



NATIONAL INTEGRITY SYSTEM (NIS) OF THE REPUBLIC OF NORTH MACEDONIA

A COST-BENEFIT ANALYSIS

November 2023

Abstract

With the latest NIS assessment Transparency International Macedonia extended its work and the existing methodology by introducing a completely new method for a cost benefit analysis of the institutions that hold the integrity pillars

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Acronyms

NIS	National Integrity System
VFM	Value for money
IPA	Instrument for Pre-Accession Assistance
EU	European Union
D&G	Democracy & Governance
RL&FR	Rule of Law & Fundamental Rights
USAID	US Agency for International Development
SDC	Swiss Agency for Development and Cooperation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit

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Foreword

The National Integrity System assessment clearly broadens the Transparency International advocacy and puts the TI national chapters in the center of the country's integrity and institutional debate. Transparency International Macedonia (TI M) has conducted two NIS assessments, one in 2002 and the one in 2016. This year 2023 we are finalizing the new, third assessment, together with our colleagues from the Western Balkans Region + Turkey. The NIS methodology provides possibility for a holistic assessment of the national integrity system based on number of pillars. The assessment is used for the national policy documents, creation of new institutions and budgetary support to the anti-corruption institutions and other involved stakeholders. This also affects decisions for the international technical support needed for supporting of the anti-corruption initiatives.

With the latest NIS assessment Transparency International Macedonia extended its work and the existing methodology by introducing **a completely new method for a cost benefit analysis** of the institutions that hold the integrity pillars.

Both, the NIS assessment itself and the cost benefit analysis results showed the amount of the state budget assigned to the integrity pillars. Also, we have collected available data on the international technical assistance dedicated to anti-corruption pillars. Results are compared to the NIS pillar scores for 2016 and 2023, providing clear visibility of the well know fact that personal and institutional integrity is more important than resources, when it comes to the role in the fight against corruption.

This pioneering analysis can be used for further developing of the Macedonian institutions and will open the possibility for a more realistic, value for money approach in policy making for building institutional integrity, as a prerequisite for the anti-corruption and good governance.

We are happy to share the first piloted cost benefit analysis with the TI movement, with the anti-corruption practitioners and policy makers in North Macedonia, with international donors and in general with all participants to the CoSP10 in Atlanta.

The findings show international funding in monetary terms by pillar, along with NIS progress since 2016. As the findings of the first NIS cost benefit analysis are really eye opening and will require "edge cutting" steps to improve the situation, we are happy to share with the movement and to offer it as a topic for discussion.

The figures in the text speaks for itself.

We offer it as a topic for discussion and further development of the methodology.

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Chair of TI Macedonia

Motivation and Context: National Integrity System (NIS) reports repeatedly mention inadequate budgets, leading to resource gaps

Many institutions in the Republic of North Macedonia have capacity issues – meaning they simply lack the human and technological capital/resources needed to operate effectively. Both the previous (2016)¹ and latest (2023) National Integrity System (NIS) reports repeatedly mention inadequate budgets, leading to resource gaps, as a hindrance to the operation of key institutions to the integrity system.

State Budget funding

From the interviews conducted with the interlocutors in the framework of the latest NIS assessment, inadequate and insufficient resources provided with the state budget is repeatedly mentioned as the main reason for the resource gaps, and furthermore, as the main reason for the lack of capacity for fulfillment of the role of institution in the anti-corruption activities.

Table 1 shows state budget allocation by pillar for the year 2022, along with resources scores in practice.

PILLAR	Budget (Million €)	% of Total Budget	Resources (Practice)
Legislature	9.31	0.14	87.5
Executive	342.07	5.29	75
Judiciary	38.88	0.6	75
Public Prosecutor	1.25	0.16	62.5
Public Sector	2525.38	39.07	75
Law Enforcement Agencies	199.02	3.08	75
Electoral MGMT. Body	1.44	0.02	50
Ombudsman	1.33	0.02	50
Supreme Audit Institution	2.32	0.04	75
Anti-Corruption Agencies	0.76	0.01	50
Civil Society*	0.64	0.01	62.5

Table 1 - *Latest data available 2021

In an attempt to close the resource gap, foreign donors contribute to institutions through the means of financing projects and, in some cases, direct grants. Projects financed by international donors extend from the provision of modern equipment and IT solutions to the reconstruction of prisons and courtroom facilities. This wide range of projects causes variety in project effectiveness, and hence in the efficiency of fund use. Assessing the effectiveness with which projects are implemented is key to improving the overall efficiency of international funds, and enhance the realized benefits for the receiving country.

¹ National Integrity system assessment Macedonia, 2016 [nis_eng.pdf \(transparency.mk\)](#)

Table 1 not only illustrates the relationship between budget allocations and resources, but it also provides necessary context for the amounts of money being spent by international donors in the Republic of North Macedonia.

Internationally Funded Projects

In this section we attempt to assess the effectiveness of internationally funded projects, and the efficiency with which international funds are being used to improve the integrity of institutions in North Macedonia. In other words, we assess the value for money (VFM) of internationally funded projects using NIS score progress since 2016 as a proxy for the overall effectiveness of projects aimed at improving each pillar of integrity.

Methodology and Data

We have taken a sample of completed and ongoing projects, financed by international donors that have been implemented in the Republic of North Macedonia. The sample has been restricted to projects starting in or after 2016, to allow for direct comparison between total funding and NIS Score progress since the previous report in 2016. We have looked at details of the workings, along with the beneficiaries of the projects, and through this have grouped projects by Pillar of the NIS that they aim to improve. It is important to note that some of the larger projects list multiple institutions and organizations as beneficiaries, hence we have allowed for cross-pillar spillovers in the analysis. It was not possible to obtain precise information about the proportions of the total budget directed to each beneficiary, therefore certain projects appear in the budget accumulation of more than one pillar. This approach was considered to be more accurate than spreading budgets across pillars, as we had no information regarding the respective weights of received funds. A sizeable number of implemented projects since 2016 have been financed by the European Commission as part of the Instrument for Pre-Accession Assistance (IPA) fund, aimed at preparing the Western Balkans and Turkey for EU membership. Due to the large amounts of funding through this instrument, we have split the analysis by IPA projects and projects financed by other international donors.

The IPA II (2014-2020) indicative budget allocation for North Macedonia was €608.7 million, of which €132.3 million was to be spent on improving the first two priority sectors: “Democracy & Governance” and “Rule of Law & Fundamental Rights”². We have assessed only projects classed under these two priority sectors as these projects are the most relevant to our pillars of integrity. The third instance of IPA funding, IPA III, commenced in 2021 and will run until 2027, hence we have looked at projects included in both IPA II and IPA III in order to aggregate totals from 2016 to the present day. Since 2016, there has been a total of 259 IPA projects aimed at our two sectors of interest, with a cumulative budget total of €152.7 million.

Data collection on internationally funded projects outside the scope of the IPA fund proved much more difficult, due to the lack of a single, comprehensive database listing implemented projects. We contacted a number of relevant government institutions and independent bodies requesting information on past/ongoing projects that were part or fully financed by international donors. However, the only institutions that were able to provide us with information were the Ombudsman, the Economic Chamber of North Macedonia and the Ministry of Interior, despite contacting many more. This raised immediate concerns over the data collection and usage of institutions, despite the country receiving a maximum of 100 on “Data Use” and an overall score of 72.04/100 on the World Bank’s Statistical Performance Indicators (SPI)³, above the regional average for the Western Balkans. For these reasons, we must acknowledge the fact that the data presented here fails to paint a comprehensive picture of both the number of projects, and the amount spent by international donors in Macedonia. Amidst these data issues, we were able to compile a sample of 75 non-IPA projects relating to one or more pillar of integrity financed by international donors since 2016, with information being published by the donor on the most part. Donors include embassies such as the

Netherlands, Denmark, Sweden and the UK, along with national aid agencies such as USAID, Swiss Agency for Development and Cooperation (SDC) and GIZ (Germany).

Results and Findings

Out of the 259 implemented IPA projects on D&G and RoL&FR since 2016, we found 175 to benefit one or more institution that plays a part in one or more of our 15 pillars of integrity. The funding for these projects amounts to a total of €117.8 million (76.65% of total spend IPA spend on D&G and RoL&FR). Out of the 15 pillars, 10 were affected by IPA projects. The excluded pillars were Executive, Electoral Management Body, Political Parties, Business, and State-Owned Enterprises. It is worth noting that the last two pillars mentioned, Business and State-Owned Enterprises, are likely to have been influenced by IPA projects aimed at other priority sectors that lie outside the scope of this analysis.

The sample of 75 non-IPA projects contained 62 projects for which North Macedonia was the sole beneficiary country, with 13 being cross-border projects aimed at regional development. These 13 cross-border projects have been excluded from financial analysis due to difficulty in determining the proportions of budgets being spent in each recipient country. We were able to find financial information for 53 out of the 62 projects solely benefitting NMK, with a few donors lacking transparency in the finances of certain projects. The 53 projects amounted to a total of €99.5 million being spent by foreign donors in Macedonia (the 13 cross-border budgets amounted to €19.7 million).

Figure 1: Type of donor support and number of projects per pillars

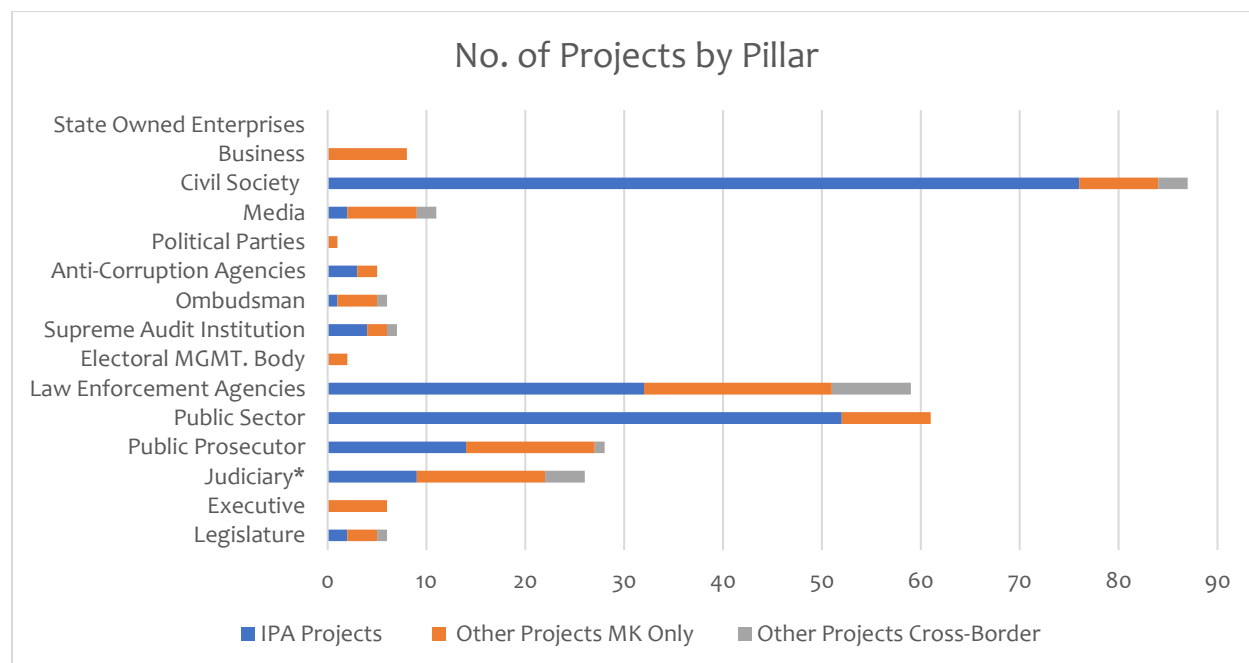


Figure 1

Figure 1 shows the total number of projects aimed at improving each pillar of integrity. The data for the Judiciary* pillar includes a donation from the Dutch embassy in Skopje to the judicial council of a total of

€954,850 over four years, which has recently been postponed due to the illegitimacy of the JC. Using the 2022 budget, this would've represented a 28.9% increase on the state budget allocation per year. The notably high number of internationally funded projects relating to civil society reflects the lack of state funding for CSOs.

Figure 2: Distribution of international funds per NIS pillars

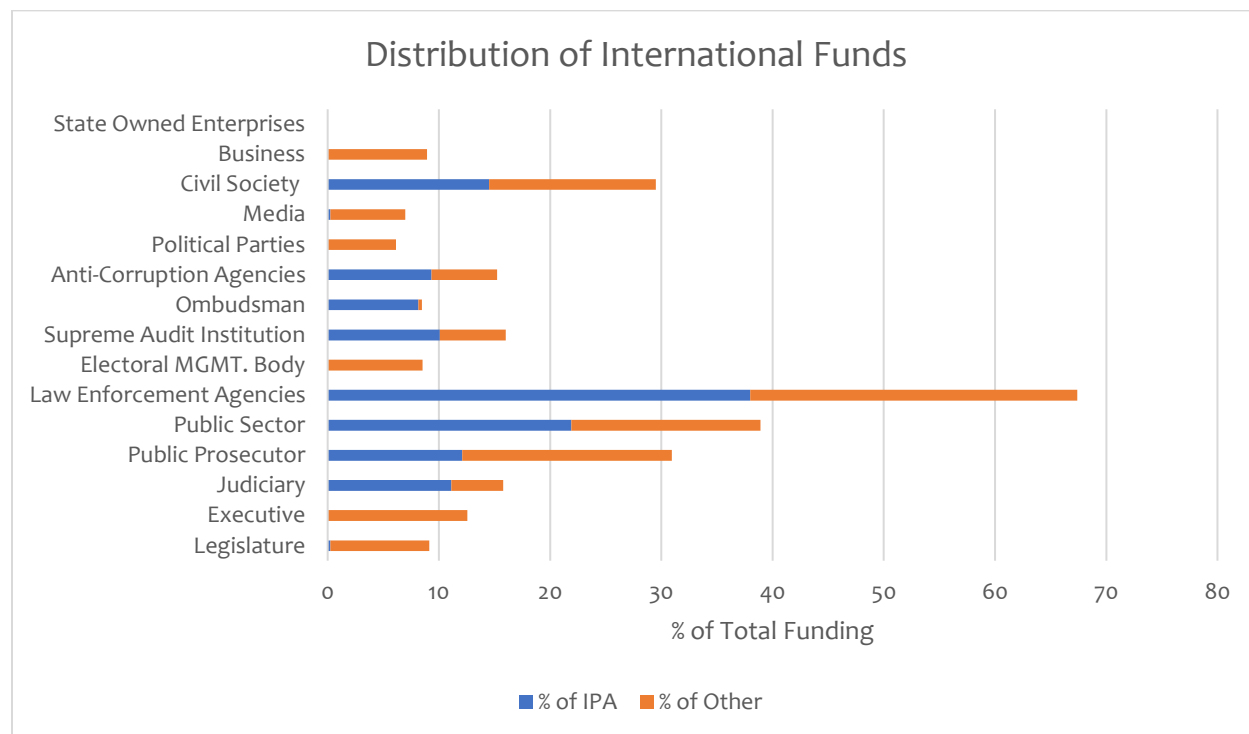


Figure 2

Figure 2 shows the distribution of international funds through illustrating the proportion of the cumulative budget spent on projects relating to each pillar.

In order to compare the costs incurred by donors with the benefits of projects, we look at the NIS scores for each pillar from the previous report (2016), from the new report (2023), and the progress of each pillar over that time frame. Data is presented in Table 2.

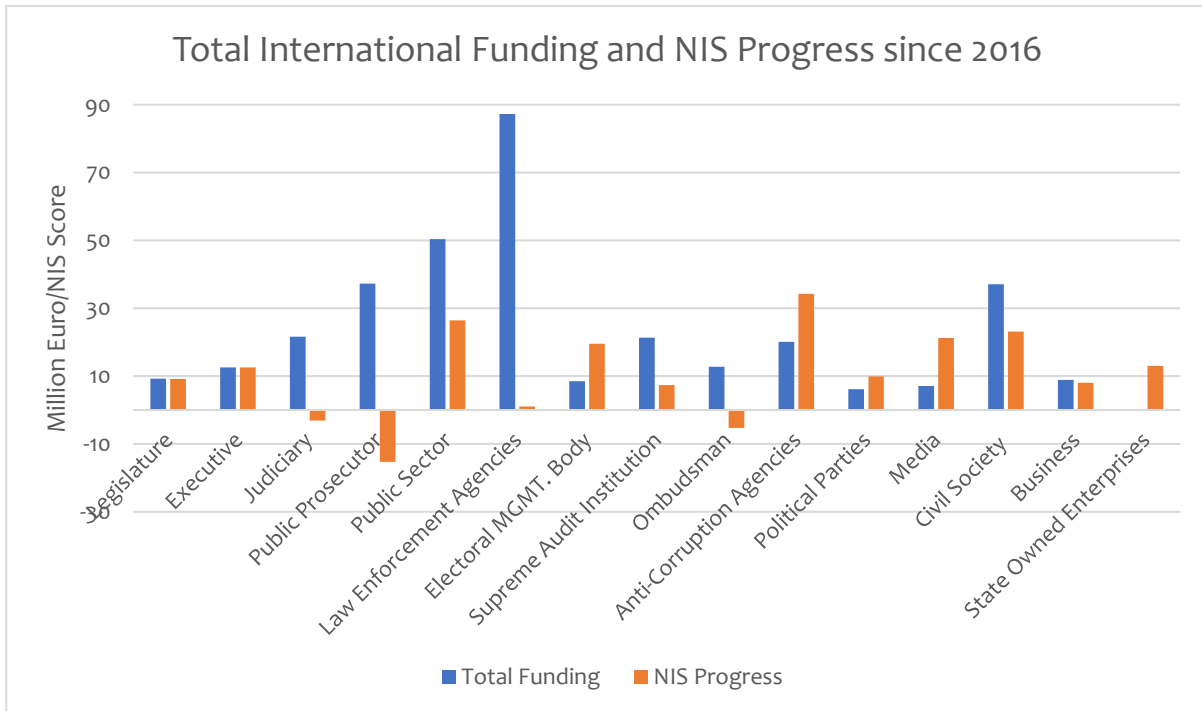
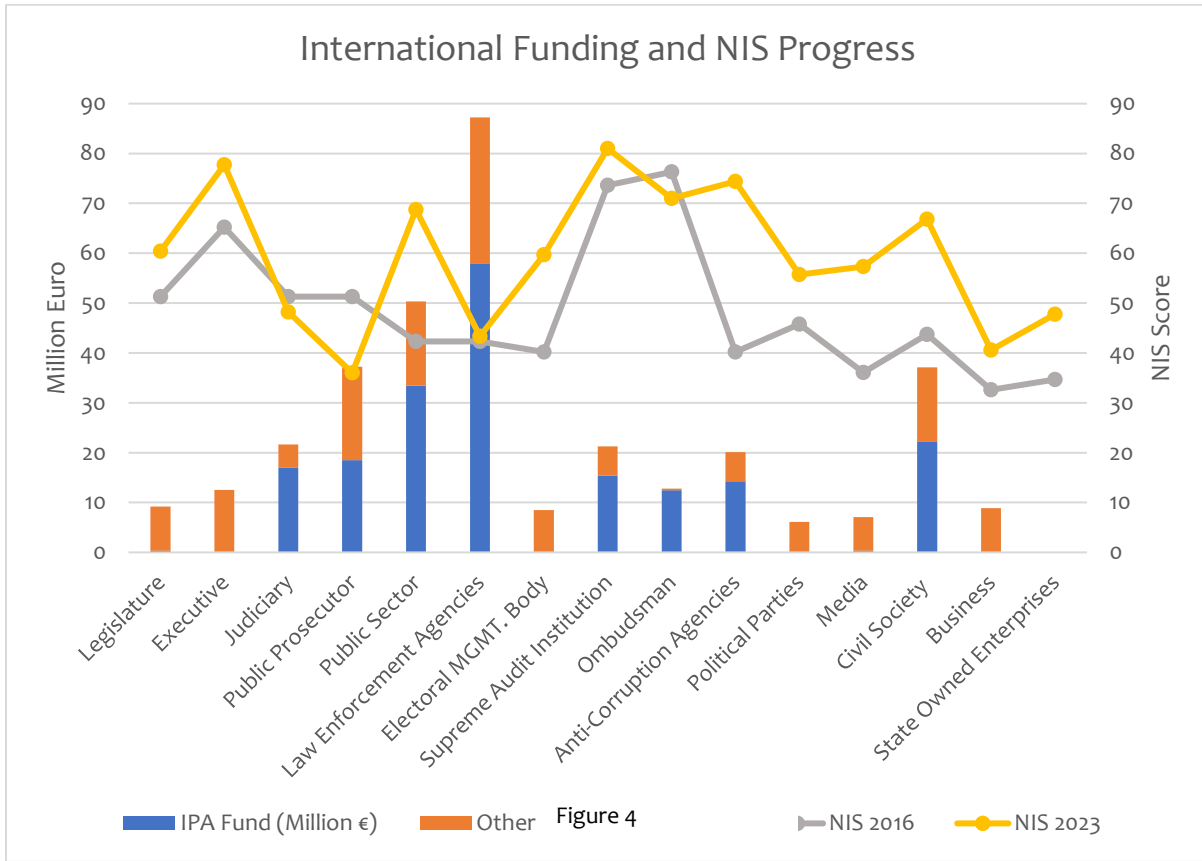
Table 2. Progress of each NIS pillar over that time frame

PILLAR	IPA Fund (Million €)	Other Projects (Million €)	% of IPA	% of Other	NIS 2016	NIS 2023	NIS Progress
Legislature	0.34	8.86	0.23	8.91	51.3	60.42	9.12
Executive	0	12.51	0	12.57	65.2	69.2	4
Judiciary	16.98	4.65	11.12	4.67	51.3	48.2	-3.1
Public Prosecutor	18.48	18.75	12.1	18.84	51.3	38.9	-12.4
Public Sector	33.44	16.92	21.9	17	42.3	70	27.7
Law Enforcement Agencies	57.99	29.27	37.98	29.42	42.3	58.3	16
Electoral MGMT. Body	0	8.48	0	8.52	40.2	59.7	19.5
Supreme Audit Institution	15.4	5.88	10.09	5.91	73.6	86	12.4
Ombudsman	12.45	0.31	8.15	0.31	76.3	71	-5.3
Anti-Corruption Agencies	14.24	5.88	9.33	5.91	40.2	74.4	34.2
Political Parties	0	6.12	0	6.15	45.8	60.42	14.62
Media	0.35	6.7	0.23	6.74	36.1	57.35	21.25
Civil Society	22.15	14.94	14.5	15.02	43.7	66.8	23.1
Business	0	8.89	0	8.94	32.6	43.05	10.45
State Owned Enterprises	0	0	0	0	34.7	47.75	13.05

Table 2 – “% of Other” calculates percentage of total IPA spend on D&G and RoL&FR that has benefitted each pillar.
“% of Other” calculates percentage of funds from our sample of non-IPA projects benefitting each pillar.

Figures 3 and 4 show international funding in monetary terms by pillar, along with NIS progress since 2016. It can be seen that scores have declined for certain pillars, most notably the Public Prosecutor. Regardless of the near €90 million spent on projects, the NIS score of Law Enforcement Agencies has improved by 16 points over the past seven years.

Figure 3 – International Funding since 2016 and NIS Progress



Recommendations:

There is considerable room for improvement in both the collection and usage of data regarding internationally funded projects and donations.

- All institutions keep accessible record of international funding/ projects they have been a beneficiary of. This information should be publicly available (without the need for request) and accessible (digitalised).
- Development of a single, consolidated, digitalised database listing projects, descriptions, direct and indirect beneficiaries, along with financial data at the state-level. This information needs to be publicly available to enhance transparency.
- Such a database would support country-wide analysis on the direction of funds, allowing for donor coordination to target resource-deprived sectors.
- Need for independent review at the sector, beneficiary (or better still, project) level to assess project effectiveness and value for money (VFM).

²https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/overview-instrument-pre-accession-assistance/north-macedonia-financial-assistance-under-ipa_en

³ Statistical Performance Indicators, The World Bank, (<https://datacatalog.worldbank.org/search/dataset/0037996>)