



Center for Research and Policy Making

PUBLIC FINANCE TRANSPARENCY IN MACEDONIA

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1. Budget Transparency

The budget process is regulated by the Constitution (article 91), the Rules of Procedure of the Assembly of the Republic of Macedonia (articles 184 and 185), and the Budget Law¹. The limited regulation of the budget process in the Constitution and in the Rules of Procedure means that to a large extent the regular rules apply to the treatment of the government's budget proposal. The Budget Law outlines a medium-term process with top-down elements, based on fiscal policy objectives and macroeconomic projections. A peculiar feature of budgetary legislation in Macedonia, but common to countries stemming from former Yugoslavia, is the annual budget execution law.

The transparency of the budgetary process is usually evaluated on basis of accessibility of the information on budget making and budget execution by ordinary citizens. Therefore in this study we consider the various tools of accessing budget data in Macedonia: from using the free access to information procedure; to evaluation whether and to what degree the Macedonian government is following the *IMF Code of Good Practices on Fiscal Transparency* and the *Lima Declaration of Guidelines on Auditing Precepts*². In this process the author has used secondary data sources (legislation, financial and narrative analytical reports and public expenditure and institutional reviews) property of the Centre for Re-

1 Official Gazette n. /05

2 Published by the United Nations International Organization of Supreme Auditing Institutions (INTOSAI)

search and Policy Making (hereinafter: CRPM), as well as primary data (i.e. Macedonia relevant scores from the International Budget Transparency Index 2008)³. The analysis takes in consideration the legal aspects, the procedures and the implementation practices that make the budgetary process in Macedonia transparent and opened to citizens.

1.1. How open is the Macedonian Civil Service?

1.1.1. Legal aspects

The Republic of Macedonia adopted a Law on Free Access to Public Information (hereinafter: Free Access Law) that predetermines a procedure for requesting and receiving information. The Law was prepared in participatory way with numerous NGOs contributing to the legal drafting. It was put into force on September 1st, 2006. This Law operationalized the right of all to demand information, which has been a constitutionally guaranteed right since 1991. At the same time, the Free Access Law predetermined an obligation on part of the information holders (public bodies) to provide access to information that they have created or hold. There are several instruments used for enforcement of the Free Access Law:

- **The Commission** is an independent body for the enforcement of the Free Access Law deciding on appeals made against decisions by the public bodies to deny requests. The Commission, as a second-level body, decides on appeals against denied requests for free access. It is responsible for the education of citizens and public bodies, gives opinions on the laws that regulate this right, and submits an annual report on how the Law on Free Access is being enforced.
- **Information Official** - All public bodies are obligated to appoint an information mediating official whose responsibility is to assist citizens in submitting requests for access to information. This official should act upon the request internally and ensure the timely reply to the requests.

³ CRPM is the Macedonian partner organization for the International Budget Project
www.openbudgetindex.org

- **List of Public Information** - The List, as a catalogue or index, should be prepared by all public bodies and published in a manner that would make it easily accessible to the public, so that the citizens can be informed as to what kind of information each public body holds.
- **Request Form** - is the written form of the request for free access to information. As a rule, the citizens should submit their requests through this request form, which, in principle, is used to make access easier. If the request is not submitted on the request form, however, yet it is nevertheless clear from the content of the request that it is a request for access to information; the public bodies are obligated to consider and process it, according to the Free Access Law.
- **Pricelist** - The Government adopted an act⁴ which determined the material costs for which compensation may be requested, and that have occurred as a result of supplying the information.

1.1.2. Procedure

Citizens have the right to free access to public information and can obtain it from holders of such information: orally, in writing or in electronic way. If the information holder approves access to the requested information, they should release this information within 10 days after the request was received orally. If the request was submitted in writing (Articles 12 and 14) the deadline for receiving the answer to such request is 30 days from the day of submitting of the request. This period can be prolonged for further 10 days for two reasons (Articles 21 and 22): (i) to enable a partial access; or (ii) because of the largeness of the requested document.

If the information holder, that the request was sent to, does not possess the requested information, the request is directed to the institution that possesses the requested document and the information seeker is informed on the referral. If the information is not provided or the request for information is partially responded citizens can submit complaints to

4 Decision of the Government of RM (“Official Gazette of RM”, No. 13/06)

the information holder within 15 days from the day you received the decision. (Article 28, Line 1). The complaint can also be submitted to the Commission for Protection of the Right to Free Access to Public Information. (Article 28, Lines 1-4). The Commission decides on the complaint within a timeframe of 15 days from the date when the complaint was received. (Article 28, Line 3)

The decisions of the Commission are final, but the applicant for information has the right to an appeal (to start an administrative procedure) against the decision of the Commission. The appeal should be sent to the Supreme Court of the RM, which is authorized according to the provisions of the Law on Administrative Procedures.

1.1.3. Practical implementation⁵

The law is being implemented for year and a half now and the implementation is marked by numerous deficiencies. The monitoring⁶ of the implementation of the law identified low level of awareness and knowledge on how and what information should be released, as well as no consistency⁷ of applied rules across public administration units. This is mainly due to the fact that the Commission for Free Access to Information was late with training civil servants and raising their awareness on how to apply the Free Access Law.

In practice citizens have their request not responded on time; their request was transferred to another public body (usually long after the deadline) without being informed on the referral; or the public bodies refused to supply information that they hold, but was created by someone else. In many cases and especially where budget data was requested the administration decided not to respond and release data, but to remain silent (i.e. Within the monitoring two out of three budget data requests were faced with administrative silence and data was supplied in appeal procedure).

5 Based on Report “Wall of Silence”, FIOOM, (November 2007)

6 Conducted in the period September 1st 2006 – September 1st 2007

7 According to the monitoring data the same type of document to be classified information for some ministries, while others are posting it on their websites

Administrative silence is an area that decreases the transparency of the Macedonian civil service. The tools against such practice in the Macedonian public administration system are already embedded in the Macedonian Free Access Law, which regulates an appeal procedure to be initiated at any time which influences the official's responsibility and work and makes the citizen free of obligation to count the days since the request was filed to make sure that she does not miss the appeal deadline and therefore be punished for the body's inability to do its work. However the public bodies do not compulsorily apply the Public Interest Test in each particular case when they limit access to information, applying the exceptions listed in Article 6 Paragraph 1 of the Free Access Law. Therefore the particular conditions in which the assessment is carried out, in order to determine whether the benefits for public interest from the publication of the information outweigh the damages caused to the protected interest are largely unknown which closes the administration further and decreases the level of transparency of the system.

1.2. How open is the Macedonian budget?

Public budgets are the instruments that governments use to set their priorities. Over the past decade an important global movement has emerged to give citizens and civil society a voice in budget issues. A key part of civil society's budget work is analyzing budget proposals and assessing if they match the proposed policies, what are the planned results and if those would have an impact on the role of men and women in society. In Macedonia the Centre for Research and Policy Making is the leading institution, a non state actor in policy making that continuously works on education of citizens to become active participants in the budgetary process on national and local level; and produces solid budgetary analysis of the public spending in the sectors of CRPM's research interest, as a founder and member of the Budget Watchdog Network.

The transparency of the budget process and the opportunities for as many societal groups to participate in its making is a European prerogative. Therefore an important part of this budgetary work is also assessing the level of transparency and openness of the budgetary process. For the first time in history Macedonia is part of a global project measuring the level of transparency of the budgetary making and execution. The Open Budget Index (hereinafter: OBI) evaluates publicly available

information issued by the central government, and does not cover the availability of information at the sub-national level. The index is focused mostly on what occurs in practice, rather than about the requirements that may be in law. Therefore in this study the two faces of the coin will be presented: (i) the legal requirements for transparent budgeting; and (ii) commentary of the OBI 2008 scores for Macedonia will be given relevant to the practice of transparent budgeting.

1.2.1. The budget

The Macedonian budget is a line-item budget⁸. This type of a budget keeps track of how much you spend on what. While the simplest to prepare, the line-item budget does not provide any information regarding activities and functions of a program, department, or municipality. Knowing how much you are spending for salaries, supplies, maintenance, and utilities does not reveal much about the nature of actual delivery of services. How many citizens are being provided with social services? How many kilometers of streets re cleaned? How many children are in school? The Macedonian budget unfortunately does not provide this information currently, and this information should be obtained through the rules for obtaining information of public character.

Although the EU required the Macedonian Government to adopt a program budget for 2007 and repeated this quest for 2008, this has not happened yet. However, the Ministry of Finance strongly believes that the current budget of Macedonia (in particular all budget documents since 2001) is a program budget at a first stage of development, moving to a more developed program budgeting every year⁹. This is due to the fact that several reform programs of the Government¹⁰ (in principle

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- 8 The line-item budget is a financial document that lists how much you will spend on every item a municipal budgetary organization uses. The focus of the budget is what is bought? The expenditures for each item are broken out in categories. Expenditures are organized primarily by objects of expenditure such as salaries, materials and supplies, and goods and services bought.
 - 9 Interview with Toni Dimovski, Head of Budget department within Ministry of Finance (18.09.2006)
 - 10 I.e. the decentralization program, the education modernization program, the health reform program and etc.

funded by foreign donors such as the World Bank, the IMF, the EU) are separated in order for the donors to track their money invested in policy reforms.

The Macedonian citizens however do not have such opportunity to track the public spending as the line-item approach allows them to be informed on what a community buys (personnel, commodities, etc.), and information on the expected results of services and activities that the government and local self-governments are carrying out is not available.

In 2005 the Government of Macedonia started the multi year planning process with the introduction of the three-year strategic plans covering programs and activities for realization of the strategic priorities of the Government, as well as the goals and the priorities of all budget users for that period. This however does not have reflection in the budget document, which in Macedonia is prepared on annual basis taking into account the revenues and expenditures to occur in the coming year only. The data relevant to the previous year is also presented for comparison but estimates beyond the budget year are not available in the budget document. This provides basis only for short term expenditure planning and thus is not favorable for development of long - term policies that are to create change. In order to be formulated well, to be more efficient and to finally contribute to high quality and sustainable services, government budgets must take into account events outside the annual cycle particularly the macro-economic realities, the expected revenues, and the longer-term needs of programs and of government's spending policies. A medium-term expenditure framework (MTEF)¹¹ consists of a top-down estimate of aggregate resources available for public expenditure consistent with macro-economic stability; bottom-up estimates of the cost of carrying out policies, both existing and new; and a framework that reconciles these costs with aggregate resources. Currently following the priorities set by NATO only the Ministry of Defense draws up a medium term expenditure framework for the Macedonian security.

There are three levels of budget through which the state gathers and also spends the money. For the sake of easier understanding, the

11 It is called "medium-term" because it provides data on a prospective basis, for the budget year (n+1) and for following years (n+2 and n+3).

budgets are presented as three compartments of a single purse - the budget of general government: they are the national Budget, the budget of the extra budgetary funds (the pension and disability fund, the road fund, the health insurance fund and etc.) and the local government budget.

The consolidated central government budget is nothing but the sum of receipts and expenses of the two parts that are at the level above the local: the government Budget and the budget of the extra-budgetary funds.

The main revenues and receipts of the national Budget derive from:

1. Taxpayers or taxation;
2. Subsidies obtained and
3. Receipts from borrowing at home or abroad

The consolidated national budget includes also the grants Macedonia receives from donors (those that are administered by the budget users and for which the finances are operated through the treasury account), but also the money received through other financial arrangements, such as the direct budget support from IMF, or the adjustment operations and investment loans or credits from the World Bank, investment credits of EBRD and EIB etc. Macedonia still does not administer EU funding that is currently channeled through the European Agency for Reconstruction and thus this funding is not separately presented in the budget document. The same applies for the donor money administered through agencies such as USAID, DFID, and UNDP. All donor funds are used for the purpose of implementing structural reforms in various policy areas: education, health, social security, transport, environment, agriculture and etc.

1.2.2 The budget making process

The Budget is the outcome of the budgetary process. This is a whole set of relations among the main participants in the process, on the basis of which Parliament debates and adopts the Budget. The budgetary process is consisted of three phases: the first phase is preparation of the Budget, in which the revenue and the expenditure of the Budget are

planned. The second phase is the debate in Parliament and adoption. The third phase is the execution of the Budget - in which the planned money is collected in the budget (the revenue) and also spent on the purposes planned in the Budget for the year. In the third phase there is also the control of the collection of the revenue and spending of budgetary resources. The whole of budgetary process goes through a number of steps within the individual phases.

Table 1: Snapshot of the budgetary process

| Time, phases and steps | Actions |
|------------------------|--|
| First Phase | Preparation and Budget plan |
| Step one | Preparation of the Government strategic priorities for the coming year |
| April 15 | The Government of the Republic of Macedonia determines the strategic priorities for the next year |
| Step two | Preparation of the fiscal policy for the coming year |
| July | Ministry of finance prepares report on the fiscal policy and submits it to the Government |
| Step three | Preparation of the budget circular |
| April | Finance Minister prepares a budget circular that is submitted to the budget beneficiaries |
| 15 june | Budget beneficiaries plan their expenditures and submit it to the Ministry of Finance |
| Step four | Adjustment of the beneficiaries's requests |
| October | The Finance Ministry adjusts the requests of the beneficiaries with the available budget resources for the coming year. On basis of this adjustments the budget proposal is prepared and the budget justification. |
| Second Phase | Budget adoption |
| Step five | Debate on the Budget proposal in the Parliament |
| November | Government submits the Budget proposal to the Parliament |
| December | Parliament debates on the Budget proposal |
| Latest end of December | Parliament adopts the Budget |

| Third Phase | Budget Execution |
|--|--|
| Step six | Annual financial plan submission |
| 25 days after the Budget is adopted | Budget beneficiaries submit to the Finance Ministry the annual financial plan divided into quartiles |
| 5 days from the day of Budget adoption | Every budget beneficiary submits transcript of the annual financial plan |
| Step seven | Quartile financial plan is submitted |
| 5 days before the quartile starts | Budget beneficiaries prepare proposal of the financial plan for a certain quartile and submit it to the Finance Ministry - Treasury department |
| Step eight | The quartile financial plans are approved and Budget execution |

1.3. Requirements for releasing budget information during the making of the budget

The first step in the budget making process is taken by the Government which by April 15th of the current year defines the strategic priorities for the coming year. These priorities are publicized on the web site of the government and based on this information budget users prepare three-year strategic plan covering programs and activities for realization of the strategic priorities of the Government in their individual sectors, as well as the goals and the priorities of the budget user for that period. The strategic plans should be published on the web site of every Ministry, but only two thirds of them have done it in 2008¹². The strategic plans of individual Ministries are approximated with the strategic priorities of the Government in their budgets through government programs and sub-programs. For 2008 the Government has three strategic priorities: (i) increasing employment and living standard; (ii) become a member of NATO; and (iii) continuing efforts in getting date for start of negotiations for EU membership.

12 Only Ministry of Agriculture, Environment, Economy, Social Policy, Health, Interior, Justice and Information Technology have posted their strategic plans on their web sites.

The second step in the budgetary process is taken by the Finance Ministry, which draws up a proposal for fiscal policy. This proposal outlines the main economic indicators that should mark the implementation of the future Budget. The fiscal policy proposal states the expected level of GDP, of unemployment, of whether prices are likely to change, whether there will be any inflation, and if so, how much. The Finance Ministry states all this in its report so that it can estimate the total size of the Budget. This happens in April.

The second step in the making of the national Budget ends in July, when the Finance Minister proposes to the government a projection or proposal of fiscal policy with explanations. When the government accepts this, then these principles of a fiscal policy become the point of departure and basis for the implementation of the other steps in the budgetary process. The fiscal strategy is a document that is publicly available on the web site of the Ministry of Finance.

In the third step of the budgetary process, the Finance Ministry has to lay down the planned expenditures of the budgetary beneficiaries, so as to be able to define total budgetary expenditure. For this reason, at the beginning of September, the Ministry gives beneficiaries of the Budget a document called the National Budget Circular. The main aim of the circular is to acquaint beneficiaries of the Budget with the outline plan of resources that has been drawn up by the Finance Ministry for each of them. Budgetary beneficiaries are able thus to become acquainted with the macroeconomic framework (nominal and real GDP, the expected rate of unemployment, reconstruction of the country, promotion of the private sector and so on) of the making of the Budget, which has already been defined in Step One. In the Circular, budgetary beneficiaries are asked to draw up and explain, on their own behalf, on the basis of the data obtained, their requirements for the necessary budgetary resources. Budgetary beneficiaries, while drawing up their proposals and applications for resources, have to bear in mind the amount of resources available and other constraints. After drawing it up, Budget beneficiaries send their plan of revenue and expenditure to the Ministry of Finance, by the end of September at the latest. The filled budget circular by every individual Ministry is an internal document that is not publicly available. After budgetary beneficiaries supply the Finance Ministry with their draft applications for budgetary resources; the Ministry is duty bound to adjust with the available planned resources of the budget. If it does not manage,

then the government will do so. It can happen that the needs for budgetary resources exceed the planned level of budgetary revenue. Then the Ministry of Finance plans and lays down the manner in which budgetary shortfalls will be financed. The fourth step, negotiations between the Ministry of Finance and the beneficiaries or users of the Budget, and adjustment of the various applications of the beneficiaries, ends in October. Then the Ministry draws up the final proposal for the Budget (revenue, expenditure and borrowing), which the Finance Minister supplies to the government for it to consider. This again is an internal document until the very moment of submission of the budget proposal to Parliament when it becomes Executive Budget Proposal, 15th November at the latest.

The Government therefore delivers to the Parliament only the Executive Budget Proposal and not a Pre-Budget Statement. This practice does not allow the members of Parliament (hereinafter: MPs) to be informed on the plans to spend public money in the forthcoming year early enough and leaves them with little time for them to internalize and discuss the budget document. Before the parliamentary debate starts, all the members have to have had delivered to them in good time the proposal of the Budget so that they can look carefully through it and understand all the figures. Every member, working body of the Parliament and the government can give proposals for changes or additions (amendments) to the Budget proposal. The Parliament is increasingly becoming open to citizens through its own efforts to enhance constituent relations, offices for communication with the electoral body¹³, and through the establishment of professional parliamentarian lobby groups (such as the Women's Lobby Group and the more recently promoted Parliamentarian Green Lobby Group). So citizens through their MPs can change or influence changes of the proposed budget. These developments are expected to further spur debate on proposed budgets and more extensive and substantial debates on the national budget and especially its execution might occur in the Parliament as a network of budget watchdog exists¹⁴.

Finally, in December, at a session of the Parliament, there is a debate about the proposed national Budget. The debate is an opportunity for members to give reasoned arguments on behalf of constituencies

13 Friday is a constituents day of the Macedonian Parliament with no sessions scheduled

14 Twelve non-governmental organizations established a network that monitors the public spending on local and national level

they are representing. Members of parliament are representatives of the people, elected at the elections, from various parties. Thus the adopting of the Budget is also a political affair, which depends on the balance of forces in the parliament.

However to make citizens more active players in the budgetary process, the Government has to bring the budget and therefore public money closer to them. This is done through the Citizens Budget - a detailed material on the budget, which is essential for effective analysis and scrutiny by the legislature and informed public explaining the main features of the budget in a form that is objective, reliable, relevant, and easy to understand¹⁵. Unfortunately the Macedonian Government does not yet produce Citizen's Budget.

1.4. Open Budget Index 2008 scores

The Open Budget Index (hereinafter: OBI) is a global research project that uses a questionnaire to depict transparency of the budgetary process on national level. Researchers and / or research groups within the OBI initiative asked citizens to request budget documents to test their availability to the general public. This is necessary because in some countries, substantial budget information is produced but is not shared with the public at all, or government officials make arbitrary decisions regarding which individuals they are willing to share information with. In those cases in which information was available only on request, if there were instances in which an individual requested the document but it was denied to him or her, the document was considered as not available to the public for the purposes of the study.

The results gathered through the questionnaire were put in a model measuring the budget transparency index. Macedonia ranks¹⁶ in the latest OBI 2008.

- 15 Written in plain and accessible language, the guide should summarize recent economic developments, explain the main objectives of the budget, list the main changes and/or new policies proposed, and show how revenue is to be raised, spending is to be allocated, and financing achieved.
- 16 Macedonia is ranked 54 from 88 countries (where UK is ranked 88 as most transparent).

1.4.1. Information on executive budget proposal

The main factors that influence on this year's OBI score for Macedonia are the fact that it does not produce pre-budget statement; and because much of the information in the executive budget proposal are not fully in line with the IMF Code of Good Practices on Fiscal Transparency. In this respect the main criticism of the executive budget proposal is that it does not present program level data, or revenue projections for more than the current year¹⁷.

Furthermore the OBI questionnaire reveals that the financial and non financial assets of the Government are not presented in the executive budget document which decreases the transparency level of the Macedonian budget. Another factor that influences the OBI score is the non presentation of tax expenditures in the public sector, the full identification of earmarked revenues as well as the large percent of funds allocated to secret items in the defense, and security sectors.

The executive budget proposal does not allow monitoring of spending and especially performance monitoring as it does not explain how the proposed budget is linked to government's stated policy goals for a multi-year period (for at least two years beyond the budget year), or present non-financial data, such as the number of beneficiaries, for expenditure programs, no performance indicators or other data useful for assessing how an expenditure program is performing.

Finally as the executive budget proposal is not accompanied with a Citizen's budget or any other tool for non technical explanation of the budget and since citizens are not able to obtain non-financial information related to expenditures (for example, number of beneficiaries, number of persons employed by the program, etc.) for individual programs in a format that is more highly disaggregated than that which appears in the executive's budget proposal if they request it from a ministry or agency the Macedonian budget is not marked with advanced openness to citizens.

17 N, N+1, N+2

1.4.2. Information on budget execution

Budget execution is thoroughly regulated through the Budget Law (articles 37 through 51). The execution of the budget is based on the apportionment of the annual budget for each budget-user, which is reflected in the quarterly financial plan that each budget-user is required to submit to the competent line ministry or first-line budget-user. The ministries or budget-users are then obliged to consolidate these financial plans, which are submitted to the Ministry of Finance within 25 days of the adoption of the budget. This financial plan may be revised during the year. Budget-users should also prepare a quarterly financial plan (based on the annual financial plan) according to budget classification, which is submitted to the Treasury for approval at least five days before the beginning of the quarter. This quarterly financial plan should be divided into months. The quarterly financial plans may be changed within the limits approved for the respective quarter.

The budget execution process is heavily focused on expenditure control through a consolidated Treasury Single Account. In addition, a commitment ledger, in which budget-users are required to register financial commitments in advance, has been put in place. The centralized control of individual payments reduces flexibility at the level of budget-users and may come at the cost of a decreased operational efficiency in the government administration. Nonetheless, current budget execution practice may be the most appropriate for Macedonia given the relatively weak internal financial control systems in budget-users.

When a payment is due, the respective budget-user issues a payment request and sends it, either electronically or in paper format, to one of the 17 regional treasury offices. The treasury verifies whether a requested payment is in line with the submitted payment plan, corresponds to what has been entered in the commitment ledger and matches the purpose stated in the budget. It also verifies whether there is a sufficient balance in the appropriate account. If the request is approved, the Treasury sends a payment order to the Central Bank, which is responsible for the payment system. Executed payments are registered in the Treasury General Ledger.

The Treasury produces reports on the cash execution of the budget with virtually no delay. Daily reports showing payments and the bal-

ance on sub-accounts in the Treasury Single Account are sent to the Minister of Finance and to the Prime Minister. Monthly reports are produced and distributed to the government within a few days after the end of the month. These reports are also published on the Ministry of Finance's website. A semi-annual report on the budget execution is sent to the government no later than 31 July.

Public expenditure reviews are conducted by request from the Macedonian Government and are still joint ventures between the World Bank and the Government, a process methodologically and analytically led by the Bank but fed with information by the Government. The question is whether the Government is using the outputs of this joint exercise or the Bank finds it more useful for defining its three year Country Assistance Strategy. Since no reform of the budgetary process, as leading to a more efficient public spending, is yet envisaged, one can confirm that the Government does not use the Public Expenditure Review¹⁸ as a tool for policy making.

1.5. Accountability, monitoring and reporting

Budget monitoring is determined to be the obligation of the Ministry of Finance and the State Audit Office, with the internal audit units within the budget beneficiaries taking over some of the responsibilities. Indeed, these units for internal audit will give the budget beneficiaries including local government bigger autonomy in the process of monitoring of the budget execution.

1.5.1. Requirements

Budget accounting is centralized in the Treasury and is based on cash payments registered in the Treasury General Ledger. The centralization of budget accounting facilitates the production of budget execution reports, which can be used to monitor the development of in-year revenue and expenditure. Since the chart of accounts is identical for all

¹⁸ This tool provides for evidence of the structure of governance and the functioning of public institutions, as well as linkages between expenditure and policies in various sectors.

budget-users, it is simple to compile aggregated information on government finances. The chart of accounts is based on the IMF General Finance Statistics (GFS) 86, with a certain modification of the updated GFS 2001. Work is currently underway to move to GFS 2001 to make the chart of accounts compatible with European System of Accounts (ESA) 95. Budget-users are also required to keep their own accounts (Budget Law, article 55), but these accounts are on a modified cash basis rather than the pure cash-based accounting carried out by the Treasury.

The main provision concerning financial management and control is the one contained by the Law on Accounting for the Budget, which states that budget-users should have a regular system of internal accounting control (ex post) to ensure that transactions are executed in accordance with legal regulations, accounting documentation is appropriate, and financial statements are reliable. A key point is to make sure that all revenues are properly collected and reported, as many budget-users still have own sources of income.

However, the quality and efficiency of internal control varies between institutions, and basic principles of implementation are lacking, whereas existing prescriptions have a formal rather than an operational character.

1.5.2. Annual report

According to the Budget Law (article 52), the Minister of Finance is required to submit to the government by 31 May the final accounts of the previous year's budget, together with the audit report of the Supreme Audit Institution (State Audit Office). After approval by the government, the final accounts are to be submitted to parliament no later than 30 June.

The Law however does not regulate the date by which the government is to send the final accounts to the State Audit Office. The audited accounts should be submitted to parliament earlier than 30 June to enable a discussion of the previous year's budget outcome prior to the initiation of discussions of the next year's budget. The government is not required to submit a half-year report on the budget execution to parliament, although this report is available to the public.

1.5.3. Participation by citizens in the monitoring of the execution of the budget

Within the legal framework there is no mention of the possibilities for citizen's involvement in the budgetary process on national level, whereas public hearings are organized on local level. The decentralization and the transfer of competencies to the local authorities do not directly provide legal tools for the involvement of the citizens in the budgetary process. However, the legislature does not preclude the local government's budget monitoring by concerned citizens either. Quite on the contrary, a number of legal provisions from the Law on Local Self-Government can be seen as encouraging such actions.

According to the Constitution and the Law on Local Self-Government the units of local self-government have the right to local self-governance through direct participation of citizens in decisions about common matters. Moreover, the reformulated text of Article 115, Paragraph 1 of this law refers to the jurisdiction of units of the local self-government. This jurisdiction has been modified to read:

“In units of local self-government, *citizens directly* and through representatives participate in decision-making on issues of local relevance particularly in the field of public services, urban and rural planning, environmental protection, local economic development, *local finances*, communal activities, culture, sport, social security and child care, education, primary health care and other fields determined by law” (emphasis added)¹⁹.

These legal provisions, although not directly providing for the possibility for budget supervision on a local level, ensure the legal background for such activity. Is however, budget monitoring on the agenda of citizen's groups and if so how are municipalities that are allowing supervision of budgets on a sub-national level arranging these citizens' participation?

However, for successful and transparent management of the local budgets, besides the state, the citizens need to become directly involved in the process of supervision of the budgetary process. It is not enough

¹⁹ Law on Local Self-Government, Article 115, Paragraph 1

that the Law on Local Self-government defines “direct citizen participation” as the individual or collective involvement of the inhabitants of a municipality at different levels of the decision-making process of the local government. It does not suffice that Article 30 of the new law states that the local government should get public input on municipal wide issues and also involve the public in policy making and the budgeting process because there is still a culture of passivity in Macedonia, as far as citizen involvement at the local level.

Such attitude, such passivity on the part of the citizens is highly related to the culture of the public officials in the country. Although in a few cases, municipalities, in corporation with the international community, have encouraged citizens to get involved in policy making, and legislation development, many Macedonians perceive the government officials as ‘untouchable’ powerful cliques. On the other hand, the prevailing political culture in the country is such that the decisions of the government, the policy making process is typically done behind closed doors, without input and consultation of wider network of stakeholders such as citizens and civil society groups, academic experts. A somewhat typical example was the government’s decision making process over the new territorial organization of the municipalities in Macedonia, a highly secretive and reticent affair. (Daskalovski 2004b)

The citizens need to have a clear idea that the public officials are paid by public tax money to provide requested services. The Macedonian experience in budget processing in the local government units shows that the only viable policy alternative would be to engage the local population and the civil sector more directly. Evidence from many municipalities, such as Strumica, Veles, Prilep, Sveti Nikole, and Gostivar, shows that the budgeting process could be opened for citizens. These municipalities regularly hold public hearings that are rarely attended by citizens.

2. Control

The basic framework for Public Internal Financial Control was until recently provided by the Law on Budgets (which is the organic budget law of Macedonia, the latest consolidated version of which is dated 3 August 2005). This law and related texts, such as the Law on Accounting and the Law on Procurement, provide the overall framework for internal financial control, defining the role and responsibilities of the various actors and the concept of “budget-user”

A specific Law on Internal Audit was adopted in October 2004. The Law on Budgets initially contained some provisions in this area, which allowed some implementing of the internal audit function to start, but this is no longer the case, as there is now a specific legislation. The Law on Budgets provides the framework for public expenditure management and covers the central government, local government units and extra-budgetary funds. The “Law on Accounting for the Budget and Budget-users” of 18 July 2002, which entered into force on 1 January 2003, covers all specific accounting procedures and control responsibilities of budget users and also defines the role and responsibilities of the accountant within an organisation.

However, these legislative efforts appear to be of a piecemeal nature with regard to the introduction of a full concept of Public Internal Financial Control (hereinafter: PIFC), as recommended by the European Commission in the framework of preliminary scrutiny before granting the status of candidate. For this reason, the Ministry of Finance produced, in co-operation with the technical assistance that was then in place, an overall document on PIFC in the form of a Strategy for Developing Public

Internal Financial Control in the Republic of Macedonia. This strategy document, dated January 2006, was adopted by the government on 16 February 2006 and can be considered as the PIFC policy paper of Macedonia.

The strategy summarizes the achievements that have been made so far in the area of PIFC, in particular in the light of the negotiating chapter 32 for EU accession, and makes further suggestions for the full development and refinement of the current system. In particular, it foresees the drafting and adoption of a new framework law on PIFC that will incorporate the PIFC principles described in the strategy, together with the related secondary legislation, as well as changes to the existing internal audit law of October 2004. The action plan attached to the strategy - similarly endorsed at government level - has set deadlines for the production of the various legal documents that are planned.

2.1. Institutional set up

The institutions that perform control in the public finance field in Macedonia are the State Audit Office and the Internal Audit. The National Assembly (hereinafter: Parliament) is performing political control over the Budget and adopts the final accounts of the spending in previous year.

2.1.1. Parliament

In parliament there is a Committee on Budget and Finance. This Committee on Budget and Finance receives and discusses the executive budget proposal, proposes amendments to this document and also discusses the annual account of the public spending from the previous year. The Committee receives reports on the budget spending and audit reports by the National Audit Office and other documents related to the state budget.

The Committee, however, has no administrative or expert capacity to examine in detail the documents (the administration of the committee is minimal). Therefore the discussions of such reports on the meetings of the Committee are formal. This is especially true nowadays when the Government has two third majority in the Parliament.

2.1.2. State Audit Office

The State Audit Office (SAO) was established by the State Audit Law of 1997, and the first Auditor General was appointed in May 1998. However, operations only started in 1999 following the transfer to the SAO of employees from the audit department of the former Agency for Payments (ZPP).

According to article 1 of the State Audit Law, the SAO can audit the financial statements and financial transactions of state entities, including entities that are completely or partially financed by the budget of the Republic, as well as local entities, state-owned enterprises and the Central Bank of Macedonia. This covers namely the state budget (Budget of the Republic of Macedonia), local budgets, extra-budgetary funds, budget fund-users, legal entities in which the state is a major shareholder, political parties financed by budget funds, and electoral campaigns. In accordance with the law, the SAO can also audit the beneficiaries of EU funds, as well as projects funded by foreign and international institutions.

This means that the SAO is now supposed to perform the audit of 1837 institutions. Of these, 168 are to be audited on a mandatory yearly basis: budgets (state and local budgets, funds), users of the state budget, and state-owned enterprises. Political parties constitute an additional category. The actual number of annual audits has always been fewer than that figure due to mainly scarce human resources in SAO²⁰.

The SAO does not perform a specific audit of the consolidated state accounts, not even of the execution of the state budget as a whole. The annual audit of the state budget consists rather of compiling and summing up the results of the separate audits performed on each individual audit. In fact, the current approach is almost totally disconnected from the budget process, as there is no linkage between the production of the audit report and either the submission of the annual draft budget, of a “rebalanced budget” document or of the final (consolidated) state accounts. The audit report does not focus on the overall cash execution of the budget, and in any case the SAO has so far not audited the revenue side of the budget. This approach is possible, but it is certainly not

²⁰ 110 entities were audited in 2005 and 131 in 2006

in line with the good SAI practice of producing an overall report on the implementation of the consolidated state budget, which is a key output of any SAI and also provides a relevant matrix for further programming of audit work. Furthermore, the annual report was supposed to be submitted to parliament at the latest seven months after the final deadline for submitting the financial statements, which may prove to be very late in the process. As a matter of fact, since 2005 the practice has been to submit the SAO annual report to parliament on 31 March each year. The new draft law envisages the submission of the annual report to parliament at the latest on 30 April, which seems a good balance, although it still gives little time to perform all of the audit work that is necessary after the accounts are produced.²¹

2.1.3. Internal Audit

The internal audit applies to the budget users, Pension and Disability Insurance Fund, Health Insurance Fund, Road Fund, Employment Bureau, municipalities and the City of Skopje, agencies and other institutions established by law, public enterprises, such as legal entities where the state is dominant shareholder. All these entities are required to have their internal auditors appointed. As it is unrealistic to have each budget-user set up an operational internal audit unit, considering the size and number of these bodies, the amendments to the Law on Internal Audit adopted in February 2007 provide for the possibility of joint or contracted internal audit activity in order to ensure better coverage.

The Internal Audit Law of 2004 created a Central Internal Audit Unit in the Ministry of Finance, which is responsible for development, harmonization and methodological functions, but also for providing internal audit services to organizations deprived of their own units. Furthermore the law on Public Internal Financial Control²² gives a legal status to the basic principles of financial management and control and creates the necessary institutional arrangements that make the new system operational, such as the functions of the Public Internal Financial Control Department in the Ministry of Finance as Central Harmonization Unit for PIFC matters.

21 Based on SIGMA, 2007 - External Audit Assessment

22 Official Gazette 22/207 of 20 February 2007

3. Recommendations

Macedonia will need to further work on the procedures for making budget data publicly more available. This is best done through a comprehensive reform process of the public finance sector as a whole. This reform has already commenced with the introduction of strategic planning and linking it with the budget process. However introduction of full fledged program budgeting will allow Macedonia to fulfill most of the standards for transparency in the public finance sector set by IMF and help the country move up in the OBI rankings.

The publication of regular information about the budget and state debt, the publication of significant information accompanying the executive budget proposal and dissemination of the annual accounts of the budget is best practice in Macedonian budget work. However here are some areas identified as most important for advancing budget transparency in Macedonia:

- Of high priority is an enhanced assessment of the budget proposal in Parliament, with a formal requirement to review individual sections of the budget.
- To strengthen parliament's involvement in the budget process, a pre-budget statement on the government's overall fiscal strategy and main policy priorities could be submitted for parliamentary approval in advance of the budget proposal. Such a document should be presented to and discussed by parliament well in advance of its summer recess. Such an arrangement would provide more structure and stability to the budget preparation process.

- The line-item structure of the budget is sufficiently detailed. In order for parliament to form a well-informed opinion on the government's policies, the presentation of the budget in program-oriented terms could be enhanced.
- Monthly reports on budget execution should be considered to be published on Ministry of finance web site as they are regularly prepared but not publicly available.
- The production of the annual state audit report should be linked with the annual draft budget, of a “rebalanced budget” document or of the final (consolidated) state accounts. The audit report should focus on the overall cash execution of the budget. The SAO should audit the revenue side of the budget.

