has spent 810,261,867 MKD (13,2 million EUR), accounting for an annual increase by 21% compared to funds spent in 2021, i.e, 669,127,262 MKD (10,9 million EUR),

2. Gjorche Petrov

Among these 19 municipalities, Gjorche Petrov is the only one that did not respond to FOI requests, i.e, did not provide the list of unrealized projects under budget item 482 – other construction facilities. However, according to this municipality's annual plan for public procurements,

procurement notices were not published for the following projects, which means they remain unrealized:

- ▶ reconstruction of the neighbourhood council's building in village Orman;
- ▶ procurement, transport and planting forest trees along the bank of river Lepenec and village Novo Selo;
- ▶ designing new green areas and horticultural landscaping and maintenance as part of the clean environment project;
- ▶ manufacture/completion of the fence for street entrance and kindergarten yard in village Volkovo;
- ▶ construction of streets, pedestrian paths, piazzas and other public spaces;
- ▶ procurement and installation of traffic signals on streets according to the traffic regulation project for settlement Hrom and other streets in the municipality, as needed;
- ▶ reconstruction of sport terrains/refurbishing floors at school gyms in Municipality of Gjorche Petrov;
- ▶ construction of multipurpose sport terrains and children playgrounds in Municipality of Gjorche Petrov;
- ▶ construction of children playgrounds on the territory of the Municipality of Gjorche Petrov;
- ▶ construction of streets in urban areas across Municipality of Gjorche Petrov;
- ▶ manufacture and placement of urban equipment;
- ▶ reconstruction and refurbishment of primary school building in village Kuchkovo,

In 2022, based on data presented in the draft final budget account, this municipality has not implemented other construction facilities in total value of 205,276,538 MKD (3,337,830 EUR),

In the same period, the municipality has spent 65,691,026 MKD (1,068,146 EUR) for communal services, heating, communication and transport, which is almost double in amount (by 92,4%) compared to funds spent in 2021,

3. Bitola

Municipality of Bitola is next on this list, with slightly more than 3 million EUR of unrealized capital investments under budget item 482 – other construction buildings in 2022,

The list of unrealized investments includes 31 projects, as follows:

- ▶ roof for primary school "Gjorgji Sugarev";
- ▶ St, "Mukos";
- ▶ PE Zhabeni – project design for the faecal sewage system;
- ▶ project design for the neighbourhood council's building;
- ▶ monument plaque for the Clock Tower;
- ▶ revetment/retaining wall for the River Dragor;
- ▶ general traffic projects according to the traffic plan for central downtown area;
- ▶ Blvd, "1 Maj" in settlement Jeni Male;
- ▶ roof reconstruction for primary school in village Kishava;
- ▶ green park fence;
- ▶ urban equipment and horticultural landscaping of green areas;
- ▶ project design for St, "Industriski pat";
- ▶ urban planning project and project design for construction land;
- ▶ St, "Gjorgji Dimitrov";
- ▶ reconstruction of motorway section due to landslide – reconstruction with completion of local road;
- ▶ septic tank and drainage for primary school "Crnobuki";
- ▶ sewage connection for primary school in village Krklino;
- ▶ school fence in village Lazhec;
- ▶ refurbishment of primary school toilets in village Kremnica;

- ▶ façade and roof refurbishments at the sports hall "Boro Churlevski";
- ▶ refurbishments at the Centre for Mothers' Health;
- ▶ study to determine the condition of 7 steel-made bridges;
- ▶ reconstruction of the mountaineering house "Kopanki";
- ▶ construction of St, "Stuz" in the army district;
- ▶ construction of multifunctional sports complex;
- ▶ gasification in Municipality of Bitola;
- ▶ construction of kindergarten in the army district;
- ▶ construction of faecal swage network on Str, "Stuz" in the army district;
- ▶ construction of atmospheric water collection on Str, "Stuz"; and
- ▶ construction of firefighting brigade's building in the army district,

On the other hand, in 2022, the Municipality of Bitola has spent 198,863,446 MKD (3,2 million EUR) for communal services, heating, communication and transport, which is by 117% more than funds spent in 2021, i.e, 91,444,338 MKD (1,5 million EUR), As regards subsidies for private enterprises, in 2022, this municipality has transferred 1,500,000 MKD, while this type of budget expenditure was not recorded in the previous year,

4. Kumanovo

Almost 3 million EUR is the amount of funds planned for other construction facilities, but not realized in 2022 by the Municipality of Kumanovo,

These funds were intended for the following projects:

- ▶ construction of pavements for sections of three streets;
- ▶ reconstruction and construction of water supply network on St, "Nikola Tesla";

- ▶ construction and reconstruction of atmospheric water collection on St, "Bajram Shabani";
- ▶ construction, reconstruction and maintenance of communal infrastructure (streets, sewage system, water supply system, pavements, road planters and parapets) that will be implemented with funds collected as other unplanned revenue (citizens' contribution, sponsorships and other donations);
- ▶ construction of St, "Blagoj I, Gune" and St, "Narodna revolucija";
- ▶ reconstruction of buildings, sport halls, hard landscaping and swimming pool (sports hall "Sokolana" and indoor swimming pool);
- ▶ reconstruction of the existing fence and installation of new fence on St, "Tode Dumba";
- ▶ reconstruction of piazza in vicinity of the Culture Centre; and
- ▶ construction and reconstruction of 3 parking spaces,

As regards other budget items directly affected by the energy crisis, in 2022, the municipality has spent 115,209,719 MKD (1,9 million EUR) for communal services, heating, communication and transport, which is by 70,3% more funds compared to 67,646,384 MKD (1,1 million EUR) spent for the same purpose in the previous year,

5. Strumica

In 2022, under budget item 482, the Municipality of Strumica initially planned to invest 346,832,330 MKD (5,6 million EUR) in infrastructural construction facilities, By the end of the year, however, a total of 162,567,844 MKD (2,6 million EUR) were not spent,

According to the municipality's FOI response, only the following projects remain unrealized:

- ▶ construction of pavements (7); and
- ▶ asphaltting streets,

However, data available in the Electronic Public Procurement System show that the Municipality of Strumica has also planned construction of new park, reconstruction of boulevards, reconstruction of damaged square parts, reconstruction and concrete layering around public fountains in settlements, All these projects were not implemented in 2022,

In 2022, for communal services, heating, communication and transport, this municipality has spent 112,630,632 MKD (1,8 million EUR), which is double in amount, i.e, by 105,7% more than funds spent in 2021,

6. Gazi Baba

More than 2,6 million EUR planned as investments in other construction facilities (budget item 482) remain unrealized under the budget of the Skopje-based Municipality of Gazi Baba,

The municipality provided the research team with a list of 10 projects that were not realized under this budget item in 2022, as follows:

- ▶ construction of road and communal infrastructure;
- ▶ construction of faecal sewage network;
- ▶ construction of atmospheric water collection and faecal sewage network;
- ▶ project for collection canals on Skopska Crna Gora;
- ▶ development of projects for other facilities;
- ▶ development of gasification projects;
- ▶ construction of prefabricated parking space;
- ▶ performance of expert supervision on construction works for kindergarten;
- ▶ kindergarten in settlement Kjeramidnica; and
- ▶ gasification on the territory of the Municipality of Gazi Baba,

In 2022, this municipality has spent 111,025,313 MKD (1,8 million EUR) for communal services, heating, communication and transport, which is by 60% more than the amount of 69,692,061 MKD (1,1 million EUR) spent under the same budget item in 2021,

In 2022, on the account of subsidies for public enterprises, this municipality has transferred 26,174,877 MKD (425,600 MKD), which is almost the same as the amount of funds spent in the previous year,

7. Kisela Voda

Kisela Voda is another municipality in the City Skopje with major underperformance in terms of budget item 482 – other construction facilities, having failed to invest 161,843,495 MKD (2,6 million EUR) of funds planned for this purpose,

In its FOI response, this municipality provided a breakdown of both realized and unrealized capital projects:

- ▶ construction and reconstruction of local roads and streets; realized: 40 and unrealized: 24;
- ▶ construction of parking spaces; realized: 1 and unrealized: 1;
- ▶ construction of public lighting; realized: 2 and unrealized: 5;
- ▶ construction of water supply systems; realized: 6 and unrealized: 4;
- ▶ construction of waste water collection and treatment systems; realized: 11 and unrealized: 5;
- ▶ environment and nature protection; realized: 16 and unrealized: 0,

According to data on budget execution, in 2022, this municipality has spent 79,350,513 MKD (1,3 million EUR) for communal services, heating, communication and transport, which is by 60,8% more than funds in the amount of 49,331,032 MKD (802,130 EUR) spent in 2021,

8. Kichevo

According to FOI response obtained, the Municipality of Kichevo did not complete projects under three budget programmes, as follows:

- ▶ capital expenditure of the municipality (reconstruction of the municipal administration building) – planned funds: 15,300,000 MKD and realized funds: 9,045,279 MKD;
- ▶ construction of water supply systems (reconstruction of water supply system in villages Srbnica and Novoselo) – planned funds: 9,000,000 MKD and realized funds: 4,679,266 MKD, According to the municipality, this project is completed, but payment is deferred;
- ▶ capital expenditure for primary education (reconstruction of the sports hall “Janchica”) – planned funds: 2,000,000 MKD and realized funds: 56,080 MKD,

According to the Municipality of Kichevo’s annual plan for public procurements, procurement notices were not published for the following projects and they were not realized in 2022 :

- ▶ reconstruction of the sports hall “Janchica”;
- ▶ construction, reconstruction and repairs of local roads, streets and other public areas in Municipality of Kichevo – asphaltting;
- ▶ construction, reconstruction and repairs of local roads, streets and other public areas in Municipality of Kichevo – paver elements (tiles);
- ▶ construction of 20 children parks; and
- ▶ construction of revetment/retaining wall in village Kolari,

In 2022, the total amount of planned, but unrealized investments in other construction facilities by the Municipality of Kichevo was 92,883,457 MKD (1,510,300 EUR),

In its FOI response, the municipality provided completely different information about unrealized investments under budget item 482 in the amount of 27,343,457

MKD (445 thousand EUR), They claimed that all planned projects were implemented, but are not paid in full,

Under budget item 421 – communal services, heating, communication and transport, the Municipality of Kichevo has spent 71,841,924 MKD (1,168,161 EUR) last year, which is by 73% more funds than those spent in 2021,

9. Prilep

Instead of a list of specific projects that were not realized in 2022, FOI response from the Municipality of Prilep compared realized and unrealized projects under 8 budget programmes, which shows that 2 programmes have not been implemented at all and other programmes are marked by performance rate in the range from 54% to 98%:

- ▶ energy efficiency projects – performance rate of 54%;
- ▶ construction of public lighting – performance rate of 98%;
- ▶ construction of water supply systems – performance rate of 63%;
- ▶ construction and reconstruction of local roads and streets – performance rate of 89%;
- ▶ construction of waste water collection and treatment systems – performance rate of 56%;
- ▶ capital expenditure for sports and recreation – performance rate of 97%;

Budget programmes that were not implemented at all are:

- ▶ JGA (water supply and irrigation systems) - construction of water supply systems; and
- ▶ JDA (local roads and streets) - construction and reconstruction of local roads and streets,

In order to identify specific projects, insight was performed in the Municipality of Prilep's annual plan for public procurements and resulted in identification of

several projects for which procurement notices were not published, as follows:

- ▶ construction of a section of the local water supply system – water supply network and hydrotechnical facilities in village Kanatlarci;
- ▶ refurbishment of the table tennis room at the sports hall "Partizan";
- ▶ reconstruction of energy facilities – reconstruction of public lighting: replacement of existing lights and instalment of LED energy-efficient lights across town;
- ▶ construction of waste water collection and treatment systems;
- ▶ atmospheric water collection system for sections of individual streets across town;
- ▶ construction of energy facilities – public lighting on several locations,

Municipality of Prilep has not spent 78,583,773 MKD (1,277,785 EUR) of funds planned for other construction facilities,

However, on the account of communal services, heating, communication and transport, this municipality has spent much more funds than the sum of unrealized capital investments, i.e, 137,120,127 MKD (2,229,595 EUR), On annual level, these budget costs have increased by 73%,

In addition, the Municipality of Prilep has spent 86,873,017 MKD (1,412,569 EUR) as subsidies for public enterprises, most of which were intended to cover higher energy costs, The amount of funds spent under this budget item is by 26,8% higher compared to 2021,

10. Sopishte

Instead of a list of specific projects that were not realized in 2022, the Municipality of Sopishte responded with a counter-inquiry about what is considered realized, i.e, unrealized project,

In that, they clarified that several projects were implemented, but payment thereof was made in 2023,

In its annual plan for public procurements, which had been amended several times in the course of the year, this municipality did not organize procurement notices for these projects, Later in the year, some projects disappeared from the annual plan:

- ▶ reconstruction of agriculture roads on the territory of the Municipality of Sopishte;
- ▶ reconstruction of streets and roads;
- ▶ asphaltting the access road to a sport terrain on St, "23",

The total amount of funds which the Municipality of Sopishte planned, but did not realize under the budget item for other construction buildings was 62,948,151 MKD (1,023,547 EUR),

Elaboration provided by the municipality refers to expenditure from donations, planned in the amount of 42,416,247 MKD (690 thousand EUR), which had not been secured from governmental and international funding sources and was therefore cut under the budget adjustment,

As regards budget item 421, the municipality has spent a total amount of 12,107,686 MKD (196,872 EUR), which is by 30,2% more than funds spent in 2021,

11. Centar

With unrealized funds in the amount of 72,477,200 MKD (1,2 million EUR), next on the list of municipalities that responded to FOI requests is the Municipality of Centar in the City of Skopje,

The list of unrealized projects includes:

- ▶ projects and audit of projects for faecal sewage network (5);
- ▶ projects and audit of projects for atmospheric water collection network (7);

- ▶ projects and audit of projects for motorway (10);
- ▶ projects and audit of projects for pavements, pedestrian and bicycle paths, road parapets (15);
- ▶ projects and audit of projects for traffic plans, traffic regulation and traffic demarcation (12);
- ▶ projects and audit of projects for construction of access ramps for persons with disability (1);
- ▶ projects and audit of projects for pet zones (1);
- ▶ reconstruction of water supply network (2);
- ▶ reconstruction of faecal sewage network (5);
- ▶ reconstruction of atmospheric water collection network (6);
- ▶ reconstruction of motorway (17);
- ▶ reconstruction of pavements, pedestrian and bicycle paths, architectonic walls and revetments (12),

On the other hand, in 2022, the Municipality of Centar has spent 96,492,265 MKD (1,6 million EUR) for communal services, heating, communication and transport, which is by 93% higher than the amount of funds spent one year earlier, i.e, 49,996,004 MKD (812,940 EUR),

12. Chair

Marked by unrealized funds in the amount of 59,768,321 MKD (971,843 EUR), next on the list of municipalities with major underperformance in terms of infrastructure facilities is the Municipality of Chair in the City of Skopje,

According to FOI responses received from the municipality, 4 projects remain fully or partially unrealized, as follows:

- ▶ energy efficiency in primary schools, kindergartens and the municipal administration building; planned funds: 4,500,000 MKD, realized funds: 500,000 MKD and unrealized funds: 4,000,000 MKD;
- ▶ underground infrastructure; planned funds: 24,000,000 MKD, realized funds: 16,000,000 MKD and unrealized funds: 8,000,000 MKD, all of which are rolled to the municipality's 2023 budget;

- ▶ water supply network; planned funds: 20,000,000 MKD, realized funds: 16,000,000 MKD and unrealized funds: 4,000,000 MKD, all of which are rolled to the municipality's 2023 budget;
- ▶ sports hall "Shaban Trstena" – replacement of floor parquet; planned funds: 1,500,000 MKD, realized funds: 900,000 MKD and unrealized funds: 600,000 MKD, all of which are rolled to the municipality's 2023 budget,

At the same time, in 2022, this Skopje-based municipality has spent 95,097,501 MKD (1,5 million EUR) for communal services, heating, communication and transport, which is almost double in amount, i.e, by 95,8% more than funds spent on annual level,

13. Aerodrom

According to FOI responses from the Municipality of Aerodrom, construction facilities planned, but not implemented in 2022 include:

- ▶ access street no,7, district 11, block 11, settlement Michurin;
- ▶ access street no,2, district 11, block 9, settlement Michurin;
- ▶ newly planned residential street 2 with parking space, district 11, block 12, settlement Michurin;
- ▶ newly planned street 7, district 11, block 13, settlement Michurin;
- ▶ parking 5,17 according to DUP Crkva, urban unit B, block 5;
- ▶ part of parking space 1,10 in Crkva, urban unit B, block 1;
- ▶ parking space 2,13 according to DUP Crkva, urban unit B, block 2;
- ▶ water supply network for newly planned street 6 according to DUP Crkva, urban unit B, block 5;
- ▶ atmospheric water collection network for newly planned residential street 2 with parking space,

district 11, block 12, settlement Michurin;

- ▶ atmospheric water collection network for access street 2, district 12, block 9, settlement Michurin;
- ▶ atmospheric water collection network for part of parking space 1,10 in Crkva, urban unit B, block 1;
- ▶ parking space 2,13 according to DUP Crkva, urban unit B, block 2;
- ▶ public lighting for parking space 5,17 with service street according to DUP Crkva, urban unit B, block 5;
- ▶ public lighting for part of newly planned street 5 according to DUP Crkva, urban unit B, block 4;
- ▶ public lighting for parking space 2,13 according to DUP Crkva, urban unit B, block 2

On the other hand, according to data presented in the draft final budget account, the Municipality of Aerodrom has not realized investments under budget item 482 – other construction facilities in the amount of 52,941,284 MKD (860,834 EUR),

As regards budget item 421 – communal services, heating, communication and transport, last year this municipality has spent 129,515,692 MKD (2,1 million EUR), which is by 88,3% more than funds spent in 2021,

14. Radovich

In 2022, the Municipality of Radovich has not implemented infrastructure projects in the value of 42,451,857 MKD (690,274 EUR),

The list of unrealized capital projects includes:

- ▶ construction of street (2);
- ▶ construction of faecal sewage network (4);
- ▶ reconstruction/upgrade to existing asphalt;
- ▶ hard landscaping of public spaces, pavements, pedestrian paths, parking spaces (2);
- ▶ development of complete technical documents for construction works;

- ▶ development of project documents for auxiliary building at the Culture Centre "Aco Karamanov";
- ▶ development of project documents for local road – bypass;
- ▶ local road Bel Kamen - Avtokamp;
- ▶ construction of streets (3);
- ▶ construction works in central downtown area;
- ▶ construction of bridge on river Marlanda;
- ▶ refurbishment of EVN facility;
- ▶ construction of landslide protection on road Po-daresh;
- ▶ construction of local road (2);
- ▶ construction of revetment;
- ▶ repairs of damages caused by natural disasters,

Under budget item 421, in 2022, the Municipality of Radovish has spent 43,394,388 MKD (705 thousand EUR), which is by 30% more funds compared to 2021,

15. Negotino

In the crisis year of 2022, the Municipality of Negotino has not realized a total of 39,618,377 MKD (644,201 EUR) of funds planned under budget item 482 – other construction facilities,

The following projects remain unrealized:

JN budget programme (urban equipment), planned funds: 400,000 MKD:

- ▶ park area landscaping in vicinity of St. "Brakja Miladinovi";
- ▶ procurement of containers (1,1 cubic meters);
- ▶ reconstruction of children playgrounds in settlements Krivolak, Temjanik, Dolni Disan, Kurija, Vojshinci and Crveni Bregovi,

KA budget programme (capital expenditure in the field of culture), planned funds: 50,000 MKD

- ▶ reconstruction of monuments;

EA budget programme (capital expenditure), planned funds: 50,000 MKD:

- ▶ reconstruction of other facilities (doors, windows, and the like),

In 2022, this municipality has spent 39,220,455 MKD (637,730 EUR) for communal services, heating, communication and transport, which is by 70% more funds compared to 2021,

16. Chucher Sandevo

In 2022, the Municipality of Chucher Sandevo has not realized 37,720,797 MKD (613,346 EUR) of funds planned for investment in infrastructure facilities,

Nevertheless, in its FOI response, the municipality enlisted only 1 unrealized project:

- ▶ reconstruction of local streets in village Pobozhje,

In 2022, funds spent under budget item for communal services, heating, communication and transport reached 14,898,025 MKD (242,244 EUR), which is by 45% more than funds spent the previous year,

17. Tetovo

The Municipality of Tetovo provided a list of projects planned under budget item 482, but not implemented in the course of 2022,

The list includes the following projects:

- ▶ laboratory measurements and supplies for road construction;
- ▶ construction of holiday market stands;
- ▶ construction of public lighting on Blvd, "Toska";
- ▶ construction of road Kale – junction to road Tetovo – Selce, second phase;

- ▶ reconstruction of St, "R, Conikj";
- ▶ reconstruction of St, "V, Miladinov";
- ▶ construction of river basin on Pena (bridge on Blvd, "V, S, Bato" to regional motorway Skopje-Kichevo);
- ▶ reconstruction of water supply system in village Poroj;
- ▶ water supply system in village Pindjur,

The Municipality of Tetovo's 2022 annual plan for public procurement included several projects for which procurement notices were not published and were therefore not implemented, These include projects for patching potholes, maintenance and reconstruction of streets in Tetovo and road network for mountain villages with landslide protection, construction of vertical signalization (traffic lights) on cross-sections with boulevard design in Tetovo, and construction of administrative building (inspectorate),

This municipality has failed to realize 37,471,290 MKD (609,289 EUR) of investments planned for other construction facilities,

In 2022, this municipality has spent 97,670,144 MKD (1,588,132 EUR) for communal services, heating, communication and transport, accounting for an annual increase by 53,7%, ,

18. Kochani

In the course of 2022, the Municipality of Kochani has not realized a total of 36,087,630 MKD (586,791 EUR) of funds planned under budget item 482,

According to FOI responses provided by the municipality, the following projects remain unrealized:

- ▶ development of project documents for bridge construction;
- ▶ construction of social housing for persons at social risk;

- ▶ asphaltting and reconstruction of St, "Brakja Stavrevi";
- ▶ reconstruction of St, "Goce Delchev";
- ▶ reconstruction of St, "Makedonska",

In the same years, budget expenditure under item 421, which mainly concerns energy costs, was doubled in amount (by 99,7%) and reached 58,905,683 MKD (957,815 EUR),

19. Butel

Last on this list is the Municipality of Butel, another municipality within the City of Skopje, with unrealized funds under budget item 482 slightly above the average for all municipalities in 2022, i.e, 35,458,760 MKD (576,565 EUR),

Below is the list of unrealized projects by this municipality under budget item 482, with breakdown per category and number of unrealized projects:

- ▶ construction, reconstruction and rehabilitation of roads and streets; development of project documents, project design for streets and roads; unrealized projects: 51;
- ▶ reconstruction of roads and streets; unrealized projects: 33;
- ▶ construction of streets and roads; unrealized projects: 3;
- ▶ construction, reconstruction and rehabilitation of other facilities; unrealized projects: 19;
- ▶ construction of waste water collection and treatment systems; development of project documents, project design for streets and roads; unrealized projects: 27;
- ▶ construction of other facilities; unrealized projects: 34,

In 2022, funds spent under budget item 421 in 2022 amounted to 60,735,764 MKD (987,573 EUR), which is by 61,6% more than funds spent in 2021,

Central to Local Government Transfers Continue to Increase

Transfers which local self-governments receive from the central budget have increased in 2022, first as part of budget adjustment and later as budget reallocations, from initial 22,321,349,000 MKD (363 million EUR) to 23,442,534,000 MKD (381,2 million EUR),

In that, the performance rate for these funds is almost complete, According to data from the final budget account, the total amount of realized central government grants was 23,364,851,480 MKD (380 million EUR), accounting for 12% of total expenditure under the central budget, Compared to 2021, the amount of budget grants was increased by 10%,

The biggest portion of this amount was transferred as block grants, accounting for 20,041,118,437 MKD (325,9 million EUR), while 2,910,000,000 MKD (47,3 million EUR) were transferred as VAT grants and 413,733,043 MKD (6,7 million EUR) were earmarked grants,

Grants are transfers of funds from the central budget and the budgets of state funds to municipal budgets and are intended as additional revenue to finance municipal competences, in compliance with the fiscal decentralization of LSGUs that started in 2005,

Article 8 of the Law on Financing Local Self-Government Units stipulates the types of grants, as follows: revenue from value added tax, earmarked grants, capital grants, block grants and grants for delegated competences,

- ▶ **Block grants** are intended to finance municipal competences in the field of culture, social and child protection, and education, The biggest share of these funds is intended for primary education, followed by secondary education, and the lowest amount is awarded for social and child protection, In that, 2022 expenditure as block grants was increased by 920,685 thousand MKD (15 million EUR) compared to funds planned under the last adjustment to the 2022 central budget due

to 15% salary raise for employees in primary and secondary schools, starting in September 2022,

- ▶ **Transfers from VAT revenue** to LSGUs are capped at 5% of the total amount of VAT collected in the previous fiscal year, These funds are transferred from the budget account designated for the Ministry of Finance – functions of the state, subprogramme: decentralization, and are paid directly to municipal bank accounts, whereby the municipalities have discretionary rights on the manner in which these funds are spent, In 2022, funds transferred on this ground were increased by 30% compared to 2021 due to increased VAT collection and increased catchment rate from 4,5% to 5%,
- ▶ **Earmarked grants** are used to finance specific activity of the municipality and are strictly conditioned per project, institution or programme, including budget calculation for the next fiscal year, In 2022, earmarked grants were allocated on the grounds of: financing decentralized competences in the field of primary education, earmarked per municipality in the amount of 3,200 thousand MKD, and paid through the Ministry of Education and Science, and grants for salaries and salary contributions for employees at territorial firefighting brigades in total amount of 410,533 thousand MKD, distributed through the Ministry of Defence,

At the level of individual municipalities, the highest amounts of central budget funds are transferred to the biggest municipalities, i.e, the City of Skopje, Kumanovo, Tetovo, Bitola and Prilep,

LSGUs with biggest central government transfers in 2022

LSGU	Amount (MKD)
City of Skopje	2,514,721,444
Kumanovo	1,278,235,502
Bitola	1,190,212,098
Tetovo	1,187,650,066
Prilep	920,513,388
Gostivar	852,358,712
Strumica	725,027,980
Struga	711,687,302
Aerodrom	675,192,112
Veles	641,783,669

Analysis of data on central government transfers per capita shows major discrepancies between certain municipalities,

For example, central budget transfers vary from at least 3,494 MKD per capita for the City of Skopje, to as high as 20,097 MKD per capita for the Municipality of Mavrovo and Rostushe,

LSGUs with highest and lowest central government transfers in 2022, per capita

LSGU	Amount (MKD)
Mavrovo and Rostushe	20,097
Centar Zhupa	19,393
Karbinci	15,158
Berovo	14,706
Makedonska Kamenica	14,385

LSGU	Amount (MKD)
Mavrovo and Rostushe	3,494
Centar Zhupa	5,394
Karbinci	5,786
Berovo	6,280
Makedonska Kamenica	6,880

It is evident that vast portion of central government transfers to LSGUs are spent on salaries, which additionally complicates the structure of local budget expenditure,

According to data on 2022 local budget execution, all municipalities together have spent a total of 39,697,534,979 MKD (645,5 million EUR), of which 19,899,984,393 MKD (323,6 million EUR) were earmarked for salary and salary contributions and these funds, for example, are three times the amount of capital expenditure which accounted for only 105,4 million EUR,

On the other hand, in the course of time, transfers to LSGUs are marked by continuous increase, In the last five years only, central budget transfers have been increased from 254,1 million EUR in 2018 to 380 million EUR this year, accounting for an increase by 51%,

Legislative Changes for Increased Municipal Revenue

Increased central budget transfers to local governments are in line with enforcement of amendments to the Law on Financing Local Self-Government Units that entered into effect in 2022,

The government's idea behind the new legal solutions was to ensure greater revenue for the municipalities from personal income tax and VAT,

In order to enhance the fiscal capacity of municipalities, this law anticipates gradual increase of revenue based on personal income tax from 3% to 4% in 2022, and then to 5% in 2023, and 6% in 2024, The municipalities receive these funds from personal income tax paid on salaries for natural persons with registered residence in the municipality,

Moreover, in order to improve the fiscal capacity of and to increase budget revenue for the municipalities, the law anticipates gradual increase of VAT catchment rate from 4,5% to 5% in 2022, 5,5% in 2023 and 6% in 2024,

In 2022, the municipalities were allocated and awarded 5% of funds collected as value added tax, distributed under three components, as follows: general grant component – 4,5%, performance-based component – 0,25% and enhanced equalization component – 0,25%, whereby they were transferred additional 291 million MKD,

The reform pursued with amendments to the Law on Financing Local Self-Government Units, as explained by the competent authorities at the time, is comprised of three pillars: strengthening fiscal capacity of the municipalities and increasing municipal revenue, strengthening fiscal discipline of the municipalities, reducing debts and ensuring cost-effective operations, and increasing transparency and accountability. These measures and activities were expected to ensure additional democratization in the society, more efficient and cost-effective provision and delivery of services, as well as enhanced local and regional development,

In spite of legislative attempts to increase revenue under local budgets, vast majority of municipalities are facing financial problems,

While the central budget transfers in 2022 were increased by 10% compared to 2021, facilitated by legislative changes aimed at ensuring greater fiscal decentralization, the total annual revenue of all LSGUs has increased by insignificant 0,9%, which is mainly due to lower collection of local taxes levied on specific services. The State Audit Office found that some municipalities have low collection of own revenue sources due to lack of human resources,

Financial problems at local level are made evident by the fact that the total amount of reported liabilities is still very high, in spite of efforts made by the state back in 2018 to reduce this amount to minimum, by securing funds from the central budget to settle accumulated debts. Hence, with the government's action in 2018, the municipalities' matured liabilities were reduced from 4,998,269,598 MKD (81,3 million EUR) to 3,044,124,921 MKD

(49,5 million EUR) in 2019. By the end of 2022, unsettled and matured liabilities of LSGUs have again increased and reached 4,084,138,029 MKD (66,4 million EUR),

Furthermore, the State Audit Office has determined that, in December 2022, 14 from the total of 81 municipalities had blocked bank accounts,

On the other hand, Article 39 of the Law on Financing Local Self-Government Units stipulates that when the municipality's account is blocked for more than six months or the total amount of unsettled liabilities for more than 60 days exceeds 80% of the municipality's primary budget revenue in the previous year, the mayor is obliged to adopt a decision on declaring financial instability,

Adoption of the Law on Amending the Law on Financing Local Self-Government Units in 2022 changed the provision on the share of unsettled liabilities under Article 39, whereby the municipality is declared financially instable when the total amount of unsettled liabilities for more than 60 days exceeds 60% of the municipality's primary budget revenue in the previous year, and this provision will enter into effect on 01,01,2024,

No municipality had declared financial instability in the period before SAO's audit and, in the opinion of state auditors, "this situation allows the municipalities to generate new liabilities on various grounds and start new capital projects that could affect their liquidity and overall financial status in the future, ultimately leading to the need for allocation of additional funds from the central budget as financial support for the municipalities, which would mean an additional burden on the central budget",

Lack of funds to perform their competences and the municipalities' dependence on central government transfers lead to inequitable regional development, inefficient provision and delivery of services to citizens and insufficient democratization of the society as a whole,

As regards equitable regional development, according to data from the State Statistical Office, the Skopje Region is still the biggest contributor in the gross domestic product (GDP) with almost 44%, while other planning regions have significantly lower contributions, and this structure is unlikely to change,

The State Audit Office has found that while funds for equitable regional development, which according to Article 35 of the Law on Equitable Regional Development should amount to at least 1% of GDP, exceed 1,5% of GDP, however, "it cannot be established whether and to what extent [budget] programmes with regional development component apply the principle of equity, i.e, allocate funds to all planning regions according to their level of development, and whether these funds actually stimulate equitable regional development",

On the other hand, fiscal decentralization is among priorities defined in the Accession Partnership of the Republic of North Macedonia and the European Union, Also, further decentralization is enlisted as priority objective in the Government's Work Program 2021 - 2024, Benefits from the decentralization process include further democratization, transfer of government competences closer to the citizens and their needs and, accordingly, provision of better and more cost-effective services for citizens, Many academic research papers demonstrate positive correlation between higher level of decentralization and greater economic development,



RECOMMENDATIONS

- ▶ The municipalities should make additional efforts to ensure implementation of planned budgets to the maximum extent possible, Special efforts are needed to increase capital expenditure which, in the case of some municipalities, accounts for very small share of their local budgets compared to the amount and continuous increase of utility and operational costs,
- ▶ The public should be better informed about the municipalities' liabilities, both in terms of matured but unsettled liabilities and in terms of unmatured liabilities to be paid in the current or next fiscal year, Such information could be used to exert public pressure for municipalities to set budget spending priorities and to ensure greater cost-effectiveness and efficiency,
- ▶ Payment of arrears from current budgets 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 observed with many municipalities, It enhances the need for greater accountability before the citizens at the level of projects and activities, not budget items,
- ▶ An obligation should be introduced for the municipalities to inform citizens about all projects planned, but not implemented on annual level and about budget cuts that are directly related to or affect the life of citizens,
- ▶ In the future, mechanisms and methods should be devised to avoid compensation of budgets cuts due to states of emergency with new loans and "appropriation" of funds from projects that directly affect the life of citizens, but ensure that reallocations are made from budget items that do not have such direct impact on the citizens and their lives,
- ▶ The municipalities should 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 by the municipalities needed for development of this analysis,
- ▶ The municipalities need to gradually shift towards full application of the accrual accounting method, instead of the currently used cash-based accounting, In particular, 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,
- ▶ Analytical records with six-figure budget accounts and all related documents should be published 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 should be categorized to avoid the phenomenon of variable reporting on the same type of expenditure, revenue, assets and liabilities by different budget beneficiaries and individual beneficiaries,

- ▶ All data related to budget spending, such as budgets, final accounts, reports, etc., should be published in open format that facilitates further use, processing and analysis,
- ▶ An electronic system should be secured for collection of property tax according to the type of property registered by taxpayers with competent state institutions, based on the property's functional use, i.e, residential property, rental property, non-functional property, property with economic purpose, property used for agriculture, etc, Such categorization would ensure proper application of provisions under the Law on Property Taxes whereby the rate of property tax is determined according to its functional purpose,

APPENDIX

LSGU 2022 budget execution

Municipality	MKD	EUR
City of Skopje	5,783,131,666	94,034,661
Kumanovo	1,859,090,286	30,229,110
Bitola	1,858,319,097	30,216,571
Tetovo	1,526,335,202	24,818,459
Prilep	1,288,587,417	20,952,641
Strumica	1,217,311,189	19,793,678
Ohrid	1,166,993,316	18,975,501
Aerodrom	1,119,348,591	18,200,790
Gostivar	1,116,532,528	18,155,000
Karposh	1,089,144,702	17,709,670
Gazi Baba	1,086,459,245	17,666,004
Kavadarci	1,082,255,383	17,597,649
Struga	1,039,969,814	16,910,078
Shtip	948,169,518	15,417,391
Centar	928,661,155	15,100,181
Veles	911,854,864	14,826,908
Chair	838,511,179	13,634,328
Kichevo	804,790,174	13,086,019
Kisela Voda	740,464,434	12,040,072
Kochani	593,098,166	9,643,873
Gjorche Petrov	509,932,326	8,291,583
Butel	493,633,814	8,026,566
Radovish	476,356,697	7,745,637
Gevgelija	461,413,178	7,502,653
Saraj	406,799,167	6,614,621
Kriva Palanka	400,267,291	6,508,411
Sveti Nikole	391,382,826	6,363,948
Lipkovo	377,674,945	6,141,056
Negotino	373,022,919	6,065,413
Ilinden	328,284,998	5,337,967
Debar	325,888,080	5,298,993
Probishtip	321,091,358	5,220,998
Vrapchishte	306,280,055	4,980,163
Resen	296,405,104	4,819,595
Berovo	288,200,108	4,686,181
Vinica	287,021,184	4,667,011
Petrovec	285,612,570	4,644,107
Delchevo	277,832,988	4,517,610
Bogovinje	272,793,719	4,435,670
Zhelino	264,605,371	4,302,526

Municipality	MKD	EUR
Shuto Orizari	254,676,781	4,141,086
Dolneni	243,378,766	3,957,378
M. Kamenica	240,530,897	3,911,071
Brvenica	233,476,357	3,796,364
Studenchani	225,959,279	3,674,135
Valandovo	219,820,195	3,574,312
Tearce	219,029,076	3,561,448
Mavrovo and Rostushe	170,803,880	2,777,299
Makedonski Brod	170,742,813	2,776,306
Bogdanci	166,282,535	2,703,781
Kratovo	163,572,275	2,659,712
Krushevo	162,024,402	2,634,543
Novo Selo	160,577,489	2,611,016
Demir Hisar	151,912,344	2,470,119
Chashka	151,516,454	2,463,682
Jegunovce	148,827,589	2,419,961
Vasilevo	144,580,328	2,350,900
Chucher Sandevo	143,834,329	2,338,770
Bosilovo	139,643,248	2,270,622
Sopishte	137,790,657	2,240,498
Karbinci	135,183,448	2,198,105
Demir Kapija	126,617,792	2,058,826
Arachinovo	124,106,318	2,017,989
Novaci	119,904,612	1,949,668
Centar Zhupa	107,573,146	1,749,157
Mogila	105,114,715	1,709,182
Dojran	103,825,119	1,688,213
Debarca	100,014,047	1,626,245
Rosoman	99,513,938	1,618,113
Cheshinovo-Obleshevo	98,850,733	1,607,329
Staro Nagorichane	98,585,750	1,603,020
Konche	97,969,793	1,593,005
Pehchevo	91,132,719	1,481,833
Krivogashtani	87,574,538	1,423,976
Gradsko	78,812,020	1,281,496
Rankovce	78,496,190	1,276,361
Zelenikovo	67,705,314	1,100,899
Lozovo	60,822,011	988,976
Vevchani	47,496,532	772,301
Zrnovci	45,454,799	739,102
Plasnica	30,275,127	492,278

LSGU 2022 budget execution, per capita

Municipality	MKD	EUR
Novaci	45,281	736
Karbinci	39,527	643
Makedonska Kamenica	37,355	607
Konche	35,952	585
Mavrovo and Rostushe	33,876	551
Dojran	33,666	547
Demir Kapija	33,523	545
Petrovec	31,214	508
Kavadarci	30,287	492
Makedonski Brod	28,994	471
Centar Zhupa	28,918	470
Staro Nagorichane	28,159	458
Debarca	26,893	437
Lozovo	26,865	437
Berovo	26,465	430
Rosoman	26,215	426
Sveti Nikole	25,547	415
Gradsko	24,377	396
Strumica	24,349	396
Probishtip	23,932	389
Novo Selo	23,032	375
Pehchevo	22,880	372
Ohrid	22,692	369
Bogdanci	22,657	368
Rankovce	22,654	368
Kriva Palanka	22,164	360
Bitola	21,820	355
Zrnovci	21,790	354
Kratovo	21,680	353
Gevgelija	21,380	348
Centar	21,157	344
Debar	21,145	344
Shtip	21,133	344
Demir Hisar	20,925	340
Valandovo	20,919	340
Resen	20,622	335
Sopishte	20,526	334
Negotino	20,503	333
Delchevo	20,451	333
Struga	20,400	332

Municipality	MKD	EUR
Kichevo	20,288	330
Zelenikovo	20,144	328
Vevchani	20,134	327
Mogila	19,897	324
Vinica	19,829	322
Radovish	19,748	321
Krushevo	19,323	314
Chashka	19,078	310
Kumanovo	18,950	308
Ilinden	18,829	306
Veles	18,815	306
Kochani	18,768	305
Gostivar	18,680	304
Prilep	18,668	304
Dolneni	18,542	301
Cheshinovo-Obleshevo	18,068	294
Tetovo	18,006	293
Brvenica	17,111	278
Karposh	17,082	278
Krivogashtani	16,949	276
Lipkovo	16,930	275
Jegunovce	16,732	272
Chucher-Sandevo	15,634	254
Gazi Baba	15,604	254
Vrapchishte	15,436	251
Aerodrom	14,400	234
Zhelino	13,935	227
Vasilevo	13,702	223
Chair	13,398	218
Butel	13,001	211
Tearce	12,379	201
Bosilovo	12,134	197
Kisela Voda	11,950	194
Bogovinje	11,909	194
Gjorche Petrov	11,371	185
City of Skopje	10,984	179
Saraj	10,594	172
Studenichani	10,285	167
Shuto Orizari	9,900	161
Arachinovo	9,791	159
Plasnica	7,171	117

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