

## REPORT

# Monitoring of Pre-election and election Budget Expenditure and Political Financing

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## Abbreviations

VMRO-DPMNE – Internal Macedonian Revolutionary Organization - Democratic Party for Macedonian National Unity

VAT – Value added tax

SAO – State Audit Office

SCPC – State Commission for Prevention of Corruption

DPA – Democratic Party of Albanians

DUI – Democratic Union for Integration

LSU - Local self-governance units

PE – Public Enterprise

CEA – Centre for Economic Analyses

PDP – Party for Democratic Prosperity

MKD – Macedonian denar

RM – Republic of Macedonia

SDSM – Social-Democratic Union of Macedonia

TI-M – Transparency International - Macedonia

PRO – Public Revenue Office

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## INTRODUCTION

Transparency International – Macedonia (TI-M), together with the Centre for Economic Analyses (CEA) implemented the project *‘Monitoring of Pre-Electoral and Electorate Budget Expenditure and Political Financing’* financially supported by the Embassy of the Kingdom of the Netherlands. The goal of the project was to monitor activities related to elections planned for 24 April 2016, which were postponed and rescheduled for 5 June 2016. Due to the political situation in the Republic of Macedonia, elections scheduled for 5 June were delayed for an indefinite period of time, to be finally held on 11 December 2016.

In order to ensure appropriate coverage of the territory of the country, as well as due to the large volume of data gathered and analyzed, it was necessary to engage 8 local NGOs with experience in monitoring processes, whose task was to perform monitoring in 24 municipalities on the territory of the Republic of Macedonia.<sup>1</sup>

Six political parties and 5 coalitions with 58 lists of candidates in 7 electoral districts on the territory of the Republic of Macedonia (RM) participated in the early elections held on 11 December 2016, as follows: Coalition VMRO-DMPNE, Coalition VMRO for Macedonia, Coalition for Changes and Justice - Third Block, Coalition SDSM, Democratic Union for Integration (DUI), Democratic Party of Albanians (DPA), Movement Besa, Party for Democratic Prosperity (PDP), Alliance for Albanians, Liberal Party (LP) and Levica.

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<sup>1</sup> Following organizations were involved: ZIP Institute-Skopje (for the municipalities of Aerodrom, Gazi Baba, Centar), Fokus - Veles (for the municipalities of Veles, Kavadarci, Chashka), DROM - Kumanovo (for the municipalities Kumanovo, Kriva Palanka, Kratovo), Echo- Shtip (for municipalities Shtip, Kochani, Karbinci), LAR Struga (for municipalities of Struga, Ohrid, Makedonski Brod).

## Parliamentary elections 2016

In accordance with the Electoral Code (Article 4, paragraph 2), in the Parliament of the Republic of Macedonia, 123 Members of Parliament are elected, from which 120 according to proportional model, whereby the territory of the Republic of Macedonia is divided into six electoral districts, and for each electoral district 20 Members of Parliament are elected and 3 members of the parliament are elected according to proportional model in one electoral district covering Europe, Africa, North and South America and Australia and Asia. Based on the established lists of candidates for Members of the Parliament in the electoral districts 1, 2, 3, 4, 5 and 6, 58 lists with the total of 1,160 candidates to be elected were proposed, while 4 lists with the total of 12 candidates to be elected as members of the parliament were proposed and determined in the electoral district 7.

Officially, electoral campaign started on 21 November 2016 and ended 24 hours prior to the elections. In its report published on 28.12.2016, the State Electoral Commission (SEC) concluded that **1,191,852 voters out of the total number of 1,784,416 voters voted on the elections held on 11 December 2016, that is, the turn-out was 66.79%.**

According to the final results from the early elections for Members of the Parliament of the Republic of Macedonia, the SEC on its session held on 28.12.2016 determined the following final lists:

1. Coalition VMRO-DPMNE – 51 MPs
2. Democratic Party of Albanians – DPA – 2 MPs
3. Democratic Union of Integration – DUI – 10 MPs
4. Social Democratic Union of Macedonia (SDSM) – 49 MPs
5. Coalition Alliance for Albanians – 3 MPs
6. Movement BESA – 5 MPs.

Based on the results determined by the SEC, no Members of the Parliament of the Republic of Macedonia have been elected from the electoral district 7, since neither of the lists for MPs gained the necessary number of votes, in accordance with Article 4 paragraph 6 of the Electoral Code.

## I. EXPENDITURES OF THE POLITICAL PARTIES DURING THE ELECTIONA CAMPAIGN

According to the Electoral Code of the Republic of Macedonia (Article 85), political parties and coalitions as participants in the electoral campaign are obligated to submit three reports on the 11th day from the day of the election campaign, one day after the completion of the electoral campaign and total financial report on the electoral campaign. Financial reports on the electoral campaign are submitted to the SEC, SAO, SCPC and the Parliament of the Republic of Macedonia. All participants in the elections held on 11 December 2016 timely submitted their financial reports, and TI-M held a press conference where they presented the preliminary findings on 12 December 2016.

TI-M developed a special methodology through which it will monitor the expenditures of the political parties on political marketing at local and national level. Data on the concrete activities during electoral campaign on the field have been gathered through this methodology which consists of monitoring the activities of the participants in the early parliamentary elections and based on those data an assessment of the expenses within the electoral campaign was performed. Various aspects were taken into consideration in the development of the methodology: number of inhabitants of the populated area, territory covered by the area, number of polling stations and number of voters registered in the Voters List.

The methodology consists of two parts:

1. Monitoring of expenditures on marketing activities of the political parties in the pre-electoral and electoral process at national level;
2. Monitoring of expenditures on marketing activities of the political parties in the pre-electoral and electoral process at local level.

Several tools (documents, databases, excel tools), questionnaires and monitoring templates have been developed for the methodology needs at local and national level, which would enable a platform for monitoring of the marketing activities expenditures of the political parties.

## Key findings

All political parties and coalitions which participated in the early parliamentary elections in the Republic of Macedonia held on 11 December 2016, timely submitted their financial statements on the revenues and expenditures during the electoral campaign.

Based on the conducted analysis of the estimated costs of the electoral campaign, TI-M found as follows:

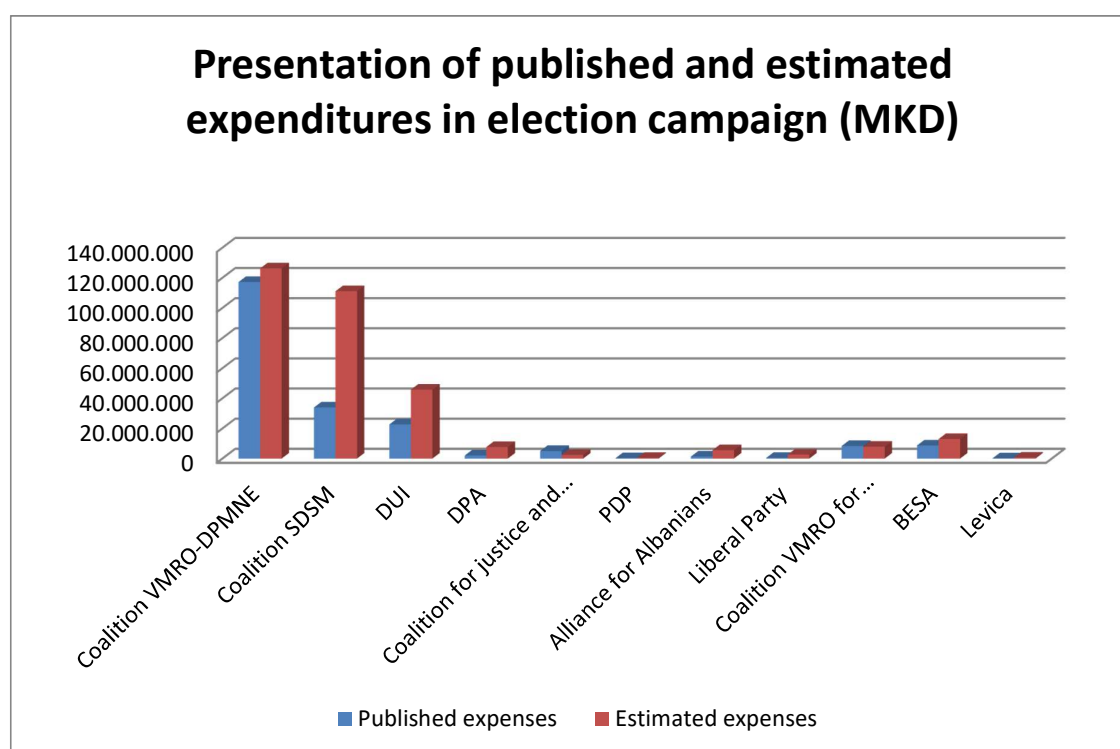
1. **Parties spent much more than they reported** – 10 political parties and coalitions (Coalition VMRO-DPMNE, Coalition SDSM, Democratic Union for Integration (DUI), Democratic Party of Albanians (DPA), Coalition for Changes and Justice, Party for Democratic Prosperity (PDP), Alliance of Albanians, Liberal Party (LP), Besa, Levica) **spent much more** finances during the electoral campaign than reported in their financial statements.
2. **One party reported more than they spent** - Coalition VMRO for Macedonia **reported more** that they spent according to our analysis;
3. **Campaigns were led at national level** – The three largest political parties and coalitions VMRO-DPMNE, SDSM and DUI and the newly established party Movement Besa allocated the most funds for election campaign **at national level**, covering following costs: media presentation at national televisions, outdoor advertising, printed media, internet portals, rallies, promotional materials, creative services (video production, post-production, audio production, graphic design, printing preparation, banners) and agency commissions;
4. **Average price per won vote is higher than the legally prescribed price** - **The price per won vote** ranges between MKD 55 (Levica) to MKD 704 (Liberal Party), or **in average, MKD 347**. According to estimated and reported costs, the lowest difference in price per won vote is MKD 20 (Coalition VMRO-DPMNE and Coalition VMRO for Macedonia). According to the Electoral Code, right to reimbursement of election expenses have participants in the election campaign whose candidates have been elected Members of the Parliament in the amount of 15 MKD per vote won;
5. **Strengthened internet campaign which is not controlled** - Political parties led intensive campaign through electronic media through internet-portals, social media and Google AdWords. Total of six political parties (Coalition SDSM, Coalition VMRO-DPMNE, DUI, Coalition for Changes and Justice, Levica and Besa) led online campaign through internet portals and submitted pricelist to SEC. In addition, during this campaign it was noted that social media were actively used as a tool for information and advertisement of political parties, as well as the candidates for Members of the

Parliament. Based on the monitoring findings, such expenditures were not monitored by any institutions and information was not available in the official reports of the participants in the election campaign.

Estimated expenses of the monitoring compared to the expenses published by the political parties are displayed in Figure 1.

**Figure 1**

Comparison of published and estimated expenses in the election campaign (MKD)



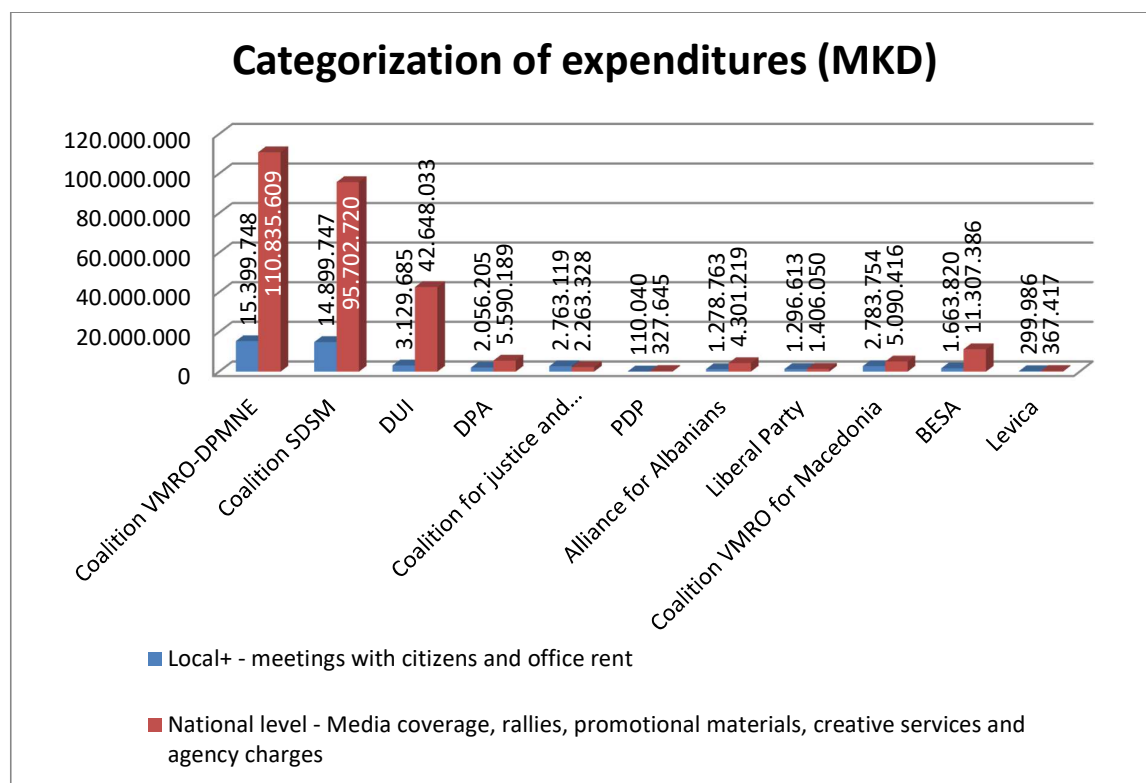
## 1. Categorization of expenditures of political parties

Analysis of estimated expenses for the election campaign was performed based on three defined categories:

- a) Expenditures at national level
- b) Expenditures at local level
- c) Expenditures for creative services and agency charges.

According to the estimation of the TI-M, all political parties and coalitions which participated in the early parliamentary elections in December 2016 allocated total of MKD 326,021,493 for the election campaign, and MKD 279,840,012 of that amount was spent at national level, while MKD 46,181,481 were spent at local level.

**Figure 2**



## Expenditures at national level

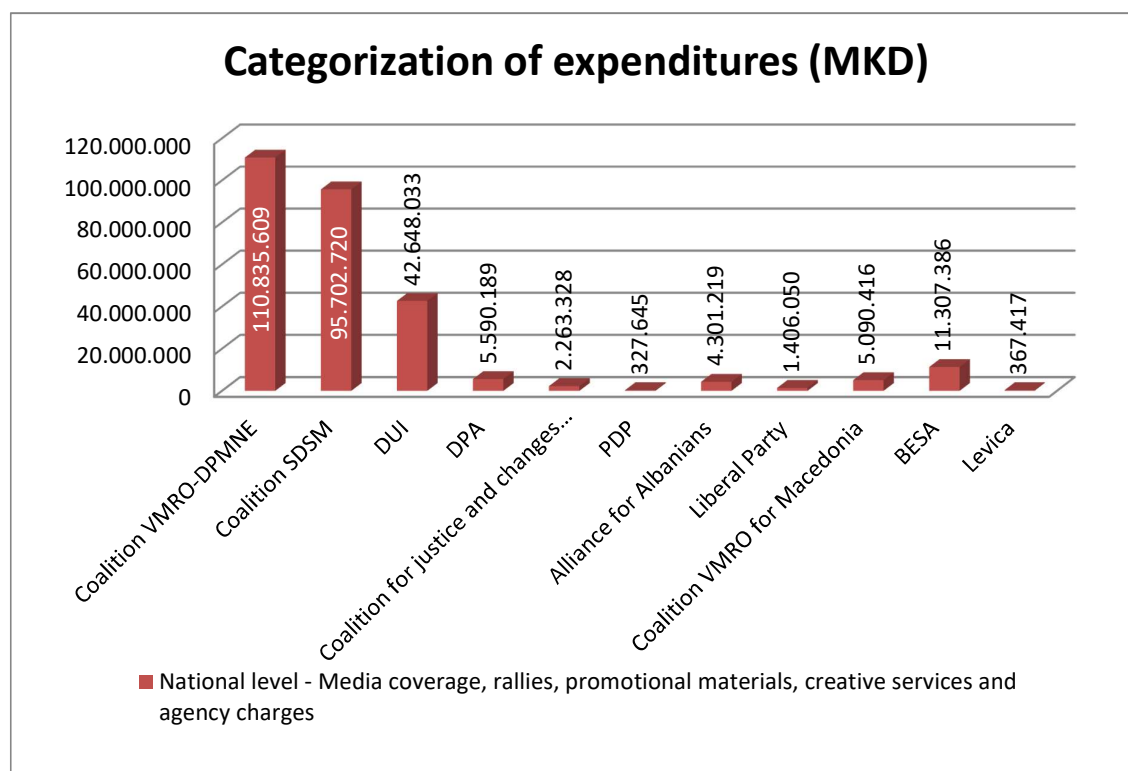
At national level, following was measured: media presentation at national televisions (11 TV stations in total), outdoor advertising (4 largest economic operators in total); printed media (8 in total); internet portals (49 in total). External agencies for national televisions - Nielsen - Audio Measurement and printed media - Press Clipping- were engaged for the monitoring.

The monitoring process at national level covered the expenditures for promotional materials and expenses for rally organization.

Due to the scope of operators (4 in total), media presentation at national radio stations was not included in the monitoring of expenditures.

Total estimated expenses of all political parties at national level are 85.8%.

**Figure 3**



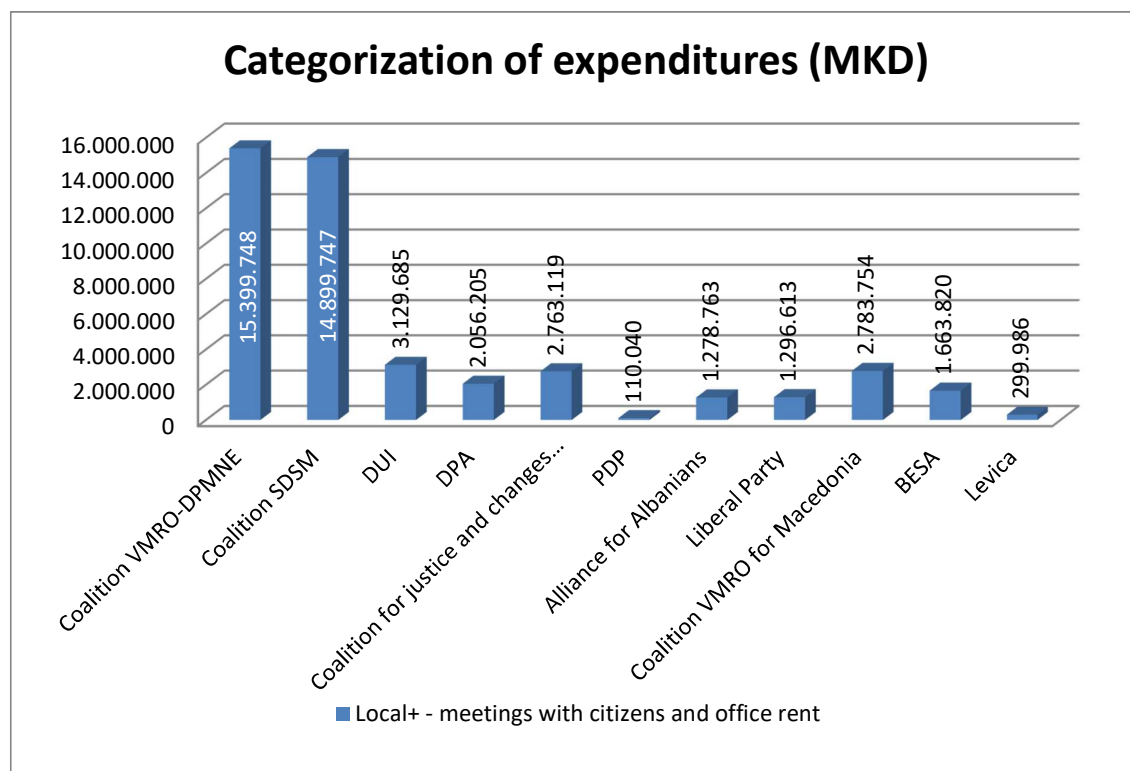
## Expenditures at local level

At local level, the monitoring process covered expenses for meetings with citizens at local level organized by political parties, office rent, and media presentation at local level. Fifty local TV stations and 3 local printed media were included in the monitoring.

Due to the scope of operators (42 in total), media presentation at local radio stations was not included in the monitoring of expenditures.

At local level, political parties spent 14.2% of total expenses.

**Figure 4**



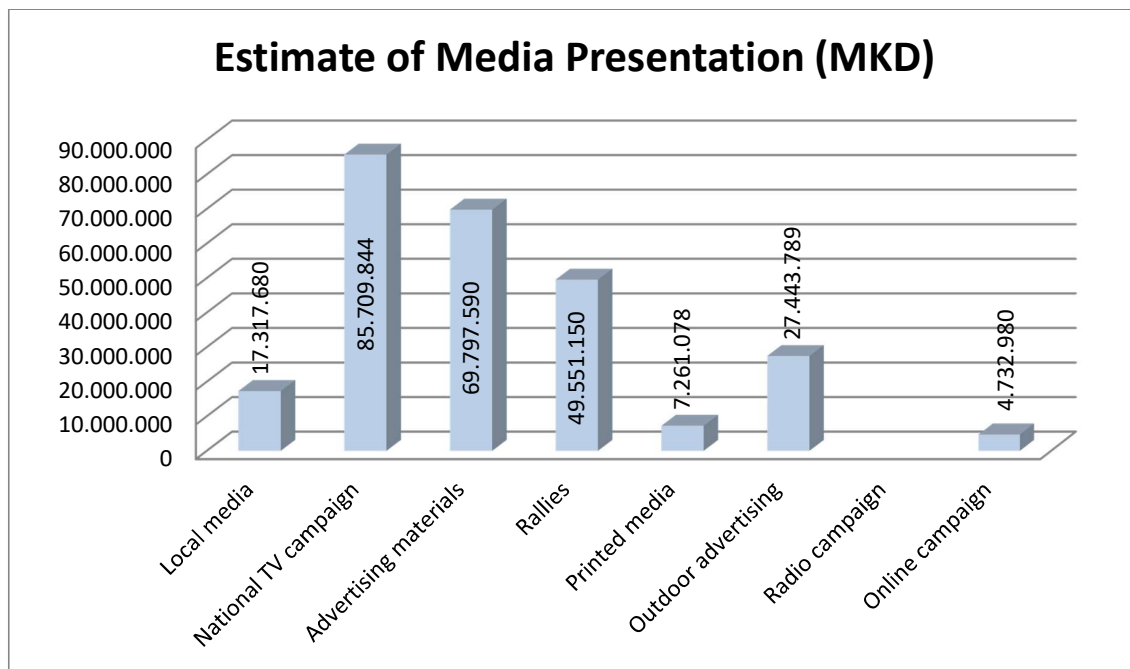
## Expenditures for creative services and agency charges

Expenses for creative services (video production, post-production, audio production, graphic design, printing preparation, banners) as well as agency charges for media planning and media lease were estimated as 7% of the total media campaign.

## 2. Estimated expenses for media coverage

According to the estimation, most finances in the electoral campaign were allocated for media coverage of political parties on the national TV stations, followed by: promotional materials, organization and maintenance of rallies, as well as expenses presented in the figure below:

Figure 5:



### 3. Estimated expenditures of the political parties during the electoral campaign

We analyzed activities for which market price could be determined, or for which relatively good estimates of expenditures could be made. Our approach is based on estimation which considers the market price. This position is justified since our opinion is that companies, media and other participants in election campaigns may survive only if they operated following the market logics.

We analyzed activities at national and local level.

A) At national level, following was monitored:

- TV campaigns at national televisions.
- Procurement and development of advertising materials
- Event management
- Campaign in printed media
- Outdoor advertising, and
- On-line campaign on national portals.

1. Professional agency has engaged to monitor TV campaigns.

2. As regards the category *Procurement and development of advertising materials*, in accordance with the size of the electoral body at national level, assessment has been made on the developed advertising material including printed programmes, materials (leaflets, cups, caps, scarfs, bags) and their average purchasing price.

3. Expenses regarding organization of larger and smaller rallies were estimated in view of the size and duration according to the market price for renting space, equipment and human resources.

4. The expenses estimated for campaigns in printed media are in accordance with the observed size of the used space and respective market price.

5. As regards outdoor advertising referring to billboards and similar, estimation was made based on observed areas throughout the country and the respective market price.

6. On-line campaign is monitored only on Macedonian portals and average number of announcements and their respective market price is taken into consideration.

Such estimates do not take into consideration advertisement on radio stations because they were not measured.

Social media campaign was also considered.

B) At local level, activities of parties and coalitions in 24 towns and areas throughout the country were monitored (surveyed).

Following was surveyed in the selected towns and areas:

1. Number of offices, their size and rent cost.
2. Number of meetings with citizens, counters and public debates, as well as their attendance
3. Television campaigns on local televisions

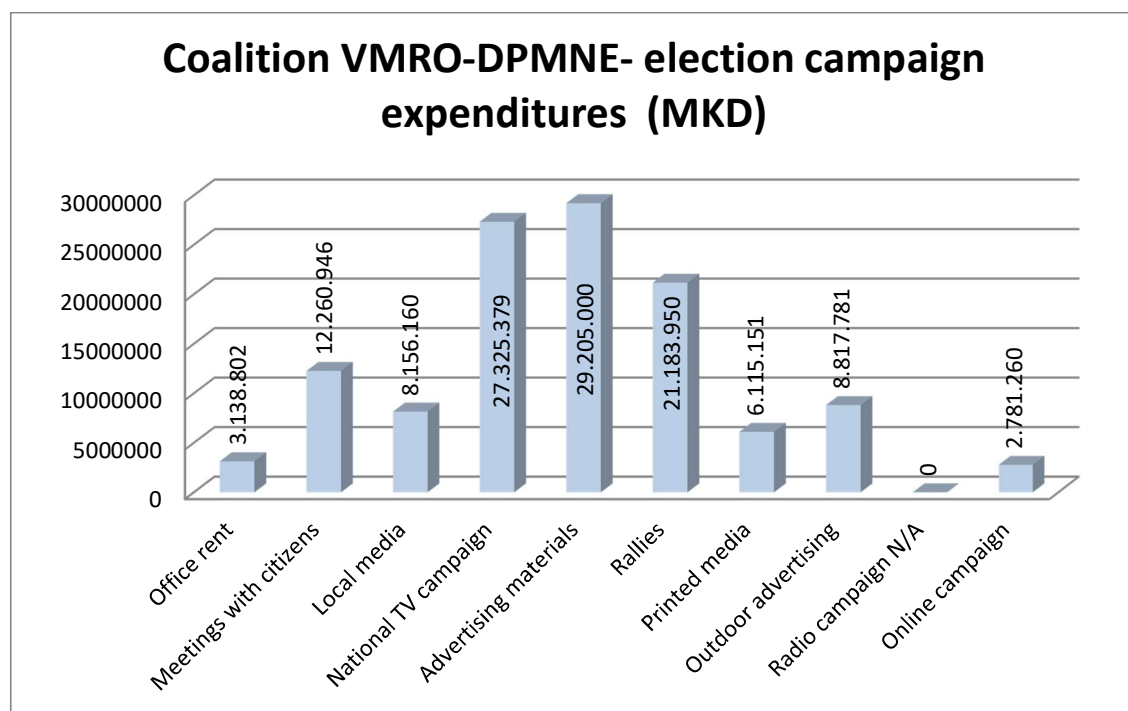
Estimates of expenses at local level were made based on the number of registered voters per municipality, the percentage of voter turn-out on the elections held, as well as the surface area of each municipality.

Additional 7 % for agency charges and 18% for VAT were calculated for all estimated expenses, excluding the office rent and funds for meetings with citizens.

Estimated expenses do not consider intellectual efforts put into campaign design, preparation of clips and advertising billboards.

## Coalition VMRO-DPMNE

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Coalition VMRO-DPMNE allocated MKD 126,235,357, out of which MKD 15,399,748 at local level, and MKD 110,835,609 at national level.

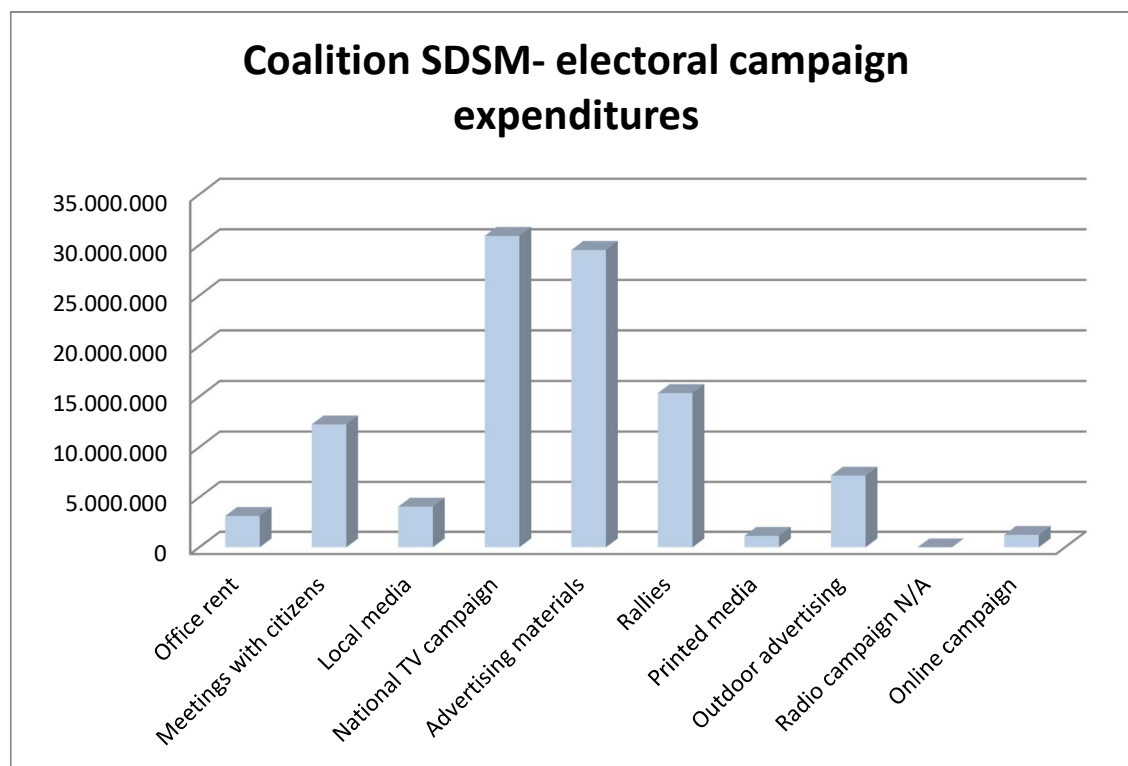
Coalition VMRO-DPMNE reported expenses in the amount of MKD 117,212,742 in their financial reports.

The Coalition won the total of 454,577 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 278 have been spent per vote, while in the published financial report, one vote costed MKD 258.

	Estimated expenses	Published expenses
Total MKD	126,235,357	117,212,742
Votes won	454,577	454,577
Cost per vote	278	258

## Coalition SDSM

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Coalition SDSM allocated MKD 111,102,468, out of which 15,400,748 MKD at local level, and 95,701,720 MKD at national level.

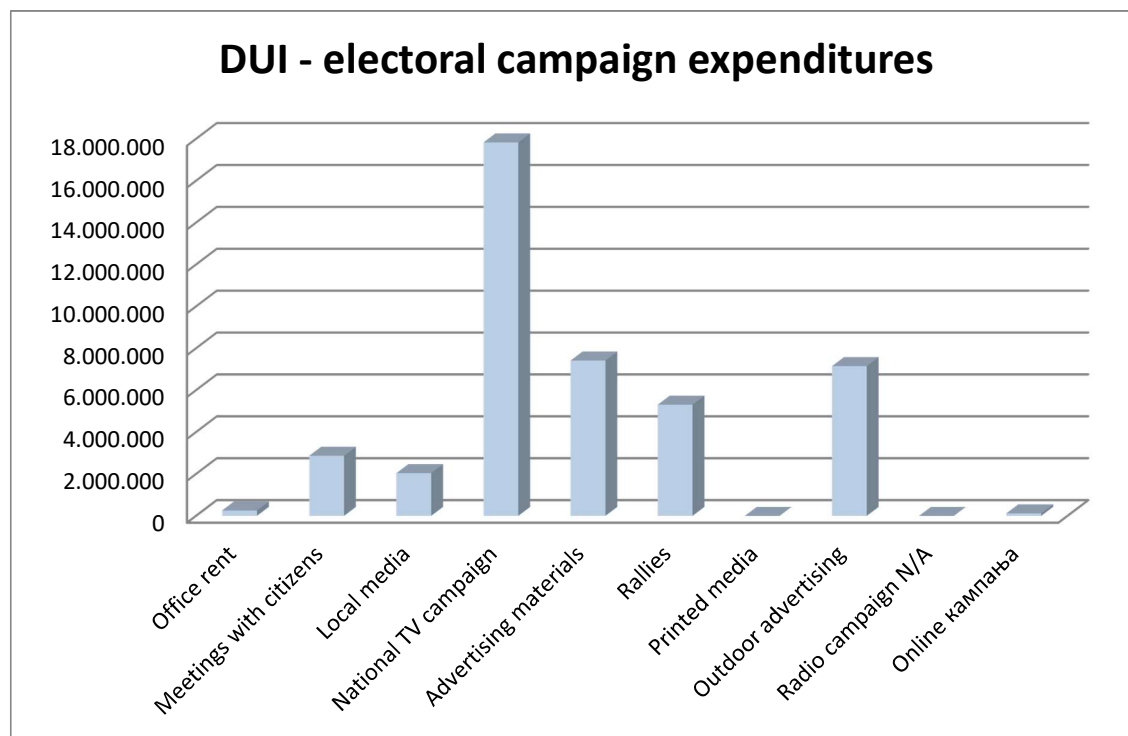
Coalition SDSM reported expenses in the amount of MKD 33,923,911 in their financial reports.

The Coalition won the total of 436,981 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 254 have been spent per vote, while in the published financial report, one vote costed MKD 78.

	Estimated expenses	Published expenses
Total MKD	111,102,468	33,923,911
Votes won	436,981	436,981
Cost per vote	254	78

## Democratic Union for Integration (DUI)

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Democratic Union for Integration allocated MKD 45,777,718, out of which MKD 3,129,685 at local level, and MKD 42,648,033 at national level.

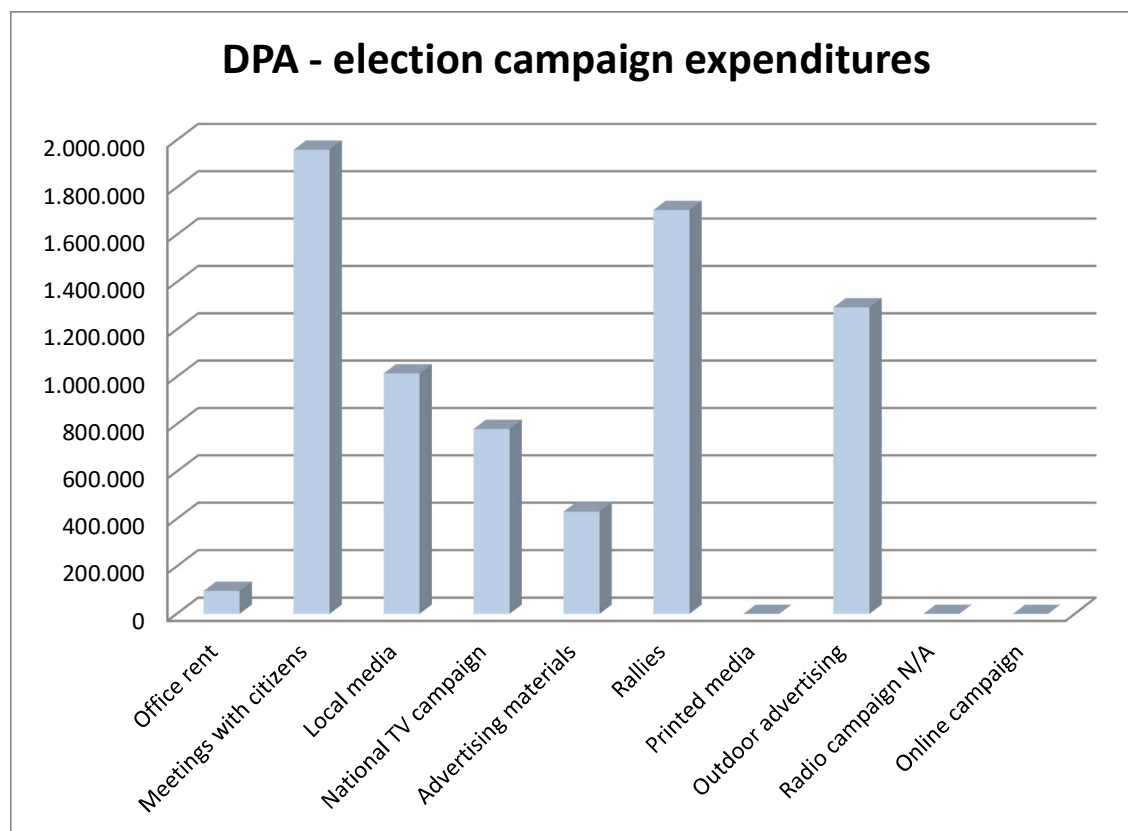
Democratic Union for Integration reported expenses in the amount of MKD 22,684,550 in their financial reports

The Party won the total of 86,796 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 527 have been spent per vote, while in the published financial report, one vote costed MKD 261.

	Estimated expenses	Published expenses
Total MKD	45,777,718	22,684,550
Votes won	86,796	86,796
Cost per vote	527	261

## Democratic Party of Albanians (DPA)

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Democratic Party of Albanians allocated MKD 7,646,395, out of which MKD 2,056,205 at local level, and MKD 5,590,189 at national level.

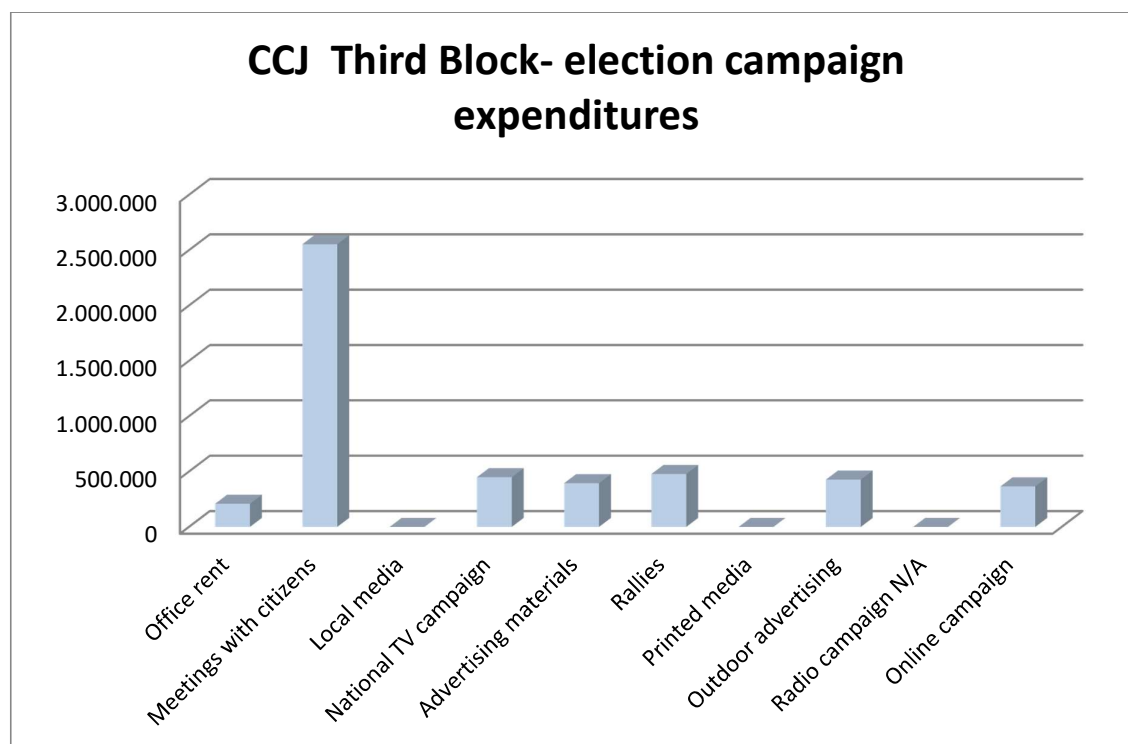
Democratic Party of Albanians reported expenses in the amount of MKD 2,044,210 in their financial reports.

The Party won the total of 30,964 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 247 have been spent per vote, while in the published financial report, one vote costed MKD 66.

	Estimated expenses	Published expenses
Total MKD	7,646,395	2,044,210
Votes won	30,964	30,964
Cost per vote	247	66

## Coalition for Changes and Justice – Third Block

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Coalition for Changes and Justice allocated MKD 5,026,447, out of which MKD 2,763,119 at local level, and MKD 2,263,328 at national level.

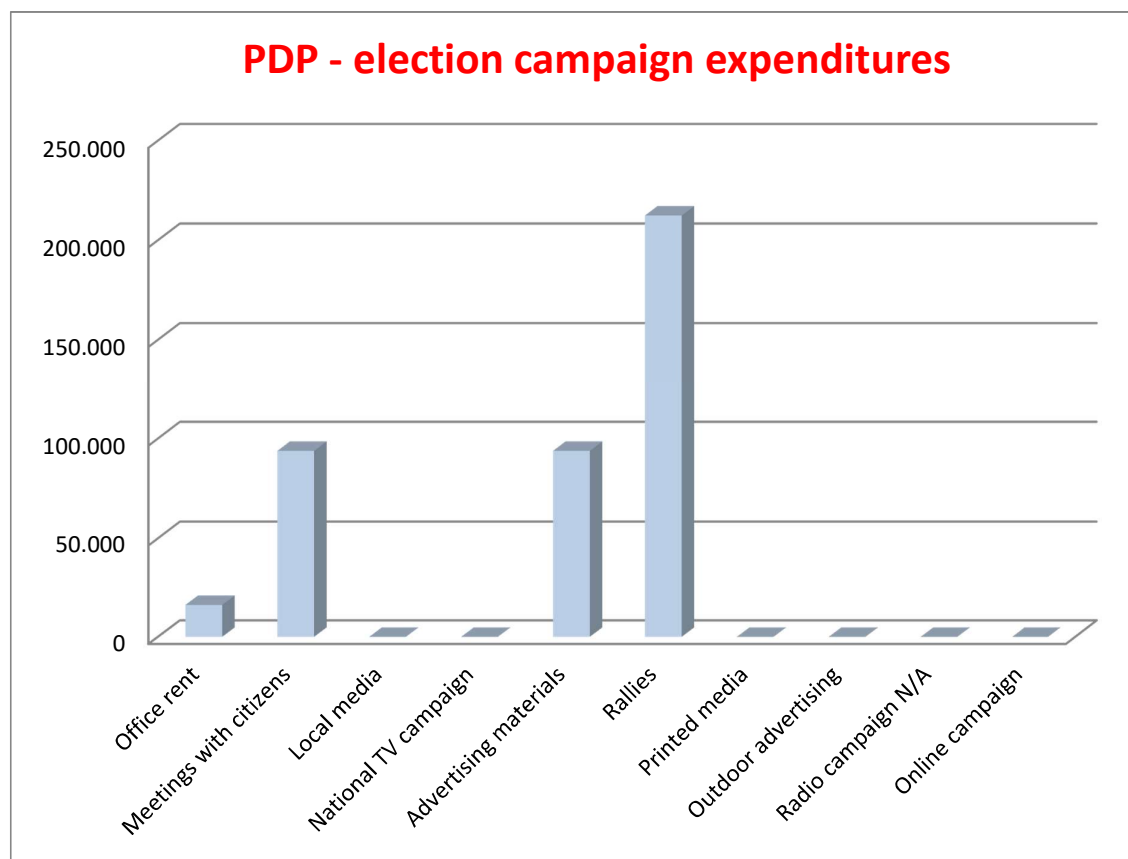
The Coalition for Changes and Justice reported expenses in the amount of MKD 2,469,485 in their financial reports.

The Party won the total of 10,028 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 501 have been spent per vote, while in the published financial report, one vote costed MKD 246.

	Estimated expenses	Published expenses
Total MKD	5,026,447	2,469,485
Votes won	10,028	10,028
Cost per vote	501	246

## Party for Democratic Prosperity (PDP)

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Party for Democratic Prosperity allocated MKD 437,685, out of which MKD 110,040 at local level, and MKD 327,645 at national level.

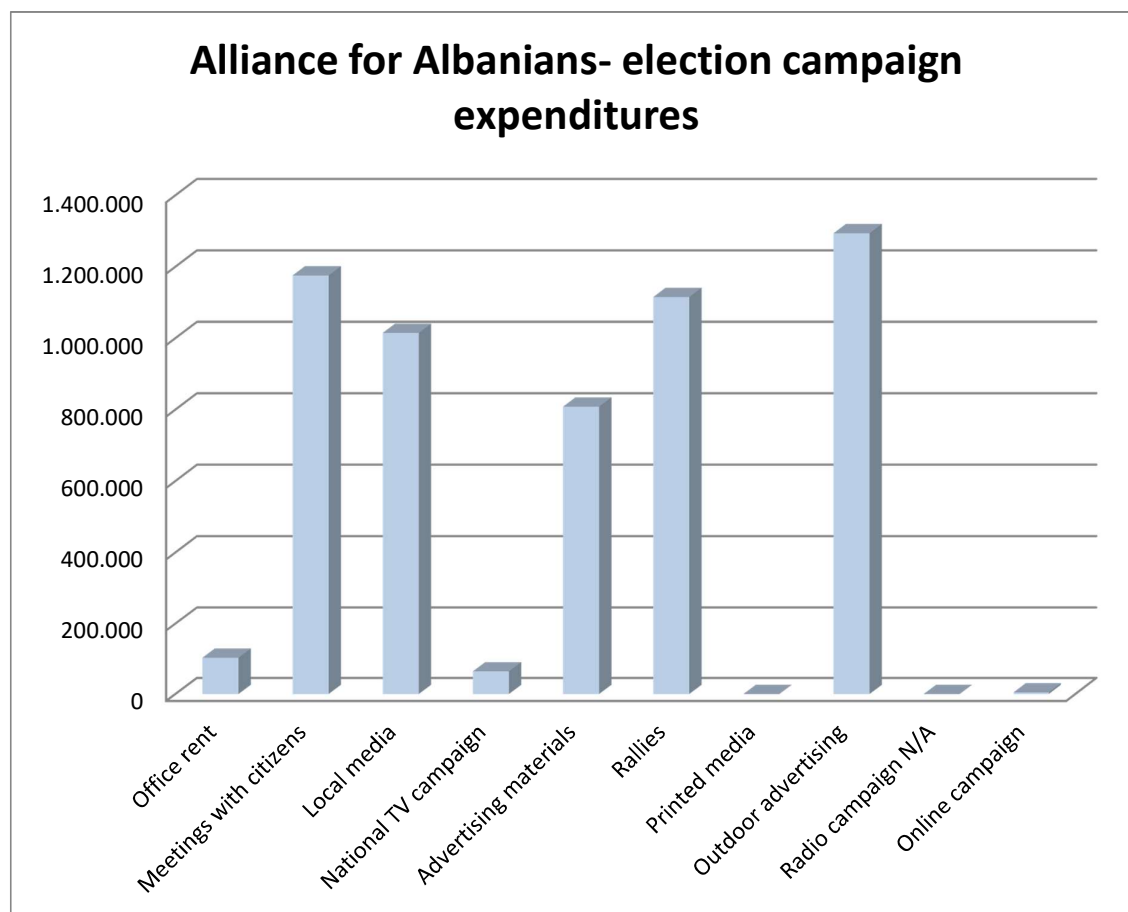
The Party for Democratic Prosperity reported expenses in the amount of MKD 262,761 in their financial reports.

The Party won the total of 1,143 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 383 have been spent per vote, while in the published financial report, one vote costed MKD 230.

	Estimated expenses	Published expenses
Total MKD	437,685	262,761
Votes won	1,143	1,143
Cost per vote	383	230

## Coalition – Alliance of Albanians

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Coalition – Alliance of Albanians allocated MKD 5,579,982, out of which 1,278,763 MKD at local level, and 4,301,219 MKD at national level.

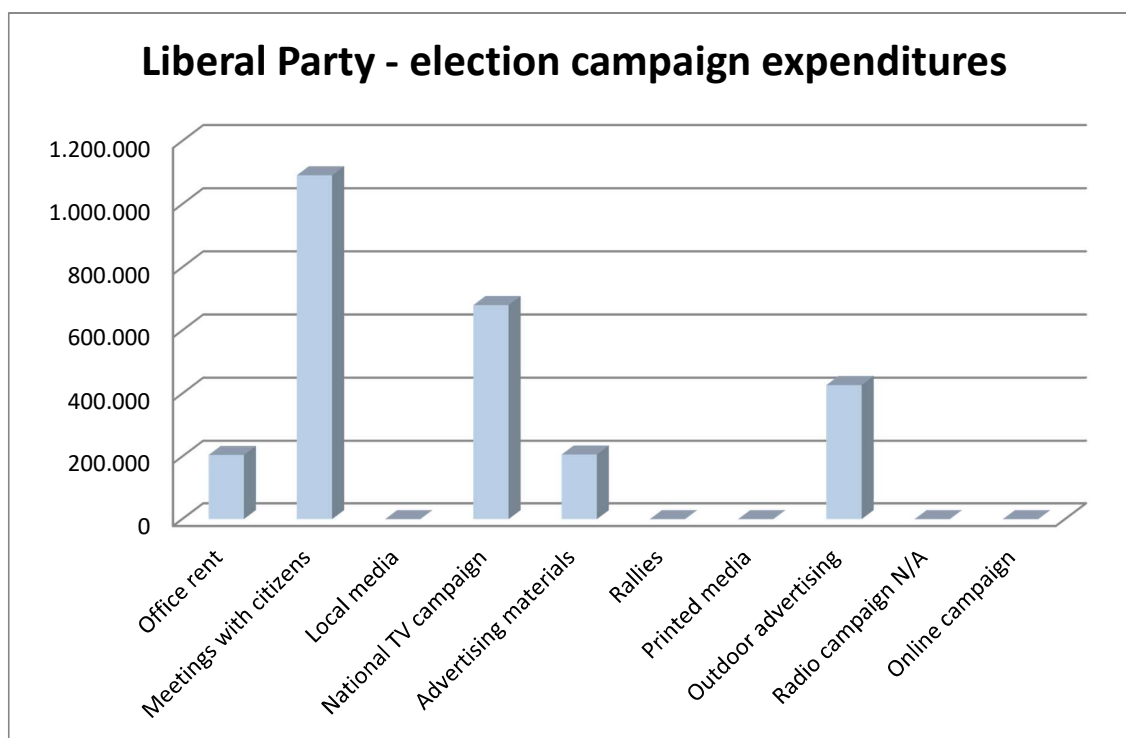
Coalition Alliance of Albanians reported expenses in the amount of MKD 1,052,030 in their financial reports.

The Coalition won the total of 35,121 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 159 have been spent per vote, while in the published financial report, one vote costed MKD 30.

	Estimated expenses	Published expenses
Total MKD	5,579,982	1,052,030
Votes won	35,121	35,121
Cost per vote	159	30

## Liberal Party of Macedonia (LP)

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Liberal Party of Macedonia allocated MKD 2,702,664, out of which 1,296,613 MKD at local level, and 1,406,050 MKD at national level.

The Liberal Party of Macedonia reported expenses in the amount of MKD 478,456 in their financial reports.

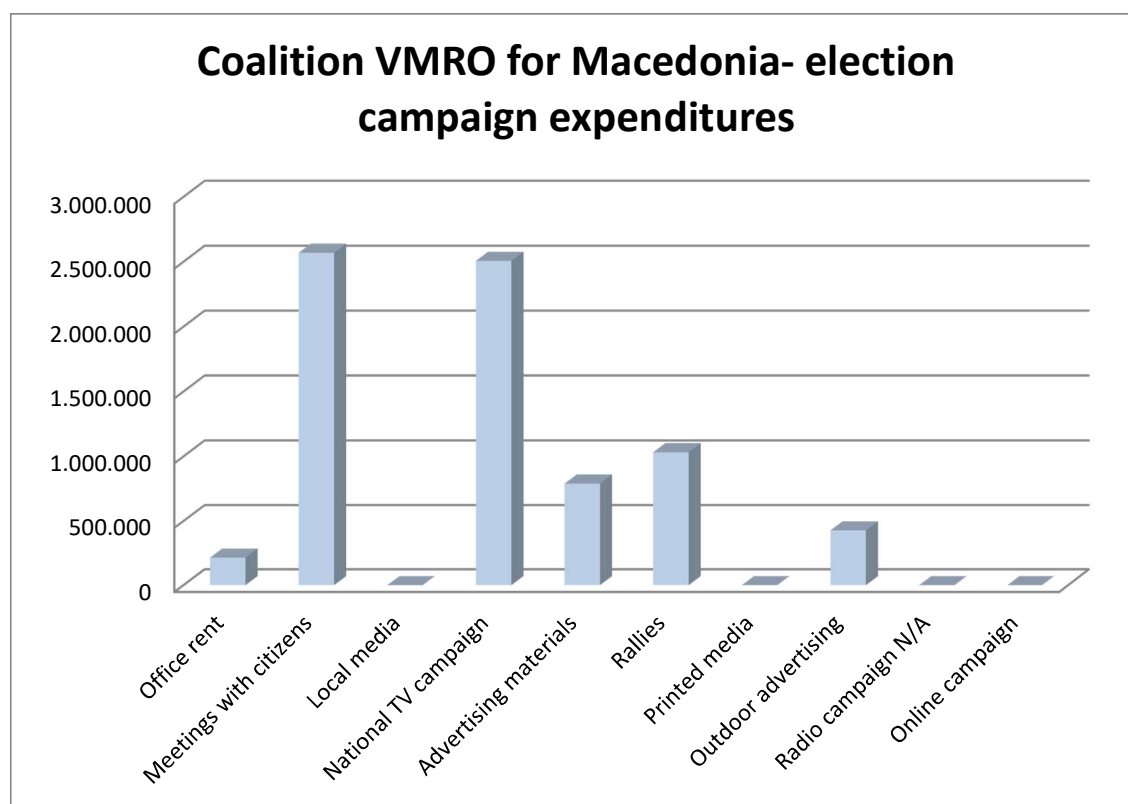
The Party won the total of 3,840 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 704 have been spent per vote, while in the published financial report, one vote costed MKD 125.

Estimated expenses	Published expenses
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Total MKD	2,702,664	478,456
Votes won	3,840	3,840
Cost per vote	704	125

## Coalition VMRO for Macedonia

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Coalition VMRO for Macedonia allocated 7,874,169 MKD, out of which 2,783,754 MKD at local level, and 5,090,416 MKD at national level.

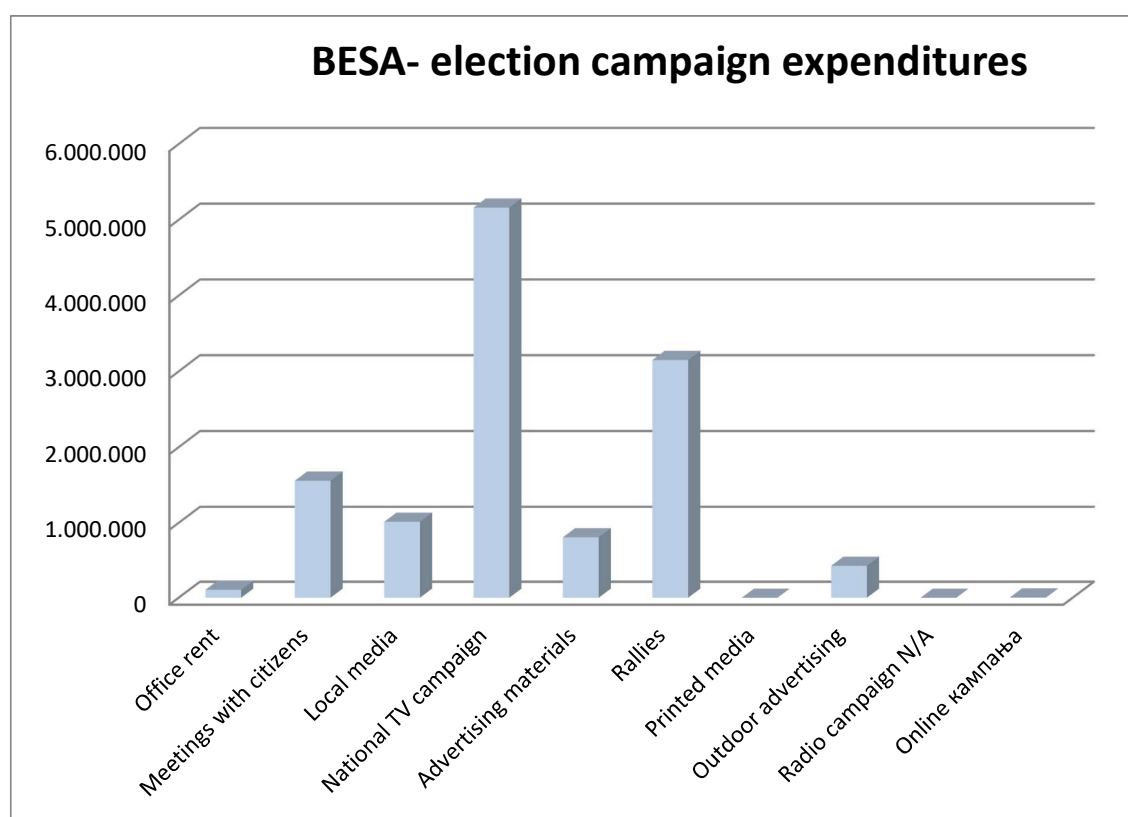
The Coalition VMRO for Macedonia reported expenses in the amount of 8,364,675 MKD in their financial reports.

The Coalition won the total of 24,524 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 321 have been spent per vote, while in the published financial report, one vote costed MKD 341.

	Estimated expenses	Published expenses
Total MKD	7,874,169	8,364,675
Votes won	24,524	24,524
Cost per vote	321	341

## Movement BESA

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Movement BESA allocated MKD 12,971,206, out of which MKD 1,663,820 at local level, and MKD 11,307,386 at national level.

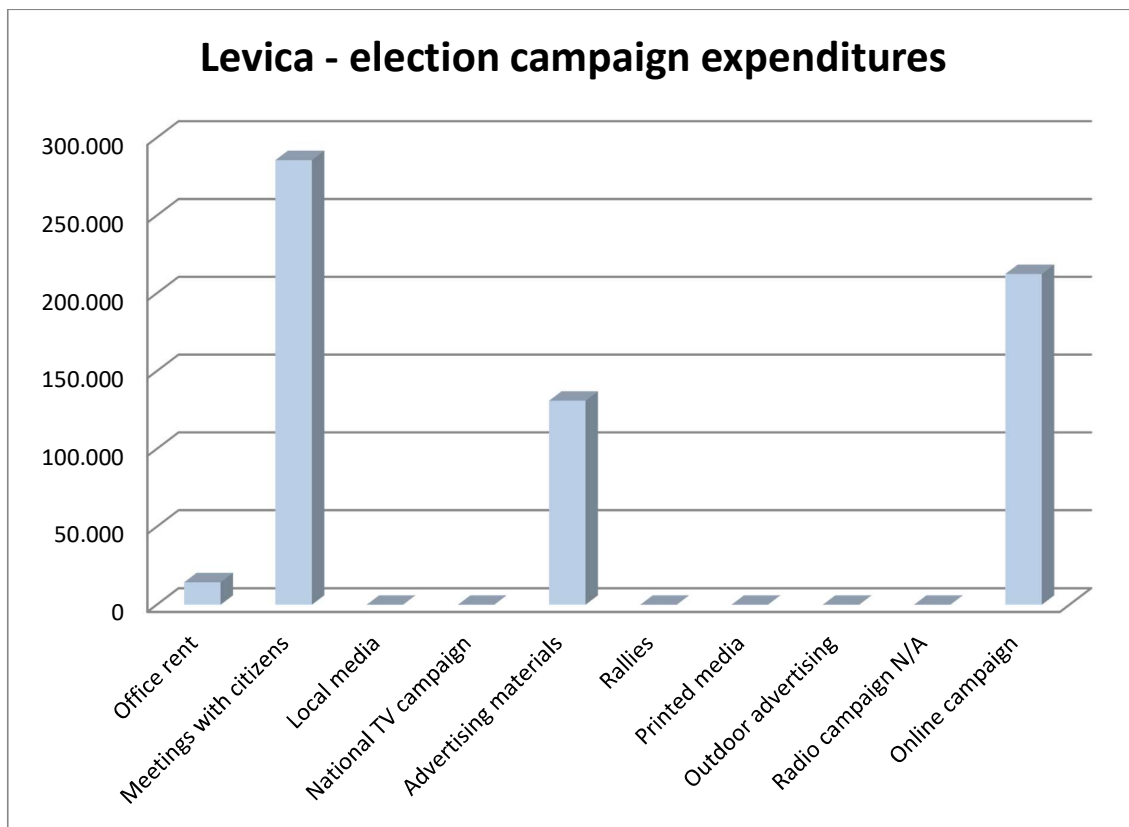
The Movement BESA reported expenses in the amount of MKD 8,725,348 in their financial reports.

The Movement Besa won the total of 57,868 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 224 have been spent per vote, while in the published financial report, one vote costed MKD 151.

	Estimated expenses	Published expenses
Total MKD	12,971,206	8,725,348
Votes won	57,868	57,868
Cost per vote	224	151

## Levica

Graphic representation of estimated expenses (MKD)



According to estimated expenses for promotional activities in the election campaign, the Levica allocated MKD 667,403, out of which 299,986 MKD at local level, and 367,417 MKD at national level.

Levica reported expenses in the amount of MKD 122,570 in their financial reports.

The Party won the total of 12,120 votes on the parliamentary elections 2016. According to the estimated expenses, MKD 55 have been spent per vote, while in the published financial report, one vote costed MKD 10.

	Estimated expenses	Published expenses
Total MKD	667,403	122,570
Votes won	12,120	12,120
Cost per vote	55	10

#### 4. Recommendations

- Competent state authorities (SAO, PRO) should review thoroughly the accounting and other financial operations of political entities participating in the election process;
- Reports from such reviews should be public;
- Establishment of a system to determine competent institution to monitor electronic media. (Agency for Audio and Audio-Visual Media Services will monitor electronic media (internet portals) during the election campaign in accordance with the provisions of the Electoral Code);
- To impose obligation to report expenditures on internet-portals. Election media presentation of political parties in the electronic media - internet portals (Facebook, Google adverts, YouTube) is a grey area; therefore, it is necessary to develop a normative solution to monitor advertising announcements on internet portals;
- Amend the rules for awarding the lease of advertising panels and billboards. To establish a transparent manner of awarding the lease for advertising panels and billboards if any political party or coalition do not use the total percentage for lease of advertising panels and billboards or set locations, since other political parties are entitled to lease them, as stipulated in the Electoral Code (Article 78-a, paragraph 7);
- Strengthening the mechanisms for sanctioning the political entities where irregularities will be found in the submitted financial reports during the election campaign, in terms of prohibition to participate in the next elections. Such sanctions may be imposed by the SEC or SAO, in accordance with their competences.

## II. MONITORING OF BUDGET EXPENDITURES IN PRE-ELECTORAL AND ELECTORATE PERIOD

Monitoring of the budget expenditures at central and local level is a complex process which firstly requires definition of a methodology and further design of a scheme for its implementation that will produce concrete information and data in a timely and accurate manner.

In order to implement this operation, the CEA started realization of several activities to be further used as a basis for generated reports. In November and December 2015, the expert team of the Centre for Economic Analysis (CEA) developed a methodology for monitoring of budget expenditure at central and local level in the Republic of Macedonia (RM) in the pre-election and election period targeting the early elections (at that time announced for June 2016, although at the moment there was no concrete data when the election might be held). Development of such methodology is in the interest of the RM, considering that such activity has not been implemented in the country and it will provide information whether and how much the political cycle interferes with the economic cycle (fiscal flows) in the country.

The methodology consists of two parts:

1. Monitoring of budget expenditures at central level (budget execution and monitoring announcements by budget beneficiaries).
2. Monitoring of budget expenditures at local level (monitoring of quarterly execution of municipal budgets and monitoring of capital/operating expenses).
  - The monitoring at local level contains a component of monitoring the expenditure at local level by the local self-government units, budget units and utility entities by trained local observers.

The methodology will monitor the expenditures and announcements by the Government, budget beneficiaries, their representatives, local self-governance (selected sample), public utility entities (selected sample) and their representatives, and it will be implemented by the Transparency International - Macedonia, CEA and partner organizations-local observers.

Several tools (Google forms, excel tools, database), questionnaires and templates were created in order to implement the developed methodology that would be applied for

monitoring purposes in view of the present report, and they would enable a monitoring platform of public spending to the local observers, CEA and TI-M in the forthcoming period.

Furthermore, in order to implement this methodology together with the partner organization TI-M, a call for local observers for budget spending was announced, and short-listed candidates were interviewed, and a selection of local observers was made (total of 8 local observers were selected, see Annex).

A guidebook was developed to facilitate the coordination and application of the monitoring methodology aimed at assisting the local observers when they use the tools created for the needs of the project. Before starting the monitoring activities regarding the budget spending at local level, a one-day training was delivered (22.12.2015) by the CEA and a one-day training by the TI-M (23.12.2015) where the tools were presented and observers were informed how to use them in the process of collecting on-the-spot information, as well as reporting manners.

## 1. Monitoring of budget expenditures at central level

*Monitoring of budget expenditures at central level; monitoring and analysis of monthly reports on execution of budget published by the Ministry of Finance of the Republic of Macedonia.*

Monitoring is performed based on a created database (from monthly/quarterly reports on the Budget Execution 2008-2016) and it resulted in identification of main tendencies and seasonal effects of political and economic cycles and differences in budget expenditures in the current period and their comparison with previous periods. The goal of the fluctuation of special items of budgetary revenues/expenditures in the previous period (previous election cycles) is a starting point to see the pattern by which certain budget items increase/decrease before and during elections. This will further enable comparison with the current fluctuations in the budget revenues and expenditures and, by paying close attention, a forecast of fluctuations in the election process.

### *Monitoring indicators of central budget level expenditures*

Analysis at national level is based on officially available data on budget items from monthly reports on budget execution. Our goal during the monitoring period has been to monitor the fluctuations of selected items usually related to political and economic cycle.

Database has been created for each monitored budget item from the budget revenues/expenditures, encompassing:

- Budget execution, in percent at monthly and quarterly bases;
- Cumulative budget execution, in percent at monthly and quarterly bases;
- Absolute budget execution at monthly and quarterly bases;
- Equivalence in budget execution at monthly and quarterly level in order to identify deviances from monthly/quarterly average;
- Removal of seasonal effect of fluctuation of budget items (revenues and expenditures) and its presentation as a separate line in diagrams ('seasonal factor' of quarterly presentation and 'monthly factors' of monthly presentation of data) in order to better display the fluctuation of particular revenues and expenditures that may be a result of discretionary decisions, and not of seasonal effects. The tendency each particular budget item follows is calculated and monitored.

Budget items which are part of the monitoring in this section of the report cover:

- Public revenues: overall tax revenues, VAT, profit tax, administrative charges and fines, personal income tax.
- Public expenditures: capital expenditures, salaries and contributions, goods and services, pension expenditure, financial allowance for unemployed, and other transfers which include transfers to LSE, agriculture subsidies.
- Financing the deficit: movements of deficit/surplus, treasury bills and foreign loans.

In the follow-up analysis, general conclusions and only selected diagrams confirming our conclusions will be presented, considering the volume of database and information, it is impossible to fully present them within the limitations of the present report.

## Key findings

### *Monitoring indicators of the central budget level expenditures*

- ✓ Larger amounts of funds are raised through the issuance of Treasury bills prior each election cycle (especially in 2009, 2013 and in 2014) compared with the expected level of balanced execution. A substantial increase in the issuance of Treasury bills over the usual seasonal/expected trend in 2015 compared with previous years, is noted in the first three quarters of the year, followed by a decrease in the fourth quarter. The cumulative execution rate of the budget line treasury bills by the month of November 2016 is 112% of the total planned annual budget (almost 20 pp above the expected cumulative balanced monthly execution rate of 92%). The trend of increase of the budget line, is especially notable in the last two months prior the elections (October and November 2016).
- ✓ Compared with the expected balanced execution, there is an increase in Foreign loans/borrowing in the period/years when there are elections in each of the election years: 2009, 2011, 2013, 2014 and 2016 while in the non-election years, the amounts are significantly lower. Expecting the 2016 elections, the treasury data shows increased dynamics of foreign borrowing in the third and fourth quarter of 2015, as well as July 2016 (when the last Euro bond of 450 million Euro was issued, with interest rate of 5.6% and maturity period of 7 years). By the month of November 2016, the cumulative execution rate of the budget line foreign borrowing is 96% of the total planned annual budget, which is almost 4 pp above the balanced execution of 92%.
- ✓ The Budget Deficit trend in the preceding election cycles confirmed the theory of political, business cycles for increasing deficit and debt prior elections, followed by a mild consolidation after the elections. The data show that the budget expenditures and

consequently the budget deficits increase considerably prior elections compared with the expected balanced execution and with the usual seasonal trend. A significant portion of the budget deficit in 2015 is executed/incurred in the first and the second quarter of the year. The dynamics of the cumulative execution of the budget deficit for 2016 does not follow the same trend, and by the month of November 2016 the cumulative execution rate is 59%, which is 33 pp lower than the expected balanced execution rate for the concerning period (92%).

- ✓ The Capital expenditures are significantly intensifying prior and during each election cycle compared with the usual seasonal trend, followed by stabilization and a slight decrease. Monitoring the balanced execution of the capital expenditures, the monthly and quarterly trends indicate a significant increase compared with the usual seasonal trends, starting from the third quarter in 2015. However, in 2016 (until the month of November) the situation is contrasting, when the cumulative execution rate of the capital expenditure is modest 62%, which is almost 30 pp below the expected balanced monthly execution of 92%.
- ✓ The Social aid expenditures increased significantly prior and during the elections in 2014, 2013 and 2011, however, this is not the case in 2016 compared with their usual/seasonal trend. The data for 2015 indicate an increase in social aid budget expenditures during the months of May and September. Whereas in 2016 there is a cyclical movement if the social aid expenditures, i.e. the cumulative execution rate by the end of November, amounted to 89% and it is almost 3 pp below the expected balanced monthly (cumulative) execution rate of 92%.
- ✓ There is a substantial increase of the expenditure budget item Other transfers (which includes earmarked grants to the municipalities and agriculture subsidies among others) prior each election process starting from 2008 to 2014 compared with the expected balanced execution and the usual seasonal trend. During 2015 the budget line other transfers, indicates a significant increase over the usual seasonal pattern in the first half of the year. During 2016 the cumulative monthly rate of execution until the end of November is 90%, which is 1 pp lower than the expected balances monthly cumulative execution rate. The monthly execution rate peaks in the month of February 2016 with 13%.
- ✓ The budget line Salaries and allowances expenditures, has increased compared with the usual/seasonal trend prior the 2009 and 2014 elections. The increase of the Salaries and allowances expenditures is especially noticeable in the 3rd quarter of 2015 when there is a largest increase throughout the overall period starting from 2008, while the increasing trend starts in the middle of 2013. By the end of November 2016 the

cumulative rate of execution of the budget line salaries and allowances is almost 90%, i.e. 2 pp below the cumulative expected balanced execution for the period.

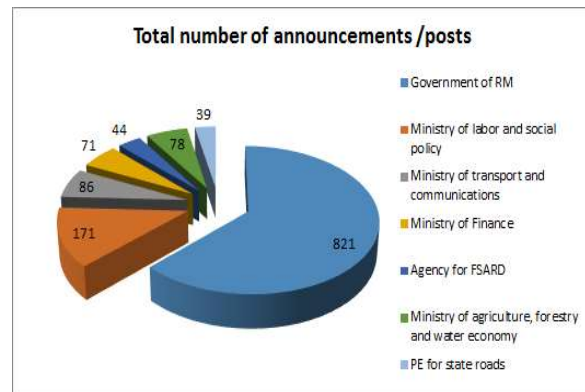
- ✓ The expenditures for Goods and services increased significantly prior each election cycle compared with the usual/seasonal trend. The quarterly trend of the expenditures for Goods and services in 2015 indicates that starting from the third quarter of the year, these expenses increase significantly over their seasonal trend. This is not the case in 2016 when the cumulative monthly execution rate of the budget line Goods and services up until the end of November is 67% and is 25 pp below the expected balanced monthly cumulative execution of 92%.
- ✓ Transfers to the Employment Agency, used for implementation of numerous programs and policies related to employment (a portion of the unemployment cash benefits and expenditures for active employment measures), are increasing starting from the second quarter of 2015. In 2016 the cumulative monthly execution rate of this budget line until the end of November, amounts to only 77% and is almost 15 pp below the expected balanced monthly cumulative execution rate. When considered throughout the prior election cycles (in the past years) a significant increase of the budget line Transfers to the Agency for employment is noted prior and during the elections in 2014, 2011 and 2009.
- ✓ The execution of the Administrative taxes and charges revenue budget line in 2015, starting from the quarter 2 and 3 is reduced, or have considerable decline in the execution compared to the expected balanced execution. The cumulative execution rate of the budget line Administrative taxes and charges revenues by the end of November 2016 amounted to 70%, which represents 22 pp below the expected monthly balanced rate. Similar trends were observed both in 2014 and 2013 when there is a trend in reduction of the administrative taxes and charges and a downward deviation from the normal seasonal trend.
- ✓ The value of the Overall tax revenues is lower prior each election cycle, as is the lower execution rate prior the elections (while the execution rates is higher in the period after the elections) compared with the usual seasonal trend. There is an increase of the budget line Overall tax revenues from August to October in 2015, and in accordance with the seasonally adjusted data, while the execution rate of the budget line in the fourth quarter, is relatively higher. The Overall tax revenue by the end of November 2016 mainly follows the expected monthly dynamics and the cumulative execution rate is almost equal to the balanced 92%

- ✓ The amount of the Value Added Tax (VAT) Revenue (in the election cycles in 2014, 2013, 2011, 2009 and 2008) indicates that the execution rate is significantly higher immediately after to the elections and the effect lasts for two quarters (varies from election to election). The positive economic/political cycle in 2015 started slightly earlier, and the VAT revenues start increasing in the second quarter as a result of the accelerated economic activity (the trend of the VAT revenue budget line is affected by the share of VAT reimbursed, however there is no specific information regarding the reimbursement amounts and the specific time). The cumulative execution rate of VAT revenues, in 2016, after the slight decrease in February, returns to the normally expected seasonal pattern and by the end of November is 91% almost as the cumulative expected balanced execution for the period, of 92%.

#### Public announcements on the websites of the Government and the selected budget users

- ✓ The frequency of announcements in the monitoring period June-December 2016 is significantly increased, especially for the period prior to the planned election.
- ✓ Despite the low number of web announcements on the budget users' web sites, the announcements content is with modest qualitative and quantitative information – i.e. the percentage of announced information among all monitored institutions (when there are web announcements/posts) is low.

- ✓ 21% of the overall Government website's announcements/posts and the other monitored budget users (total of 262 posts) contain financial information concerning the executed/planned investments within the web posts regarding new investments. (The largest number of announcements is of the Government of Macedonia).



- ✓ 10% of the total number of announcements/posts of the monitored budget users' websites, contain analytical elaboration of the planned/implemented activities.
- ✓ A modest portion of the announcements (approximately 12%) of all monitored budget users, contain information regarding the financial sources and the programs/strategies/plans containing the announced or implemented project/activity.
- ✓ The budget users publish limited activities information on the official web sites.

- ✓ A total of 51 announcements/posts on the Government's website, out of the total 821 announcements/posts, contain essential data on the announced subject, while the other budget users do not have any substantial data in regards to the topics of the announcements.
- ✓ Most of the announcements/posts on all monitored websites are focused on the: visits, meetings and conferences of the government officials during the monitoring period.
- ✓ The announcements/posts of the monitored official websites are predominantly focused on the topics of: youth unemployment, retirees (the remainder, which is the largest portion of announcements, is focused on the general notes on visits, meetings, conferences attended by government representatives).

## 2. Local government expenditure monitoring

Local observers (see Annex) have a distinctive role in monitoring and gathering data on local government expenditures, and they monitor the activities of selected municipalities and then forward information and data according to the defined methodology, at a daily basis. Local observers started their monitoring activities on 01.01.2016.

In the overall monitoring period, from the beginning to 15.12.2016, a total of 473 capital and operating budget expenditures have been noted in the 24 municipalities monitored<sup>2</sup> (55.2% of the total number of population of the Republic of Macedonia), and for each there has been an additional information/data requested.

### Key findings

The current monitoring report records the cumulative expenditures from the beginning of the monitoring process starting from 1.1.2016 until 15.12.2016.

- ✓ In the overall monitoring period, starting from 01.01.2016 up to 15.12.2016, a total of 473 both capital and operating budget expenditures have been noted/recorded,

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<sup>2</sup> According to SSO estimates, the number of population on 30.06.2014 ([www.stat.gov.mk](http://www.stat.gov.mk)) in 22 of 24 municipalities subject to monitoring is 997,903 inhabitants, while municipalities Centar and Aerodrom are registered under Skopje, remaining part and Sopishte, and the number of population in those municipalities is calculated based on data from municipal websites, that is, 45,362 inhabitants in Centar and 98,382 inhabitants in Aerodrom. In total, the said 24 municipalities subject to monitoring count 1,141,647 inhabitants, which is 55.2% of the total population (2,067,471 inhabitants according to estimates of the SSO as of 30.06.2014).

in the 24 municipalities monitored, and for each there has been an additional information requested.

- ✓ Out of the total expenditures recorded in the monitoring period (473), for 46% of them or total of 218 expenditures, there are submitted RAPI (Request for access to public information), while for the other expenditures, the information has been obtained with a direct contact with the LSGUs or the information have been publicly available through the municipal web sites.
- ✓ Based on the field data from the local monitoring group, the largest number of expenditures (both operating and capital) on a local level has been recorded in the LSGUs of Ohrid, Veles, Strumica and Shtip while a significantly lower number of expenditures have been identified in the predominantly rural and/or smaller municipalities of Kratovo, Vrapchishte and Karbinci.
- ✓ Based on the nature of the expenditures: operating or capital, almost three quarters of the identified expenditures are capital expenditures.
- ✓ The major areas of municipal investments, generating capital expenditures, are concerning renovation/reconstruction of kindergartens and schools, followed by road reconstruction and renovation expenditures and reconstruction of water and sewage network systems
- ✓ Out of the 473 expenditures in the overall monitoring period, 63 are concerning construction of water and sewage network systems, 181 are for road reconstruction, 49 for renovation/reconstruction of kindergartens, schools and 180 in other various categories.
- ✓ Out of the total number of 473 recorded expenditures, for 339 expenditures, there are overall or partial information/data available.
- ✓ 9% of the recorded expenditures, with at least minimum information, are contained/planned within a certain municipal Strategy, 48% of the expenditures are planned/contained in a Municipal program, 44% of the expenditures are planned in an adequate Budget program, 34% are contained/approved by a Municipal Council Decision, and 28% are planned/contained within an annual plan
- ✓ 1% of the recorded expenditures contained/planned within all five documents i.e. Municipal strategy, municipal program, budget program, Municipal council decision, and plan. 10% are contained/planned in 4 of these documents, 32% are contained/planned in any of the three documents, 14% in any two documents and 19% in one document. For 32% of the expenditures, there is no clear and thorough information.

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- ✓ For 39% of the RAPI there have been replies obtained within the legally set deadline, for 26% of requests there is still a reply awaited (the legal deadline for response has not been breached) while for 34% of the total number of RAPI there has been no reply received within the legally set deadline.