

Author:

**Darko Antik**

Coordinator of the program  
"budget monitoring and analysis",  
Association ESE

Co-author:

**Simona Mitkovska**

Assistant on the program  
"budget monitoring and analysis",  
Association ESE

**HOW MACROECONOMIC  
POLICIES AND PRACTICES  
IN THE REPUBLIC OF MACEDONIA  
LIMIT AND NEGATIVELY  
IMPACT THE ACCESS TO  
HEALTH CARE SERVICES**



Association for Emancipation,  
Solidarity and Equality of Women - ESE  
[www.esem.org.mk](http://www.esem.org.mk)



The analysis is developed with technical support from  
**Rocio Moreno Lopez**

This project is financially supported by



FOUNDATION ФОНДАЦИЈА  
OPEN ОТВОРЕНО  
SOCIETY ОПШТЕСТВО  
MACEDONIA МАКЕДОНИЈА



**OPEN SOCIETY  
FOUNDATIONS**

In a context where economic inequality has deepened, the question of whether and how existing macro-economic policies affect the ability of citizens to enjoy their economic and social rights, with a particular focus on the right to health, becomes an urgent matter in our line of work. Hence, in order to reduce the impact of macroeconomic policies on the enjoyment of the right to health, our work has focused on: the improvement of the taxation/revenue collection systems in Macedonia and the creation of taxation / revenue collection policies and practices based on the real needs of citizens; ensuring the existence of long-term health policies and reducing their dependence on foreign funds; improving revenue allocation based on the real needs of citizens; improving public expenditures in terms of planning and execution.

While talking about the taxation/revenue collection, we have focused on addressing two specific challenges/needs that seek to impact the injustices of our taxation system. In particular, the system does not take into consideration a human rights approach in the development and implementation of the tax regimes and using the collected funds. This situation results in policies that are not based, or are not in line with communities needs and interest, especially for poor and marginalized people.

The purpose of this paper is to provide an overview of the current situation regarding the planning and implementation of taxation/revenue collection policies and to show how they impact the realization of the right to health. Additionally, this document seeks to share some concerns that ESE has identified while raising awareness on the challenges that this situation can pose. With the current change of government this situation opens an opportunity to improve the way in which revenue is being collected, how debt is managed and on the type of budget information that is available and how it is presented. This last point is especially important if we wish to strengthen Macedonia's checks and balances and also if we wish to strengthen the country's transparency and accountability mechanisms.

## OVERVIEW ON THE KEY ECONOMIC INDICATORS OF REPUBLIC OF MACEDONIA

Macedonia is a country that, according to the government and international financial institutions like the World Bank, has been growing at a solid pace for the past 5<sup>1</sup> years.

**Table 1** Real economic growth rate (in %)

Real growth rate (%)	2010	2011	2012	2013	2014	2015	2016	2017
	3,4	2,3	-0,5	2,9	3,6	3,9	2,9	1,6

Source: Own elaboration-using data from Macroeconomic indicators, January 2018. Available online at <http://www.finance.gov.mk/en/node/882>

During 2016 the growth rate slowed to 2.9% from 3.9% in 2015 and turned negative during the first half of 2017 due to political uncertainties<sup>2</sup> observed after the elections. Nonetheless Macedonia's current GDP is 1.6% above its pre-crisis level. Furthermore, unemployment rate continues to decline and headline inflation has floated around zero for the last two years.

<sup>1</sup> Macroeconomic indicators (January 2018) available at <http://www.finance.gov.mk/en/node/882>

<sup>2</sup> See The World Bank in FYR of Macedonia. Available online at: <http://www.worldbank.org/en/country/macedonia/overview>

In addition, overall fiscal deficit improved in 2015 from 4.2% to 3.5%. This can be explained thanks to higher profit tax revenues, including one-off collections, and under-execution of capital spending. Furthermore, the government under - executed capital spending in 2016. The fiscal deficit also improved in 2016 with a fiscal deficit rate of 2.7%.<sup>3</sup>

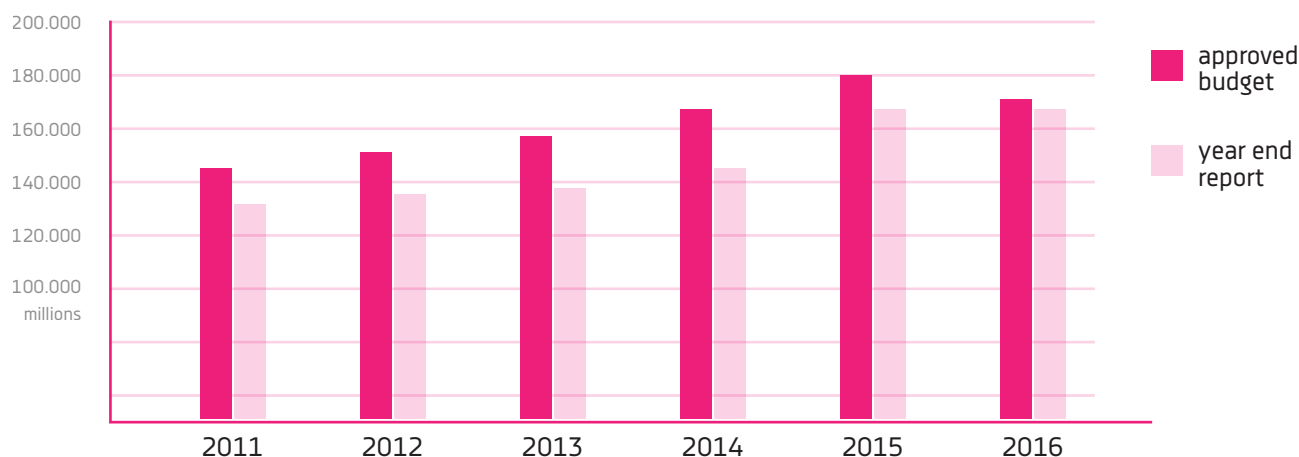
Despite the observed economic stability, Macedonia continues to face several challenges when it comes to recollecting taxes and managing its debt. This situation poses several risks in the medium and long-term if counter measures are not implemented. In particular, systemic problems can have an impact on the realization of citizen’s human rights. Systematic problems that are not resolved have an impact on the amount of resources a government collects and thus on the amount of resources it can spend on programs that help citizens realize their human rights. Examples include, healthcare services, housing programs, education services, among others. It is because of these potential risks that it becomes essential to review and assess some of the challenges that we are observing.

If we compare Macedonia with countries that have similar levels of GDP and lower levels of income inequality, we find that Macedonia has worse health outcomes in key health indicators (infant mortality rate 11,9 per 1.000 in 2016; perinatal mortality rate 12,7 per 1.000 in 2014; mortality from malignant diseases 187,3 per 100.000 in 2016; etc.). A decrease in the economic growth rate, on one side, has tremendous negative impacts on the already underdeveloped and vulnerable health system, expressed through: continues cuts in the funds for health, lack of sustainability in the health policies, lack of progressive realization of the health rights, continues discrimination, non prioritization, among others. While the fiscal deficit, on the other side, caused by a decreased capacity of the government to ensure proper planning and collection of public revenues and high level of wasteful spending’s sets barriers in the access to health care and causes negative consequences on citizens health.

## THE STATE OF PUBLIC REVENUE PROJECTIONS AND COLLECTION IN REPUBLIC OF MACEDONIA

Since 2011, the government has estimated that the total revenue it would receive would increase from year to year. These projections would be in line with the fact that the economy has been growing at a steady pace for the past 5 years. However, actual revenue has been lower.

**Graph 1** Estimated vs. Actual Revenue in the period 2011 - 2016



Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 – 2016.

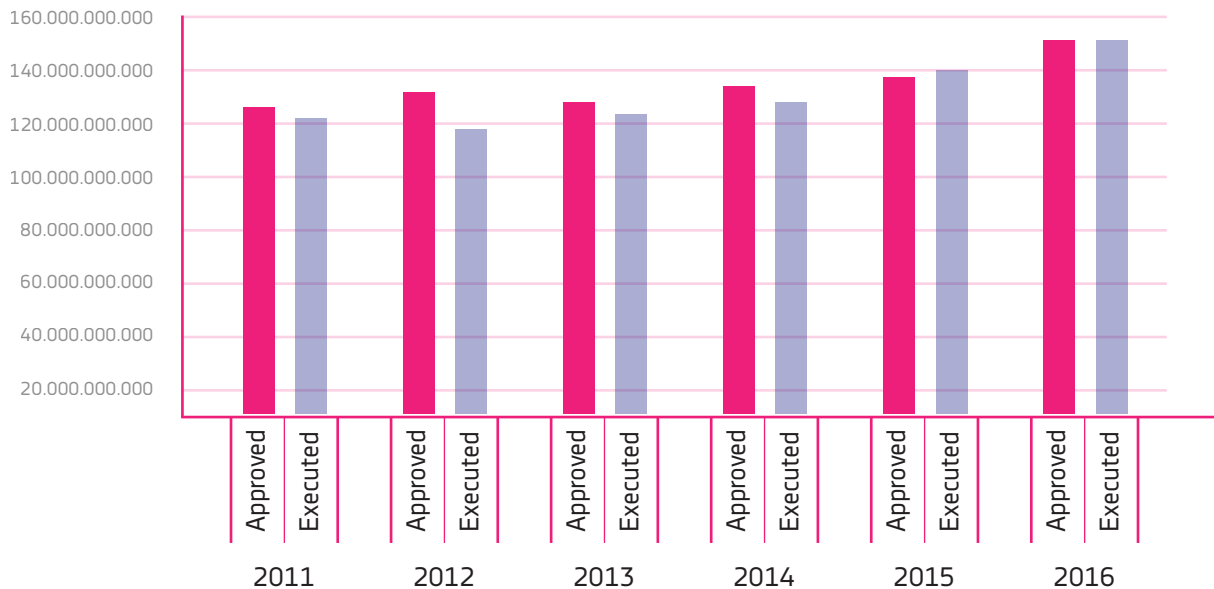
Available online at <http://finance.gov.mk/mk/node/575>

<sup>3</sup> Macroeconomic indicators (January 2018) available at <http://www.finance.gov.mk/en/node/882>

Although we acknowledge that estimating revenue can be cumbersome, if we look at the graph, the actual amount of revenue that has been collected by the government each year doesn't present great variances. Only in 2015 was the government able to collect more resources in comparison to the previous years. In previous years, the difference between the estimated and the actual amount of revenue collected amounted to more than 24 billion MKD.

When looking at the detail, we observe that the biggest variances are observed in Tax revenue.

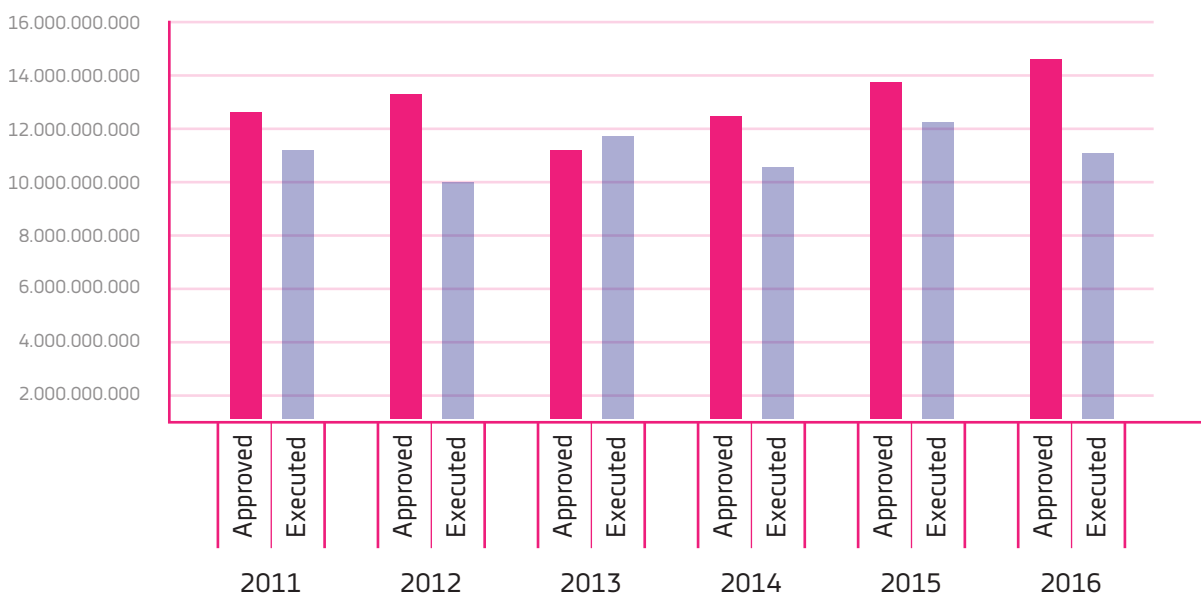
**Graph 2** Approved and Executed Tax Revenue in the period 2011 - 2016



Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 - 2016. Available online at <http://finance.gov.mk/mk/node/575>

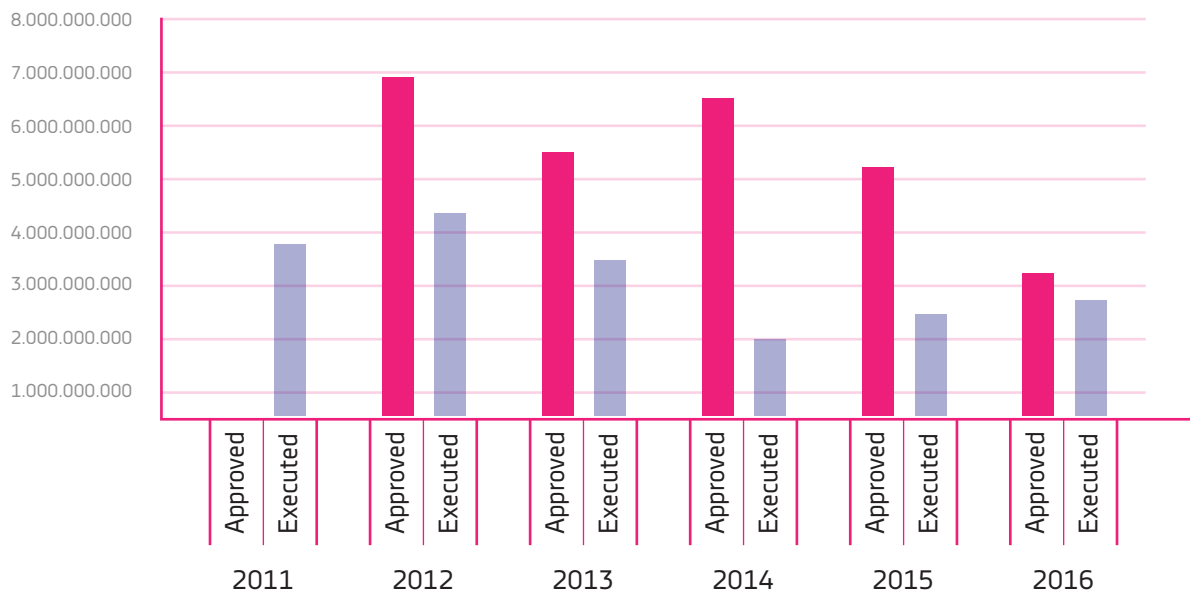
The situation is very similar to that observed in the total revenue: the amount of resources collected each year are very similar; yet, the government continues to estimate that revenue will increase. Variances in this line item have been as big as 11 billion MKD. If we look at the other types of revenue obtained by the government, there are also problems regarding projections:

**Graph 3** Approved and Executed Non - Tax Revenue in the period 2011 - 2016



Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 - 2016. Available online at <http://finance.gov.mk/mk/node/575>





Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 – 2016.  
Available online at <http://finance.gov.mk/mk/node/575>

As can be seen in the graphs, the differences between the approved and the actual revenue shows constant negative variances, which means that the actual amount obtained was less than what was estimated. Observed revenues are constantly below the estimated (in average the observed revenues are 3,86% lower than the estimated amount of revenues). When analyzing the revenue obtained by the Central budget the situation is the same. The total amount of observed revenues is 3,97% lower than the estimated amount of revenues.

The highest difference between the estimated and the observed revenue in the period 2011 to 2017 is determinate in 2016 when the amount of observed revenues is 5.741 million MKD lower than the estimated revenue for the same period (see graph 5). The difference between the estimated and observed revenue in 2011 (-3.001 million MKD), 2012, (-1.022 million MKD), 2013 (-4.975 million MKD), 2014 (-2.994 million MKD) is also substantial, but drastically lower than 2016. The only budget year when the government obtained more funds in the budget in comparison to the planned is 2015 (2.831 million MKD). These differences, whether positive or negative, are an indicator of significantly low capacities for undertaking budget projections of the public institutions involved in the budget process.

The problem with these variances are:

- *If estimates are wrong by a significant variance then it becomes very difficult to plan the budget and manage budgetary programs. If the government is unable to secure a certain amount of resources, then how can it guarantee that healthcare services will have enough means to attend the population? In this regard, this situation could pose a risk regarding the realization of human rights.*
- *If the government is not able to secure a certain amount of resources and it does not want to cut the budget, then it must seek for internal or external debt. This could be a good solution in the short run but it cannot be a permanent solution. Furthermore, it is not solving the systemic problem.*

In the case of Macedonia, the government has focused on a combination of the above, where certain programs and ministries are receiving less resources than what had been estimated in the budget but they have also acquired a significant amount of debt.

## THE FISCAL REGIME IN THE REPUBLIC OF MACEDONIA AND ITS IMPACT ON THE RIGHT TO HEALTH

The link between taxation and development is fundamental. A state that is able to meet the basic needs of its citizens relies ultimately on its own resources to meet development objectives. By using the tax system, states can mobilize domestic resources, redistribute wealth and provide essential services and infrastructure. Effective tax structures can also create incentives to improve governance, strengthening channels of political representation and reducing corruption.

However, governments across the world struggle to collect enough taxes to fund essential services in a fair way. Taxes are a vital source of revenue for most of the governments, which enables them to fund essential services and infrastructure. When governments obtain revenue from tax, citizens are in far stronger position to exert pressure that it be spent on the services to which they are entitled.

Tax policies play the important role in redistribution of the wealth within national economies. Governments by the provision of services address poverty and inequality through taxation (poor are those who tend to depending more on publicly funded services such as health and education).

The Republic of Macedonia, in particular, faces serious challenges to provide these services as result of weak and under-resourced revenue authorities, large informal sectors, pressure to offer overly generous tax breaks and exploitation of tax loopholes by unscrupulous companies and rich individuals. Too often tax systems are heavily skewed against the interests of the poorest.

The tax systems in Macedonia mostly include regressive elements. However, the country relies most on collection of taxes from those with low income without taking in consideration their needs and redistributing the funds of those with high income, instead of taxation of resource wealth, corporate taxation or taxation of property. This kind of systems that relays mostly on consumption taxes instead of taxation on income contributes toward concentration of wealth and greater inequality after taxes are paid. Macedonia, as well as Montenegro, Serbia and Bosnia and Herzegovina are countries with large informal sectors and high number of poor people, from whom governments collect income taxes.

Macedonia has highly centralized, closed and non-inclusive public decision-making processes, especially in regard to the development and implementation of tax policies. Public participation in the tax decision-making process is limited and in practice, it never happens. As a result, tax policies that are created and implemented by the government do not take in consideration the differences in the ability of the citizens to pay taxes and do not equally address citizens (tax payers) needs.

Tax policies mostly follow the government and foreign donor/government perspectives and priorities (governments are tending to support the companies by providing subsidies and low taxes and increase of the taxes of purchasing goods and services, which is in line with the IMF, WB and other contributes approach to promote tax reforms aimed for furthering the regressive nature of the tax systems such as encouraging countries to minimize the taxes for foreign investors, reduce trade taxes, increase tax of purchases and tax on goods and services). The policies that have significant impact on people's lives (health services for improvement of women's health, mothers and children health, etc.) are discussed and enacted in expedient procedures without wider consultations and impact analysis.

Taxation should not be an exclusive right of the public institutions, it is also of great importance to the people. The people should be involved in the decision-making process when determining what to tax, whom to tax, how the tax has been collected and spent.

Citizens living in Republic of Macedonia, including Roma and women, are continuously facing barriers in accessing public services, especially public health services. The barriers usually arise due to the ways in which the government sets the priorities in the distribution of the funds in public budgets for the realization of the existing public policies. Health services for most marginalized vulnerable groups, including Roma and women, are considered as non-priority services for political structures in power.

Hence, the provision of such services in the past years has depended on funds provided by foreign donors and creditors -the Dutch government, European Council Development Bank, among others. This means that the government has not allocated funds from the national budget or it has allocated minimum funds for their implementation. This approach by the authorities in financing health has put into question the long-term existence of such services, especially in the event that foreign donors are cutting funds or completely withdrawing funds that were invested in states for this purpose. However, the inappropriate taxation, misallocation, inappropriate prioritization, misuse and mismanagement of public funds pose a tremendous challenge for the efficiency and effectiveness of the health services.

### ***Significant misuse of the budget funds specifically collected and allocated for public health promotion and protection***

The funds that the Macedonian government receives from the excise taxes on beer, ethyl alcohol and cigarettes, which are intended for improving the health of citizens, are a potential source of funds for financing healthcare services for women and children. However, half of these funds are used for current expenses of the Ministry of Health instead of providing healthcare.

In 2013 the Parliament of the Republic of Macedonia passed the government's proposal to amend the Health Care Law, which obliges the Government of the Republic of Macedonia to increase the Ministry of Health's budget in the amount of funds collected as part of the beer, ethyl alcohol and cigarettes excise.

The last amendments of the Law in 2015 foresees the allocation of one denar per liter of beer, 40 denars per liter of ethyl alcohol and 0.053 denars per piece of cigarettes for the realization of the guaranteed rights and the identified needs and interests of the citizens in the field of health through the budget of the Ministry of Health.

Article 16, paragraph 1 of the Law on Health Protection foresees that all citizens of the Republic of Macedonia are provided with the realization of the guaranteed rights, determined needs and interests with this Law, as follows:

- *Measures and activities for protection against the harmful effect on the health of the population gas, noise, ionizing and non-ionizing radiation, water pollution, land, air and food and other harmful effects of the environment and working environment;*
- *Measures and activities for preserving the health of the population, measures and activities for detection, prevention and suppression of infectious diseases;*
- *Provision of hygienic-epidemiological minimum of the population, prevention and treatment of quarantine diseases and drug addiction, measures and activities for protection of women during pregnancy, childbirth and nursing and care of infants measures and activities for the organization and promotion of blood donation, providing costs for patients treated with dialysis;*



■ *Providing slightly for transplant patients;*

■ *Provision of cytostatics, insulin and growth hormone measures and activities determined with special programs emergency medical assistance in accordance with the established network of healthcare institutions.*

After the legal changes undertaken from 2013 to 2015, the Ministry of Health received 1.026.037.787 denars as part of the collected excise taxes for beer, ethyl alcohol and cigarettes. The funds that the Ministry has received from this source each year increased by an average of 152% and represents 62% of the total funds received from the budget of the self-financing activities of the Ministry. However, despite this growing trend, the Ministry of Health has used an average of 53% of the total amount of available funds for the implementation of measures and activities for improving the health of citizens consumes each year. Additionally, the manner in which the Ministry of Health sets priorities in allocating the funds collected through excise is additionally unclear. In the period from 2013 to 2015, more than one third of the funds (40,30%) were spent on one program (Participation Program for insured persons), and the least amount of funds was spent on the Program for prevention and suppression of brucellosis (0.03%).

The way in which the Ministry of Health is allocating and spending these funds shows that the Ministry should urgently determine the criteria for allocation of the funds collected from collection of excise taxes for beer, ethyl alcohol and cigarettes by programs in its budget.

### ***Changes in the tax regime in Republic of Macedonia that might have an impact on the citizens health rights***

The Government of the Republic of Macedonia instead of directing its efforts on initiation of substantive reforms in the domestic taxation system and ensuring greater inflow into the budget of the Republic of Macedonia, and thus better access of the citizens to quality public services in the health sector, is proposing and undertaking activities that are aimed at compensating the shortage in the state budget.

The proposed reforms and reforms underway in the tax regime are not in line with the Ministry of Finance's Program on fiscal reforms 2018 – 2021 and the Government Program 2017 - 2020. Namely, the proposed changes in the Program on fiscal reforms do not ensure social stability and improvement in the living standards of citizens, which is one of the key priorities. Moreover it will not contribute to fulfillment of the Government's priorities in the area of tax justice, human rights implementation, access to justice and enforcement of the health rights.

### **Tax regime reforms proposed and underway:**

1. Introduction of new tax benefit toward citizens: The government will refund 15% of the VAT paid by the citizens during one fiscal year and project that each inhabitant will receive 30.000 MKD (approximately 500 EUR) from VAT refund annually. The VAT will be refunded through a smart card, which will also contain personal data for each of the card holders (health data, transactions, etc.). The luxury products will be exempt from these subsidies.
2. Introduction of new tax for individual agricultural workers: the government has announced that the law on personal income tax will be amended in the upcoming period and a new tax for agricultural workers will be introduced. More precisely, individual agricultural works will be obliged to pay 2% tax on 20% of their total income from selling goods to legal entities. The rest of 80% will be exempt from taxation.

3. Increase of the prices of drinking water.
4. Increase of the prices of motor oils (diesel) and oil for households for 3 MKD or 3,45 MKD with VAT included.
5. 5% decrease in the profit tax for computer science and technology companies.
6. Introduction of progressive taxation for personal income tax (10% and 18%). 10% personal income tax will remain for most of the citizens, and 18% will be introduced for people with higher income (just for the part above the legally prescribed maximum). Also, the government will introduce personal income tax refund for those with lower income.
7. The government will remove the maximum limit for payment of taxes and benefits on monthly salaries.
8. The government will increase the property tax for 0,1 percentage point properties with value above 400.000 EUR.
9. The government will increase the excises for import of vehicles with value above 40.000 EUR.
10. The government has introduced increases in the excises for tobacco by 3 MKD each year for the period from 2014 – 2017 and 4 MKD each year for the period from 2017 to 2023.
11. The government has increased the excises for beer for 1 MKD per liter and for other types of alcohol 40 MKD per liter pure alcohol.
12. Introduction of VAT tax for individuals who have income higher than 1.000.000 MKD on annual bases.

The strategy that is being implemented by the government which aims at introducing new taxes to people will not help the government to provide more and better services to citizens if the government does not focus first on solving problems related to:

- ▶ Collecting the existing taxes;
- ▶ Preparing accurate tax projections;
- ▶ Decreases in the some tax revenues;
- ▶ Lack of information that would explain the variations in revenue collection and allocation;
- ▶ Compensation of its low tax collection with debt (external borrowings);
- ▶ Tax revenues are very erratic, although the economy is growing, revenue should be at least the same or bigger (usually, when the economy is expanding governments collect more taxes). This is not the case in Macedonia. From one year to the next, tax collection is substantially lower;
- ▶ In average, the margin of error is less than 5%; however, when analyzing the variance per year the error is larger. Particularly, when it comes to tax revenue.

## STATE OF THE PUBLIC DEBT IN REPUBLIC OF MACEDONIA

Despite the positive economic outcomes and efforts undertaken by the Macedonian government to reduce the deficit rate, levels of public debt and to increase revenue collection, the Macedonian government has continued to adopt two supplementary budgets during July-August which together raised the 2016 overall fiscal deficit target to 4% of GDP compared to 3.2 percent in the original budget. It is in this regard that public debt is projected to reach almost 48 percent of GDP in 2016.<sup>4</sup>

Due to this scenario, the government has not been able to collect the amount of revenue it estimates every fiscal year and for this reason, it has had to compensate by acquiring debt. Something that is important to mention is that every fiscal year, the budget contemplates acquiring loans and donations to complement the revenue. However, the amount of acquired debt has ended up being bigger than what was estimated.

**Graph 5** Variances between Estimated and Actual Revenue and Debt in the period 2011 - 2016



Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 - 2016.  
Available online at <http://finance.gov.mk/mk/node/575>

The graph shows how every fiscal year the amount of revenue is lower than what was estimated. However, the amount of debt that the government acquires is bigger. This means that throughout the fiscal year, the government has been borrowing more so as to compensate for the low revenue collection.

<sup>4</sup> IMF Executive Board Concludes Article IV Consultation with Former Yugoslav Republic of Macedonia available at <https://www.imf.org/en/News/Articles/2016/11/21/PR16513-Macedonia-IMF-Executive-Board-Concludes-Article-IV-Consultation>

**Table 2** Debt as a Percentage of Total Revenue in the period 2011 – 2016

Debt as a % of Total Revenue	2011		2012		2013		
	approved budget	year end report	approved budget	year end report	approved budget	year end report	
	13.23	17.39	12.29	22.37	14.02	21.89	

Debt as a % of Total Revenue	2014		2015		2016		
	approved budget	year end report	approved budget	year end report	approved budget	year end report	
	10.59	22.46	13.43	20.65	22.51	22.34	

Source: Own elaboration with data from the Enacted Budget of Republic of Macedonia and Year End Report 2011 – 2016.  
Available online at <http://finance.gov.mk/mk/node/575>

Table 2 shows how the approved budget estimated to have a lower amount of debt (in average 13% of revenue would come from external and internal borrowings); however, the actual amount of foreign resources amounted to more than 20% in average.

Public debt has been on an upward trajectory since 2008 and is projected to reach 48% of GDP at end-2016. The rapid and sustained increase in public debt has been accompanied by rising borrowing costs. In addition, fiscal slippages have become a persistent feature with supplementary budgets issued almost every year during the last decade. In August, Fitch downgraded Macedonia's sovereign rating by one notch to BB with negative outlook citing the long-running political crisis and weak governance. On a positive note, the structure of domestic public debt has shown significant improvements in recent years with longer maturity, a higher share of fixed-rate debt, and a declining share of Foreign Exchange debt. However, at about 75% of the total public debt, Foreign Exchange debt still poses significant risks.

This comes to show how revenue is being complemented. And although this might be a positive task because it helps to avoid cutting back important social programs' budgets; the government must not borrow external resources forever. Furthermore, Macedonia's debt has already reached a considerable level of 47,8% of GDP by 2016<sup>5</sup> and for this reason, the government must identify what are the main problems they are facing when it comes to revenue collection or if its only a problem of estimating. In any case, this is a systemic problem that has to be looked into.

This approach of the government for increasing the funds in the national budget from loans / grants / donations will not have a positive impact on advancing the right to health and improving access to health care services. In the long run continued indebtedness will create additional burden on the citizens and the budget in the future, and will lead toward cutting some of the public services including the health. On the other hand, substituting the national funds for providing health care with credits/grants/donations will have negative impact on health system functioning on a long term.

<sup>5</sup> 2016 Annual Report on Public Debt Management of the Republic of Macedonia available at <https://goo.gl/VYU7vN>



## LEVEL OF FISCAL TRANSPARENCY IN MACEDONIA'S BUDGET DOCUMENTS

The budget is a government's most important plan because it states how it is going to use the public's resources to meet the public's needs. Transparency means that every person can access information on how much is being allocated to different types of spending, what types revenues are collected, and how international donor assistance and other public resources are used. More specifically, it means publication of high quality information on how governments raise taxes, borrow, spend, invest, and manage public assets and liabilities.

The importance of fiscal transparency is that it provides clarity about the use of public funds which is necessary so that public representatives and officials can be accountable for effectiveness and efficiency. Budget decisions can profoundly affect the interests and living standards of different people and groups in society. This is why transparency should involve an informed and inclusive debate about the budget policy impacts. Finally, an open and transparent budget process fosters trust in society that people's views and interests are respected and that public money is used well.<sup>6</sup>

All human beings are born free and equal in dignity and rights. The Universal Declaration of Human Rights and the international human rights treaties guarantee the enjoyment of all human rights by all people without distinction of any kind. States have obligations under international human rights law to respect, protect and fulfill human rights and to make available the necessary resources to do so. They contribute to the fulfillment of their human rights obligations through human rights-based policies, plans, programmes and budgets. A government's budget is the most important economic policy and planning document, and is an essential means by which to assess government's efforts for the realization of human rights.<sup>7</sup>

Open budgeting matters for development and for human rights fulfillment for two primary reasons. First, the disclosure of budget information is a fundamental part of the overall accountability of any government and a process through which a vital disclosure of information about the spending priorities of the government is achieved. Budgeting which is open to public scrutiny and input is an essential cornerstone of overall governmental accountability to its citizens which can help improve the effectiveness of policies designed to address the citizens needs and improve other important development outcomes. Sufficient information about different stages of the budget process that governments make available to citizens, civil society and the media is a major determinant of the extent to which the public can monitor and analyze budgetary policy and hold the government to account for its choices (OBI, 2008). Accountability involves "accounting for" government decisions and actions and offering citizens the opportunity to influence a change in direction if these decisions run counter to the public perception of what government should be doing. This "corrective" mechanism can include elections to replace unresponsive governments or more direct means of citizen participation in decision-making such as engagement with budgetary priority setting (UNIFEM, 2008; IBP, 2008).

Secondly, the allocation of resources to specific sectors and priorities is a primary, though not the only, means to achieving human development ends and the fulfillment of economic and social human rights. International organizations have also stressed the importance of the budget as a means for realization of human rights.

<sup>6</sup> Public Governance and Territorial Development Directorate. Recommendation of the budgetary council on Budgetary Governance, OECD. Available online at: <http://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>

<sup>7</sup> <http://www.ohchr.org/Documents/Publications/RealizingHRThroughGovernmentBudgets.pdf>

Democratic participation on the part of citizens in decision-making, including decisions about the allocation of resources, is a human right in its own right. When popular participation in budgeting is broad-based, the budget can be a tool to transform the development aspirations and priorities of citizens into the spending priorities of the government (UNCIEF, 2007). However, even when budgets do allocate funding for human development priorities and the fulfillment of economic and social human rights, there is an observable disconnect between resources appropriated and positive outcomes gained.<sup>8</sup>

According to the OECD's best practices on budgetary governance, the government should present a comprehensive, accurate and reliable account of the public finances, through:

**A** Accounting comprehensively and correctly in the budget document for all expenditures and revenues of the national government, with no figures omitted or hidden (although limited restrictions may apply for certain national security or other legitimate purposes), and with laws, rules or declarations that ensure budget sincerity and constrain the use of "off-budget" fiscal mechanisms.

**B** Presenting a full national overview of the public finances – encompassing central and subnational levels of government, and a perspective on the whole public sector – as an essential context for a debate on budgetary choices;

All the reports available show that the Republic of Macedonia does not fully meet the existing international standards, including the OECD standards. Based on the previously elaborated findings budget revenues and expenditures are not comprehensively accounted in the budget documents; the government fails to properly execute the tax and non-tax laws, rules and declarations; and also limits the access to budget information and public oversight.

When it comes to Fiscal transparency, the Republic of Macedonia's public institutions are regularly assessed unfavorable by the civil society sector and the relevant international organizations and institutions. The US Embassy Fiscal Transparency Assessment Report, European Commission Progress Report, International Partnership for Budgets – Open Budget Index Report and many other relevant sources agree on the fact that the amount of fiscal transparency in Macedonia is very low.

According to the Fiscal Transparency Assessment Report of the Republic of Macedonia prepared by the US Embassy in Macedonia,<sup>9</sup> the country meets the minimum requirements for budget transparency. The budget of the Republic of Macedonia, including data on public debt, is publicly available and clearly presents the types of planned costs, by category and by institution. However, according to the annual budgetary reports, the revenues and realized expenditures for the repayment of the year do not coincide with those planned according to the budget. The findings of the independent State Audit Office are regularly published. The audit reports are constantly indicating that there are inconsistencies in the work of the public institutions, issuing recommendations for overcoming these wrongdoings. These reports are subject of revision by the Parliament each year.

<sup>8</sup> <https://www.internationalbudget.org/wp-content/uploads/IBP-Working-Paper-4-Budget-Transparency-and-Development-Outcomes-and-Rights.pdf>

<sup>9</sup> US Embassy Macedonia. (2017). Macedonia 2017 Fiscal Transparency Assessment. Retrieved December 17, 2017 from <https://mk.usembassy.gov/wp-content/uploads/sites/249/Macedonia-2017-Fiscal-Transparency-Report.pdf>

However no measures are taken for their implementation. On the other hand the independent state auditor has no institutional power to initiate legal action against public institutions that are not working in accordance with the law. This, as well as the criticism towards the way how public procurements are performed, is the key factors of putting Republic of Macedonia as a country in categories of countries that fulfill minimum requirements for fiscal transparency.

A negative assessment and specific recommendations that urge the government to improve the country's budget transparency situation are regularly part of the European Commission's Progress Reports. For example, the Progress Report for 2016 states that Macedonia does not fulfill the budget transparency requirements because "clear, concise, timely and accurate budget and statistical information is not publicly available". Furthermore, it also mentions that there is a lack of adequate public and parliamentary oversight which raises concerns about the transparency of the budget process.<sup>10</sup>

In Macedonia, there is a lack of efficient and effective mechanisms through which the implementation of the budget will be monitored, and efficiency and effectiveness of government policies would be evaluated. In addition, the public procurement system and the way it is implemented must be strengthened to ensure transparency, efficiency and effectiveness, as well as to overcome allegations of corruption and violation of the principle of equal access and treatment of participants in the public procurement.

According to the report findings on the pro-active transparency of the institutions monitored by ESE in 2016,<sup>11</sup> "all institutions have downward trend in the level of proactive transparency compared to the previous year". Monitoring and reporting on the level of proactive transparency of the institutions aims to encourage the participation of the citizens and the civil society sector in the work of the Government and the public institutions, thereby increasing the transparency and accountability of the institutions.

The level of proactive transparency is an indirect indicator of the institutional corruption. With more open and willing institutions to publish data, citizens trust in institutions operation is strengthened and citizens are encouraged to take part in the policy making and decision-making processes, thus contributing to building a healthy and strong democratic society. However, the institutions in the Republic of Macedonia show a low level of awareness regarding pro-active transparency. The findings of ESEs monitoring show that institutions in 2016 published only 15% of the total number of monitored documents. At the same time, the websites of the institutions do not offer sufficient information about their program and budget work. Regarding reactive transparency, ESEs monitoring report for 2016<sup>12</sup> shows that "institutions provide more information on submitted requests for information of public character, rather than make them available on their behalf". The Law on Free Access to Public Information is only partially respected by the institutions, and the institutions are only partially transparent in their work.

ESEs public procurement monitoring report for the period 2011 – 2015 shows that the public procurement procedures in the public health system are gray zone in Republic of Macedonia.

<sup>10</sup> European Commission (2016, November 09). The former Yugoslav Republic of Macedonia 2016 Report. Brussels, Belgium.

<sup>11</sup> Здружение за еманципација, солидарност и еднаквост на жените - ЕСЕ. (2017). Проактивна транспарентност 2016. Скопје, Република Македонија: <http://www.esem.org.mk/pdf/Publikacii/2017/Proaktivna%20transparentnost%202016.pdf>

<sup>12</sup> Здружение за еманципација, солидарност и еднаквост на жените - ЕСЕ. (2017). Реактивна транспарентност 2016. Скопје, Република Македонија: <http://www.esem.org.mk/pdf/Publikacii/2017/Reaktivna%20transparentnost%202016.pdf>

Additionally the reports show that the institutions with the largest number of public procurement procedures and highest expenditures for the procurement of goods, services and works, and are least accountable. In 70% of the public procurement procedures, public health institutions did not publish or published only some of the key information about public procurement procedures.

Fiscal transparency is the government's last priority. In the past years, the Government has shown a lack of will and capacity to implement and address the requirements and commitments to improve the level of transparency. In addition, there are also a set of barriers that prevent citizens from following public institutions' performance and operation. Citizens are also facing problems with enjoyment of their basic rights for access to information, lack of knowledge regarding their rights for access to information, lack of knowledge to understand what the public institutions present in the documents, lack of trust in the system and the institutions, and lack of will to engage themselves in the long bureaucratic process to access public information which at the end do not guaranty their basic right to access information.

### **What kind of budget information is publicly available:**

- ✔ Executive budget proposal in xml. and pdf. format;
- ✔ Enacted budget in xml. and pdf. format.;
- ✔ Supplementary budget proposal and enacted supplementary budget in xml. and pdf. format.;
- ✔ Mid – year review (this document do not meet the international standrds);
- ✔ In year report in xls. and pdf. format;
- ✔ Year – end report in xml. and pdf. format;
- ✔ Audit reports in pdf format.

### **What kind of budget information is missing and is needed:**

- ✘ Information regarding the planned and executed individual tax and non-tax revenues (such as VAT, Costumes, Excises, etc.);
- ✘ Updated and timely macroeconomic and budget data;
- ✘ Accurate macroeconomic and budget information;
- ✘ Existing revenue information are not divided by governmental level (national and local) and budget user;
- ✘ Narrative explanation of how the revenues will be raised, or what is the reason the planned revenues are not executed as it is planned;
- ✘ Narrative explanation of how the revenue increase/decrease will impact citizens and what are the expenditures covered by each of the revenues;



- ✗ Narrative explanation of how the budget revenues will contribute toward the established macroeconomic projections;
- ✗ Year End reports on the realization of each tax or non-tax policy in Macedonia, such as VAT report, report on each loan or grant used; etc.

### **What are the key problems encountered to find the budget information:**

- ? Budget documents do not contain detailed narrative explanation of the data presented in the budget tables;
- ? Budget documents do not contain explanation of how the proposed changes are related to the general government strategies and policies and how those changes will affect the citizens (for ex. If the government plans to collect more revenues than what are the specific sources which will be used in addition to the current sources and how that increase will affect citizens; or if the government plans to collect more funds from debt than how the government will secure that the debt will be paid in the future without burdening citizens or what will be the burden; etc.);
- ? Budget documents do not clearly show how the budget will contribute toward supporting the economy and how it will meet the macroeconomic projections;
- ? Information presented in the budget documents are presented in cumulative items, without giving an analytical presentation of the budget items (ex. the government plans to collect revenues from “national taxes on goods and services” under budget item 714, but do not show what are the individual taxes covered by this general revenue category and in what amount. According to the national revenue classification guidelines this budget category includes 37 sub categories.)
- ? When requesting detailed budget information, in most of the cases, the Ministry of Finance refuses the requests stating that this kind of information is classified or refers to already published documents;
- ? Budget documents that are publicly available in xml. format present part of the data presented in the pdf. documents;
- ? Budget documents do not contain a revenue forecast for the next multi-year period. Also, they do not show the revenue execution for the previous multi- year period.

## RECOMMENDATIONS

The Government of Republic of Macedonia has obligations to meet the established and recognized international standards foreseen in Article 2 of the Covenant of Economic, Social and Cultural Rights (to allocate maximum available resources; to enforce non-discrimination in provision of services and progressively realize the right to health). In order to do so, the Macedonian Government has to take following reforms in regards to tax, debt and fiscal transparency and accountability policies.

### a) Reforms in the Tax system

**The Government of Republic of Macedonia should take all the necessary steps to improve the process of budget revenues planning and projection.** The Government, in the budget documents (executive budget proposal and enacted budget) should include specific information on what affected their capacity to recollect the amount of taxes they projected (changes in macroeconomic variables, less foreign funding, less investment). The Government should also state what percentage of taxes comes from the private sector and how much from individuals, as well as to elaborate the model used to project taxes each year and sources of information (explain how resources are planned every year).

**The Government of Republic of Macedonia should take all the necessary steps to minimize the variations between the projected and executed revenues, as well as to improve their capacities to collect revenues.** The government should leave the traditional way of revenue projection based on historical data and application of simple mathematical formula for increase in the amounts in order to cover and easily justify the expanses. Instead of that to start making the revenues projection based on the current and expected economic activities of the country.

**The Government of Republic of Macedonia should change the way it shaped the domestic tax system and regime. Before planning or undertaking any changes in the tax system the Government to make consultation with human right activists** and assess the effects that each new tax or change to the fiscal regime would have on citizens (individuals and companies). Additionally, it is important these assessments to be publicly available and the Government to elaborate the expected increase in taxes thanks to these changes and in what period of time.

**The Government of Republic of Macedonia should increase its efficiency and transparency in using the funds specifically collected and allocated for improvement of citizens health status.** The Government have to use the funds from excise taxes on beer, ethyl alcohol and cigarettes for the purposes determinate in the Law on health protection only and ensure equal allocation of the funds among the health budget programs. Additionally, the Government to provide an explanation on how the MOH distributes the excise and explanation on how it has helped strengthen healthcare services. Also, the Government should reduce the spending: on expensive infrastructure development and equipment procurement; continues engagement of foreign consultants for providing services to the country; on travel and periderms; subsidies/tax exclusions to foreign companies; etc. The funds saved from this budget items to be reallocated for improvement of the preventive health services for women and Roma.

## b) Debt reforms

**The Government of Republic of Macedonia should take all the necessary steps to come up with a solution for reducing the public debt.** The Government should explain its plans in the budget documents (executive budget proposal and enacted budget) to reduce debt in the upcoming years and in what period of time. Additionally, the Government to explain how the current and the next lending arrangements will influence the citizens living standards, how the Government plan to collect funds to repay the debt created and how the arrangements will impact the enjoyment of the right to health. Basically, it is important for the public to know what are the conditionality's of each loan arrangement for the government and how they impact the enjoyment of the health rights. Also, it is important, the Government to provide detailed information about each creditor / grantor / donor in the public sector by the following categories: name of the creditor / grantor / donor; public institution beneficiary from the credit / grant / donation; objective and summery of the credit / grant / donation; amount of the of the credit / grant / donation; time to repay the credit/grant/donation; interest rate for each of credit / grant / donation; other expenses for each credit / grant / donation; conditionality's of each contract for credit / grant / donation and copy from contracts and reports for each credit/grant/donation.

## c) Fiscal transparency and accountability reforms

**The Government of Republic of Macedonia should take all the necessary steps to improve its fiscal transparency by:**

- increasing the amount of fiscal information, documents and data which are publicly available;
- improving the quality of the data presented in the documents already publicly available;
- eliminate all legal and practical barriers that limits citizens' access to fiscal information;
- comprehensive accounting revenues and expenditures data;
- provide accurate and updated fiscal information;
- timely publishing all fiscal information; etc.