

FEASIBILITY STUDY

PERFORMANCE BASED BUDGETING

FOR ENHANCED BUDGETING PROCESS AND INCREASED
TRANSPARENCY AND ACCOUNTABILITY



FEASIBILITY STUDY PERFORMANCE BASED BUDGETING FOR ENHANCED BUDGETING PROCESS AND INCREASED TRANSPARENCY AND ACCOUNTABILITY

**CENTER FOR ECONOMIC ANALYSES (CEA)
Institute for Democracy Societas Civilis - IDSCS**

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Dear reader,

An assessment of the costs and benefits of a reform which includes an introduction and implementation of a performance budgeting in Macedonia is not an easy task. A certain amount of courage is required to make an assessment, given that we did not find a general assessment in the literature of any country (except sectorial calculations. For kindergartens in Macedonia see for example Nikolov 2006). Moreover, the findings of the survey based field research, as to whether the introduction and implementation of performance budgeting are meaningful, move from one extreme to the other (see Robinson M. and Brumby J. 2005). However, we believe that a preliminary estimate for a reform for introducing performance budgeting must be quantified within an ambitious activity such as our project, which is supported by the European Instrument for Democracy and Human Rights (EIDHR).

The approach to this cost benefit analysis, in terms of costs is based on a phased introduction and implementation, where we consult the Regulatory impact assessment methodology. In terms of benefits, we are using a microeconomic approach to assessment of technical efficiency (Data Envelopment Analysis-DEA and Stochastic Frontier Analysis-SFA) of the budget allocations and executions of the budget users, compared with the corresponding sectorial gross value added in the GDP which is obtained and is assumed as a final performance. The assessment of the costs and benefits are then assumed for a long period of 50 years due to the very nature of such a reform.

Furthermore, the text consists of a brief overview of the need for such a reform, because we believe that performance budgeting is a natural qualitative step towards further enhancement of public finances quality in Macedonia. This section refers to the findings and recommendations of several previous studies within the framework of this project. In the text, we also provide a description of the assessment methodology of the costs and benefits of such a reform in Macedonia and finally we provide a draft-phased approach for such a reform in Macedonia.

**With Respect,
Marjan Nikolov, PhD
Project Coordinator**

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Executive Summary

Performance based budgeting in Macedonia

- Performance based budgeting is a concept that allows us to gather information/data on when and whether the budget programs, agencies and other institutions providing public services, efficiently and effectively carry out the required obligations and works. It aims to improve the efficiency and effectiveness of public expenditure by linking the public sector organizations/institutions' funds with the results that they deliver.
- One of the main reasons for implementation of the concept of performance based budgeting (as opposed to the traditional concept) is the opportunity to determine whether the projects and activities undertaken by the state institutions produce results and make changes in people's lives. Performance budgeting:
 - Serves as a tool for strategic planning, by improving the clarity and consistency of projects, facilitating mutual understanding/communication between departments/institutions and the staff, to achieve the objectives of the projects/activities;
 - Allowsthe departments and institutions to get a sense of direction and the objectives which should directtheir activities;
 - Allows freedom in defining the project direction, freedom of centralized control and input control, enabling a usage of higher discretion in creating the right mix of resources/inputs forthe achievement of the expected objectives.

Experiences, evaluation and lessons learned from the implementation of performance-based budgeting:

- In most of the cases the information on performance are included in the budgeting process as a part of a broader package of public expenditure control and public sector reform;
- The concept represents a long-term trend that has its own evolutionary path, which leads us further to insist on its implementation in Macedonia (most countries are working at least 5 years on developing outputs (of their budgets), while 40% of the countries are working on developing this concept for over 10 years; almost $\frac{3}{4}$ of OECD countries include non-financial data and performance information in their budget documents);

- Most of the OECD countries today, present their performance targets to the Parliament and the public within the prepared objectives and the performance plans;
- The adopted approach for the implementation of performance based budgeting vary from country to country, indicating that the process is not static and is constantly evolving, while depending on the structure, culture and history of each country –leading to the conclusion that it would be important to model and adapt to the Macedonian economic-socio-political environment;
- Generally, the Ministry of Finance does not use the results of the performance measurements to financially "punish" or "reward" budget users;
- The lack of the institutional capacity and power or the lack of political support, often limits the capacity of the Ministry of Finance to eliminate or even try to cut the funding for some programs which are ineffective;
- The performance information is most often used for increasing accountability of the ministries/institutions – serving as an initial trigger for the Ministry of Finance to closely monitor and analyze the work of the units and programs;
- The common challenges regarding the concept are improving the performance measurement, finding appropriate ways of integrating the information within the budgeting process, gaining the attention of the policy-makers and improving the quality of the received performance information;
- In most cases, the governments failed (faced with difficulties) to provide policy makers with high quality, credible, relevant and timely information that would be directly used in the budgeting process;
- There are common objectives expected from the implementation of the performance budgeting concept based on which we can generally divide the countries into three groups: control of public expenditure; improved spending allocation and efficiency; improved public sector performance; and improved accountability and transparency of politicians and the public. Macedonia could be found in each of these objectives / groups of countries.
- The steps and the guidelines for designing the concept of performance-based budgeting and its implementation details are worked out in the section that analyzes the applicability of this concept in the Republic Macedonia

Recommendations

- Given the current situation in the country, the most appropriate implementation is through: top-down approach; partial implementation; and gradualist approach.

- Creation of a special body which will be concerned firstly, with the design of appropriate modality and implementation of the concept of performance-based budgeting that will be most suitable for R. Macedonia;
- The partial implementation would mean selection and introduction of performance-based budgeting on a pilot budget users' level;
- Gradualist approach would involve a phased introduction of performance-based budgeting among the pilot budget users;

- All budget users will apply:

- Introduction of program budgeting among all budget users;
- Identification of input indicators, output (results) indicators among all budget users. In the first phase, simple indicators can be introduced, such as number of employees as input indicators and simple output indicators (e.g. Number of users of a respective program);
- The strategic plan of all budget users should be available in electronic form and should include a compliance timeframe;
- The final accounts of the budget users should contain a narrative explanation of the differences between the projected and actual expenditures;
- The final account of the budget users, needs to explain the reasons for the differences between the originally projected estimates of output indicators and the actual results for the year, as well as the differences between the originally estimated results indicators and the actual results of the year;
- All budget users should publish evaluation of the achieved program outputs. The evaluations should contain a separate analysis of the changes in the profile and the number of users of public services as well as the changes of the budget users' needs;
- The audit results of the budget expenditures, after the publishing of the audit report by the State Audit Office (SAO) should be available in electronic form;
- The action plan for the actings, based on the findings of the SAO should be available in electronic form;

Cost-benefit Analysis

1. COSTS

- In order to assess the costs in our cost-benefit analysis we are using Regulatory Impact Assessment - RIA¹. This methodology is fully aligned with the existing system for strategic planning in the ministries and the policy coordination procedures and the decision-making in the Government of Republic of Macedonia;
- The costs of each of the formerly developed activities and procedures in the implementation phase are identified. Moreover, the method of the calculation is explained;
- In the process of identification of the costs, the those taken into consideration include: the costs for the organization of the planned activities (meetings, trainings, etc.), calculation of the cost for creating new bodies/departments/institutions, calculation of the costs accounting for the time and the commitment of the participants in the implementation of the concept, as well as the approximate costs for the employees who will be part of the reform;
- The amount of costs is dynamically assessed, illustrated in the table given bellow both in denars and in euros.
- **The Net Present Value of the estimated costs for a period of 50 years is 99 million euro (with a discount rate of 8%²).**

Table 1

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Functioning Period – the same cost is repeated in the following period
296.302.864	389.518.322	389.518.322	2.469.511.265	2.469.511.265	2.469.511.265	11.565.072
4.857.424	6.385.546,26	6.385.546,26	40.483.791,23	40.483.791,23	40.483.791,23	189.591,34

¹Ministry of information society and administration is a ministry user and ministry which manages the process. See more on the regulation, reports prepared and documents regulating the area on: <https://ener.gov.mk/default.aspx>

²According to the CEA assessment public sector discount rate in Macedonia. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20short%20version%20final.pdf>.

2. BENEFITS

- To assess the benefits we will use microeconomic approach for measuring the technical production efficiency of gross value added in the Macedonian GDP, using the inputs of the budget users' budgets of the and their employee number.
- On one hand, we have budget users which are using public funds to create the socioeconomic environment for the economic agents, and on the other hand, the result is measured in a sectorial gross value added of the GDP.
- The idea behind our model is that through the allocation of the budget funds and the number of employees, the budget users are providing adequate socioeconomic and societal environment in order to produce an appropriate value added i.e. GDP
In the process, some budget users are more efficient and more effective in their work and thus produce relatively higher value added than average, and other budget users are less efficient and less effective and thus produce relatively lower value added than average.
- By using this methodology, though the valuation of the average efficiency in production of 1 denar value added of GDP from the allocation of one denar to the budget user and the payment of 1 denar per employee, we obtain a quantified rate of how much more value added would have occurred in the Macedonian GDP with an increased efficiency of the budget users to the efficiency of those budgetary users which are assessed as relatively most efficient in the RM.
- **This relative higher efficiency would result in proportionally higher value added, and the higher efficiency will be a proxy for the increase of the value added if the budget users think within the frameworks of performance based budgeting.**
- The expected benefits of the introduction of the performance based budgeting by using this methodology are within the range of 13%-40% of the gross value added of the GDP. These are the potential benefits within the range from 850 million to 2,5 billion euros.
- Still, these benefits cannot be expected immediately. It is assumed that these will gradually take place in the following 50 years with 2 percentage points per annum.

- **The net present value of the benefits is expected to reach 4,2 billion euro in the next 50 years (with a discount rate of 8%³) with a 13% technical efficiency improvement.**
- **The net present value of the benefits is expected to reach 13 billion euro in the next 50 years (with a discount rate of 8%⁴) with a 40% technical efficiency improvement.**
- **The estimated benefits are higher than the estimated costs for the same period with a net present value of 99 million euro.**
- **Or, for every denar invested in this reform there are additional 2.600 denars of gross value added in the Macedonian GDP expected, if there is 13% technical efficiency improvement or for every denar invested in this reform there are additional 8.000 denars of gross value added in the Macedonian GDP expected, if there is 40% technical efficiency improvement.**

³According to the CEA assessment public sector discount rate in Macedonia. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20short%20version%20final.pdf>.

⁴According to the CEA assessment public sector discount rate in Macedonia. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20short%20version%20final.pdf>.

I. INTRODUCTION

One of the most frequently asked questions related to the public sector and the fiscal policy issues represents the size of the budget (public sector/state) and the more prominent dimension, concerning the efficient allocation of the public resources, and lately the issues of transparency and accountability of public consumption. These issues are of utmost importance for every citizen, given that the public revenue generation and the provided public goods are directly related to the life of any economic agent in the country. Therefore, the logics for raising the question: How efficiently are the public budget resources spent and is there any way to determine the efficiency of the implementation and the management of the budget activities. It is of particular importance, an identification of the performances to be achieved for each budget activity, in order for these to be realistically assessed as more/less successful. This process is not very easy considering: the political context, the administrative capacity, the level of transparency in determining the results and the outputs/results of each activity (performance), an independent audit of the performance/results, integration of the performances in the political decisions, etc.

Provided that all of these steps are accompanied with numerous issues and dilemmas we prepared the feasibility study for organization of the process and implementation of performance based budgeting, as one of the key preconditions for increased accountability and more transparent budgeting process in the country.

The activities (research/studies) implemented and used as a platform for development of the feasibility study, within the EU funded project are:

- **Development of a methodology for monitoring of accountability and transparency of the budget users, May 2014**
- **Monitoring report of the transparency and accountability of the budget users, August 2014**
- **Performance based budgeting – for improved budgetary process and increased transparency and accountability with needs assessment, September 2014**
- **Accountability and transparency of the budget users, November 2014**
- **Workshop for the concerned interested parties and finally**
- **Feasibility study on performance based budgeting**



We are aware that this is a lengthy process that even in the most developed countries it is not fully completed and faces numerous obstacles. However, we sincerely hope that our project and the research will be the initial trigger that will activate, encourage and steer this important category towards the further development of the budget process in our country. Further on, sections of the other researches and studies listed above which are part of this project are also used.

1. Scope of the study

The definition of the structure, organization and implementation of the concept of performance based budgeting is an extremely complex and intricate activity that requires a combination of methodologies, data and knowledge of the many affected areas, aiming to adequate execution. Thus we are faced with the first challenge - how deeply and how widely to extend the scope for preparation of the feasibility study. Given the implemented activities and the goals (conclusions and recommendations which they derive), as well as the generally defined structures of such research, we attempt to provide a specific, direct and clear picture of the process of organization and implementation of performance based budgeting.

This study should at least aid to the answering of the following questions:

- **Why should performance budgeting be implemented?**
- **How should the implementation of the concept be organized?**
- **Which are the institutions/organizations/economic agents that are included and concerned with the implementation of the new concept?**
- **What are the benefits, and what are the costs related to the implementation of the performance based budgeting?**
- **What is the amount of time and the resources required for the implementation?**
- **What are the risks that could affect the organization and the implementation of performance based budgeting?**
- **What are the wider macroeconomic environment effects of the implementation of the concept?**

Hence, the specific parts of the feasibility study are defined in a manner that should answer the previously stated questions:

I. The first two parts will analyze and summarize the situation concerning performance budgeting in Macedonia. After the brief elaboration of the features of the new concept, the results of the monitoring, conducted by CEA and IDSCS, will be considered, which revealed several trends and gaps in the state budget process (which is of utmost importance for the implementation of the new concept). How does the performance budgeting present a natural evolution of the budget process in the country will also be pointed out. In the second part, a brief picture of the experiences and lessons learned from other countries' implementation of the concept is provided, and a general overview of the initial steps to be taken in the performance budgeting implementation in our country given its specifics.

II. The third part is a cost-benefit analysis considering both the direct and indirect costs related to the implementation of performance budgeting, and the expected benefits for the budget users, institutions, citizens, regulatory bodies, etc. Prior to determining the costs and benefits both the used approach and data is also elaborated, as well as the current situation regarding the subject area.

III. The fourth part is an evaluation of the costs and benefits of introducing of performance budgeting with an assessment of internal rate of return (IRR).

2. Why performance budgeting?

This section is based on the three studies that were conducted as part of this project, as well as the findings and lessons learned from the study trip to Finland where we met representatives of the Finnish institutions that implement performance budgeting. The first study is regarding the monitoring of the transparency and accountability, the second study on the transparency and accountability itself, and the third is the assessment of the needs for introduction of performancebased budgeting.

The results and the conclusions summarize the situation which connects the budget activities with the performances that need to be achieved in R. Macedonia, based on the first monitoring of this aspect conducted by CEA and IDSCS within the project Enhancing transparency and accountability through performance based budgeting. This is the first study of this kind ever conducted in Macedonia.

Study One. Monitoring research – findings and recommendations

The research covered 60 out of the 91 budget users of the budget of R. Macedonia, or 66% of all budget institutions in the country. These budget users manage/allocate around 91% of the total state expenditures, or more specifically for the last three years: 90,3% in 2011, 91,3% in 2012 and 91,7% in 2013⁵. The budget users were firstly monitored and analyzed through the web sites and the published documents, and secondly through direct interviews with the budget user's representatives responsible for the preparation of the budgets for each of the institutions, providing answers to specific questions on the implemented procedures of accountability and transparency (See Trenovski, Damjanov, 2014).

The parts which are covering the areas directly related to the performance budgeting have shown that:

- ✓ Only 26,7% of the monitored institutions classify the expenditures of the budget by program classification.
- ✓ None of the monitored institution does not publish a budget that contains output indicators (at the end of the Annex we provide an extensive table of budget users and indicators used in Macedonia), nor they are used in combination with results/outcome indicators.
- ✓ In terms of transparent disclosure of information/data regarding the strategic plans, programs of the institutions, budget programs, public revenues and expenditures, the situation in Macedonia according to the conducted monitoring can be summarized as following: *96,7% of the institutions⁶ do not publish their timetables for strategic planing and program adopting; 38,3% of the institutions do not provide an explanation of the differences between the projected and actual expenditures/revenues in the Final accounts; none of the institutions do not explain the differences between the original projection of the output indicators and the specific outcome for that year; only 5% of institutions publish the results of the budget expenditure audit; 76,7% do not publish semi-annual and annual reports for program implementation in the last fiscal year; only 30% of institutions have published their current strategic plan on the official website; only 21,7% of the monitored institutions publish and publically share their work program.*

⁵The percentage calculation is based on the available data from the final accounts of the Budget of R. Macedonia from 2009-2013.

⁶From here on, the institutions refer solely to the institutions which are subject of monitoring conducted by CEA and IDSCS.

- ✓ 93,8% of the interviewees answered that they know what the strategic priorities of the Government of R. Macedonia are, and only 65,6% answered that the strategic plan and the strategic goals of the institution are based on the strategic priorities of the Government, while 9,4% responded negatively.
- ✓ Regarding the evaluation of the budget proposals, only 25% of the institutions are using a prescribed methodology, the remaining 56,3% partially use a prescribed methodology, and 18,8% do not use one. While only 21,9% of institutions use a prescribed methodology for evaluation of the achieved program outputs, 37,5% partially use it and the highest percentage of 40,6% do not use a prescribed evaluation methodology.
- ✓ Only 18,8% of the institutions in R. Macedonia responded that they perform analysis of the changing needs of users concerned with the work program of the institution, while the dominant part of the 56,3% do partial analysis;
- ✓ Only 28,1% of the institutions answered that they are not facing difficulties in relating the budget plan with the goals of the strategic plans, 3,1% answered that the objectives in the strategic plans are not clear enough.
- ✓ Only 34,4% of institutions in Macedonia have linked their final budget accounts with an output and outcome indicators of relevant programs, 18,8% have done this partially, and the remaining 46,9% have not linked to the budget accounts with output and outcome indicators;
- ✓ Finally, it is interesting to see whether the institutions of the Republic of Macedonia have heard of performance based budgeting, and whether they know what the concept means. **31,3% havenot heard of performance basedbudgeting. About 50% have heard about it, but do not know exactly what it is and only 18,8% know exactly what performance based budget is. Meaning that only 1/5 of the institutions of the Republic of Macedonia,covered by the analysis are clear what performance based budgeting is.The summarized answers of those interviewed representativesand who responded that they know whatperformance based budgeting is included: preparation, programming and implementation of the budget based on criteria, activities and programs built on the results that are related to the strategic objectives of the organization.**

Monitoring recommendations

- ✓ Introduction of program budgeting among all budget users
- ✓ Identification of input indicators and output, outcome (results) indicators for all budget users. In the first phase, simple indicators could be introduced such as number of employees as input indicator, and simple output indicators (e.g. Number of users of the respective program)
- ✓ The strategic plans of all budget users must be available in electronic version, on the official web sites and must include an implementation timeframe
- ✓ The final accounts of budget users need to contain an explanation of the differences between the projected and actual expenditures
- ✓ The final accounts of budget users need to contain an explanation of the reasons for the differences between the original output indicators projections and the actual results for the year, as well as explanation of the differences between the original projections of the results indicators and actual results for the year
- ✓ All budget users need to disclose an evaluation of the achieved program outputs. The evaluation needs to contain a separate analysis of the profile and the number of public service users as well as their changing needs and the program's response of the particular dynamics
- ✓ The audit results of the budget expenditures must be available in the electronic form on the official website, after the audit report has been published by the State Audit Office (SAO)
- ✓ The action plan for acting upon the findings of the SAO must be available in electronic form on the official website

The second research was related to budget transparency and accountability and the findings are presented below.

Study Two. Research on budget transparency and accountability – findings and recommendations

- ✓ The Draft Budget to be submitted to the legislative body at least three months prior the start of the next fiscal year and thus enable a comprehensive and inclusive public debate and parliamentary oversight of the Draft Budget, i.e. How the citizen's money will be spent in the next year.
- ✓ All budget users should make their draft budgets and audit reports public. The public disclosure is necessary to ensure that the public has an insight into how and where their money will be spent as well as whether they are legally and effectively spent.

- ✓ The Ministry of Finance should start the preparation of the Citizens' Budget so that the citizens and the public can develop an understanding of the budget and its spending. It is recommended that the Ministry of Finance in the preparation of the Citizens Budget will consult the civil society and the international organizations with a knowledge on the preparation of the Citizen's Budget.
- ✓ The Ministry of Finance should correct the delay in adopting the Fiscal Strategy, which must be prepared no later than May 31st during the year
- ✓ The Ministry of Finance in the Fiscal Strategy of the Republic of Macedonia should provide more information on the government plans for resource allocation in accordance with the action programs.
- ✓ The possibility of adopting the Fiscal Strategy of the Republic of Macedonia in the Parliament should be considered in more detail.
- ✓ It is necessary for all budget users to publish their monthly reports with a short comment, review of the budget execution in a given month and comparison with the projected expenditures.
- ✓ It is also necessary, for the Ministry of Finance to fulfill its legal obligation and publish the Semi-annual report, with detailed half-year information on the budget execution, and followed by other institutions as well.
- ✓ It is recommended that the Government and the Ministry of Finance to undertake initial activities to engage the public in consultations on the budget priorities.
- ✓ Besides the publication on the www.otvorenipodatoci.gov.mk, it is recommended that all budget users publish their Budget reports, Budgets, Final accounts, audit reports, budget execution reports as well as other documents on their websites in an Open Data form.
- ✓ The Ministry of Finance needs to introduce mechanisms for citizens and other stakeholders to submit an application for institution's audit. The mechanisms may be available through the filing of petitions and online applications.
- ✓ It is also recommended to the Ministry of Finance, to start organizing an open budget forum on an annual and semi-annual basis, used by the ministry to consult the public and the stakeholders in the budget process.

Study Three-Recommendations and findings of the research for the need for the introduction of performance based budgeting

- Performance budgeting will have a significant impact on strengthening and continuous development of the strategic sectors within the ministries, which will represent a key area where the

strategic goals/indicators are set, which will be further on used in the budgeting process. This will lead towards the integration and linking of all strategic documents and objectives/indicators, from the ministry to the agencies and to the smallest budget user, which will allow a true integration of strategic planning in fiscal management and the budgeting process.

- Performancebased budgeting will allow for focus alteration of the fiscal management from control over the limits of the budget users' resources, towards control of the performance and results that can be achieved with the resources. Thus, there will be a direct linking between the budget resources and the results/performance achieved, while allowing for a performance evaluation and evaluation of the performance of the budget managers.
- The data and information, in the form of indicators coming out of the performance budgeting process, will enable continuous implementation of comprehensive impact assessment analyses, risk analyses, analyses of the life cycle of public expenditure, scenario preparation related to economic-fiscal variables, etc. In this sense, the fiscal strategy will become the actual guide that will have to be followed by the budget users in the coming years (med-term) in order to achieve the planned fiscal targets.
- Performance budgeting will be an especially important leverage mechanism for implementation of the developmental part of the budget, which has large and numerous expected results, since it will enable comparison with the budget expenditure. Thus, the results of the largest state activities will be visible as well as the effectiveness of the policies for achievement of the developmental goals. In this manner, there will be feedback and linkages between the Governmental policies/plans, the activities of the public management and administration, the budget allocation and the results.
- Concerning fiscal transparency in R. Macedonia, which is of utmost importance, (one of the main objectives of this complex project), and in terms of budget transparency and regarding the notes from OBI:
 - ✓ Will enable public presentation and availability of important information (data, program elaboration, etc.) on the implementation of the budget activity, which are currently not available (at least not publicly available);
 - ✓ will enable access to budget activities' results information (through numerous indicators for performance measurement which are not presently available;
 - ✓ Will encourage public (or scientific) debate about the results and the effectiveness of a particular budget (programs, activities,

- users), which directly affects whether the public is properly informed to create a budget opinion based on relevant data;
- ✓ Will be a framework for establishment of numerous indicators following defined standards and practices that will increase the published set of relevant information on a budget activity;
 - ✓ Will enable the public to monitor the effects of the budget more easily and to create an image and an opinion on the fiscal position of the policy-makers;
 - ✓ Will allow a new dimension of the budget audit (of particular interest to the public) which will encompass the results achievement of certain budget segments;
 - ✓ The focus on the results of the performance based budget, on one hand, increases the interest for accountability of the fiscal authorities and transparent presentation of a wide range of information, while on the other hand, it affects the increased interest both for public participation in the budget process as well as intervening when certain programs have proven to be ineffective.

II. PERFORMANCE BASED BUDGETING

1. Definition, reasons for implementation and modalities

Performance based budgeting is a concept that allows us to access information/data on when and whether the budget programs, the agencies and the other institutions providing public services, efficiently and effectively carry out their required work and obligations. Performance based budgeting aims to improve the efficiency and effectiveness of the public expenditure by linking the financing of the organizations/institutions in the public sector with the results that they deliver. The economic pressures, in the last decade, and the increased citizens' demands for improved public sector performance, has been one of the main reasons for the emergence of the new doctrine (performance based budgeting) which supports the conversion from a budget system which is input-oriented towards a budget system that is results-oriented.

While the input-oriented (traditional) budget focuses on the incremental levels of funding, the performance budget focuses primarily on the results. The major drawback of the traditional budget (line-item budget) is the lack of information as a guide for a policy or decision-making tool. In addition, the traditional system may lead to misallocation and an inefficiency of resources due to the insufficient management flexibility

to address for the changing environment and often involves "use it or lose it" situation at the end of the year (Aristovnik and Sleljak, 2009). One of the main reasons for the implementation of the concept of performance based budgeting (as opposed to the traditional concept) is the opportunity it provides in determining whether the projects and activities undertaken by the state institutions, produce results and make changes in people's lives.

There is no single agreed standard definition on performance budgeting, neither for the type of information that need to be part of the performance budgeting or the stage at which should be introduced. There are as well other open issues, especially related to when and how should the performance information be used in the process of decision-making (OECD, 2008).

There is no unique model for performance based budgeting. Even when the countries adopt similar models of this concept, the approach used for its implementation varies, considering the national capacities, culture and priorities.⁷ **Still, there are three major types of performance budgeting (OECD, 2008):**

- **presentational,**
- **performance informed budgeting and**
- **direct performance budgeting.**

⁷For more details for the benefits of the different types and criticism of the performance based budgeting see the analysis Trenovski and Tashevska (2014), where the needs for introduction of the concept are analyzed.

2. Is the concept applicable for Macedonia? Steps in designing and implementation of the performance based budgeting

There are studies that suggest that the concept of performance based budget is inadequate for a number of countries, especially for low-income countries (see Robinson and Last, 2009). These studies suggest that the implementation of the concept should be done only in countries (especially in the underdeveloped and developing countries) with sound macro-fiscal policies, where the laws and the procedures guarantee that the budgets are executed as planned, where the information systems can provide timely and reliable budget information and when there is an opportunity to increase the capacities for further analyses to be conducted during the implementation and the functioning of the concept. On the other hand, it should be kept in mind that countries that have serious problems in public management and with the implementation of the fiscal policies and plans, it is unlikely that there would be benefits from the implementation of performance budget budgeting.

Once we have decided to implement the performance based budgeting, there are generally three strategic areas where choices need to be made (see OECD, 2008):

- top-down vs bottom-up approach;
- comprehensive vs. partial implementation coverage;
- incremental vs. “Big bang” time scale.

In the next part, as the foundation base for the further analyzes in the feasibility study, the analysis of the general steps for the implementation of performance-based budgeting is used, within the light of the Macedonian environment. Therefore, the following will be addressed (for more details see Trenovski and Tashevska 2014)⁸:

⁸Detailed development of the future steps to be taken and the path to follow in the future implementation of the new concept can be seen in formerly conducted analysis (which in part serves as a basis for this feasibility study) Trenkovski Tashevska (2014) where the needs for introduction of the concept are analyses.

Designing the performance-based budgeting – What are the steps to be undertaken⁹?

- Initially, the performance-based budgeting requires to be modified to the current political and fiscal-economic situation of the country (it would be more appropriate to offer the political elite the presentational type of budgeting with an implementation among selected budget users, etc.);
- The objectives and the expected results of the suggested policy reforms should be clearly defined and transparently shared with all process stakeholders;
- Analysis and elaboration of the existing budgetary systems and the how it can simply be connected and transformed into a performance based budgeting. (the current links between the goals, plans and activities of individual budget users should be used);
- Integration of performance information in the budgeting process, however in the initial stage a strong correlation of the performance results and the funds allocation should be avoided¹⁰;
- When designing the reforms the end user should always be considered;
- Involvement of all stakeholders in the process is necessary for creation of a sense of ownership of the budget process' reform and enable stakeholders' active involvement;
- Establishment of a special body to be initially responsible for the design of an appropriate modality (and monitoring) of the concept of performance-based budgeting that will be most suitable for R. Macedonia;
- Development of various types of information about performance - development of various indicator types (qualitative, quantitative, combined);
- Creation of a system for independent assessment of performance information;
- Development of incentives to motivate the civil servants and the politicians to change their behavior and understanding of the budget process;

⁹ The recommendations coming out of the research and the experiences of countries which are in advanced phase of implementation of the concept, and of course considering the current fiscal-economic environment of R. Macedonia

¹⁰On the other hand, there is a need for certain time frame for designing adequate indicators for performance measurement to depict the real situation, while the rushed linkage of the resources and the outputs may lead to distortion of the reality and disruption of the relations among the participants

Which path for performance-based budgeting should be chosen?¹¹:

- Considering the current situation in the country, the most adequate implementation of the concept would be through: top-down approach; partial implementation; and incremental approach.
 - Establishment of a separate body that will be responsible for designing the appropriate modality and the implementation of the concept of performance-based budget which is most suitable for R. Macedonia
 - Partial implementation would mean selection and introduction of performance-based budgeting among selected pilot budget users
 - Incremental approach means phased introduction of performance-based budgeting among the selected pilot budget users
- Ensured political support and the support of the administration is crucial for the reform implementation;
- Continuous development of the capacities of the Ministry of Finance and the other ministries for increased efficiency in the implementation and improvement of the performance-based budgeting.
- Setting precise and specific objectives (this involves an appropriate knowledge of the budget programs), and continuous progress measurement and monitoring towards achievement of the set objectives.
- Establishment of an information and communication system as well as cooperation (consultation) system among the organizations/institutions;
- Continuous adaptation of the used reform implementation approach for enhanced reform adaptation in line with the changing conditions and environment;
- Establishment of a system that will incentivize the civil servants and the politicians for changing of their behavior.

¹¹ Based on the OECD research and experience of the countries, key points for assistance of the implementation of the performance budgeting will be selected. More details on the OECD research and experience can be seen in “Programme Budgeting in OECD Countries”, available at: http://siteresources.worldbank.org/INT/PRS1/Resources/383606-1201883571938/ProgrammeBudgeting_OECD.pdf

III. COST-BENEFIT ANALYSIS

1. Approach and data

The data used for the research/feasibility study are gathered from various sources:

- **Draft Budget of R. Macedonia for 2015.**
- **Law on Budgets**, unofficial consolidated text (Officialgazette of Republic of Macedonia no. 64/05, 04/08, 103/08,156/09, 95/10, 180/11 and 171/12)
- **Budget documents - Fiscal Strategy of the Republic of Macedonia 2014-2016 and the Strategic Plan of the Ministry of Finance 2014 to 2016.**
- **Available socio-economic statistics for R. Macedonia**, data from the three institutions that produce such data - the Central Bank of R. Macedonia, Ministry of Finance and the State Statistical Office.
- **Data from the State Audit Office** (published audit reports and other documents)
- **Data and information from international research and analyses** (often implemented by the international institutions OECD and the IMF, as well as academic/scientific research) for identification of conducted analyzed and confirmed schemes/structures of variables/indicators, estimated values etc.
- **Data and information from other counties' experiences** that have implemented the concept of performance budgeting, or are in the process of implementation.
- **Historical data** (most often used) for costs associated with organizing activities related to the implementation of the concept of performance-based budget (organizing meetings, trainings, workgroups, engaging experts, etc.).
- **Own estimates** for certain positions where there is no relevant data to be referenced, as well as assessments related to indirect costs and benefits that are often expressed qualitatively thus their quantification is a specific process.

2. Current situation

There is a specific situation and environment in R. Macedonia with specific features that are important/crucial in the process of decision-making for the design and implementation of a performance-based budgeting approach. Even though ½ of the institutions in Macedonia are not acquainted with the exact meaning of performance based budgeting it does not pose a great obstacle, as much as the fact that none of the institutions (according to former research conducted by CEA and IDSCS) does not publish a budget that contains output indicators, nor are these used together with results indicators; only 26,7% of the monitored institutions classify the budget expenditures by program classification; the annual accounts of the institutions do not explain the differences between the original projections of the output indicators and the specific outcomes; 70% of the institutions do not publish their strategic plan; only 21,9% of institutions use a specific methodology for evaluation of the achieved program outputs; only 18,8% of the institutions conduct analyzes of the changing needs of the program users; 38,7% of the institutions do not publish any explanation for the difference in the projected and the actual expenditures; 2/3 of the institutions are facing difficulties in linking the budget plan with the goals of the strategic plan.

The absence of the public availability of the institutions' strategic plans, the lack of linkage with budget, the inexistence of methodology for performance evaluation, the lack of output indicators in almost all institution, the lack of analyses of the differences in the allocated resources and the achieved results, including the political rigidity in the country when it comes to budget reforms/changes, indicates of the possibility of serious challenge, and numerous potential obstacles for implementation of performance budgeting¹².

In addition, in the following text we will briefly consider the current situation: the list of the legal acts/other documents, and will elaborate the budget users, their characteristics, structure and output indicators that will be of utmost importance for initiation and implementation of performance budgeting.

Laws, legal acts and documents (*a base to be built upon for implementation of performance budgeting*):

¹²For details of the results and conclusions related to this segment see Why performance based budgeting – new structure and dynamics of the Macedonian budgeting process.

- ✓ **Law on budgets, consolidated text (Official Gazette of R. Macedonia** no.64/05, 04/08, 103/08,156/09, 95/10, 180/11 and 171/12)¹³
- ✓ **Law on state audit** –passed by the Assembly of R. Macedonia with a Decree for Promulgation of the Law on State Audit no. 07-2001/1 as of 6th of May 2010, published in the Official Gazette of R. Macedonia no.66 of 13.05.2010¹⁴.
- ✓ **Rulebook on the manner of conducting state audit** (Official Gazette of R. Macedoniano. 66/10 and 145/10)–prescribing the manner for conducting state audit (planning, execution and reporting for the conducted audit¹⁵), as well as the reports that need to be created and published by the State Audit Office.
- ✓ **Rules of procedure of the Assembly of R. Macedonia** (Official Gazette of R. Macedoniano.91/2008).
- ✓ **Fiscal strategy of Republic of Macedonia 2014-2016**¹⁶and
- ✓ **Strategic Plan of the Ministry of Finance 2014-2016**¹⁷

The analysis of the current status of all budget users and their output indicators (listed in the Budget for 2015.) which are the most important part and the foundation for implementation of performance budgeting indicate (*See Annex for full review of the budget users (indicators and output indicators, number of employees and compensation amount including salaries and benefits) - Budget of the Republic of Macedonia for 2015*):

- 50 out of 92 budget users (including the Health Insurance Fund, Pension Fund and the Employment Agency), which is 54% of all budget users, have not specified output indicators in the 2015 budget. (the situation is the same or even poorer in the budgets for previous years);
- large number of the budget users which are employing the dominant part of the public administration (in the budget for 2015.) and absorb a significant part of the budget, have not set

¹³ Available at:

<http://www.finance.gov.mk/files/u6/5.pdf>

¹⁴ See: http://www.dzr.gov.mk/Uploads/NOV_Zakon_dzavna_revizija.pdf

¹⁵ See:

<http://www.dzr.gov.mk/Uploads/Pravilnik%20za%20nacinot%20na%20vrsenje%20na%20drzavnata%20revizija.pdf>

¹⁶ See details in: http://www.finance.gov.mk/files/u6/FS_septemvri-2014-2016_za_sobranie.pdf

¹⁷ See: http://www.finance.gov.mk/files/u1/2016_na_MF_doc_Konecen-za_na_web_15_01_2014.pdf

any output indicators: Ministry of Finance, Ministry of Interior Affairs, Ministry of Foreign Affairs, Ministry of Justice, Ministry of Education and Science, Agency for Foreign Investments and Export Promotion, Ministry of Environment etc.

- The output indicators that should measure the performance of the budget users (the remaining 42 budget users) are poor and inconclusive (usually only one output indicator is referred) and cannot determine the performance, achievement and fulfillment of the planned objectives/goals. The most commonly encountered indicators are the number of procedures, reports, projects, or permits to be issued/ or their issuance initiated, nevertheless the output indicators do not include a part referring to the successful accomplishment of the goals. For example:
 - ✓ A stated output indicator of the Employment Agency is "the number of unemployed receiving cash benefits for unemployment: 14.318". However is this the indicator that reflects the purpose and the output that the agency should produce?
 - ✓ A stated output indicator of the Ministry of Information Society and Administration is "the number of institutions involved in the project interoperability: 21". Does the ministry of concern implement solely one project and this is the single output that should reflect the performance? Moreover, it is questionable whether this is indeed output or input indicator?
 - ✓ A stated output indicator of the Ministry of Economy is "Number of accepted standards: 1.500, Number of accreditation applications: 180 Number of companies and individuals involved in the voucher counseling: 50".
 - ✓ A stated output indicators of the Ministry of Defense are only the peacekeeping missions abroad "Number of personnel serving abroad as representatives of the Ministry of Defense: 31, Number of persons of the ARM that are participating in peacekeeping missions: 82". Is this really output or input indicator?
 - ✓ A stated output indicators of the State Audit Office is a "Number of audits: 80". Does the number of the conducted audit indicate their quality, and the number of corrective measures implemented based on the audits, etc.

Given that the performance-based budgeting should be founded on the program classification of the budget, it is extremely important to

consider the way the budget is covering the government programs that do not represent a full program classification of the Budget, but they directly represent the government's priorities. Therefore, in an Annex to the study, the government programs are presented in a table and an attempt is made to extract the section (excerpt is made in the form of narrative explanation because there are specific indicators for measuring performance and success) covering the objectives and outputs. (*See Annex - Government programs*).

What are the government programs: "Government programs and sub-programs reflect the activities undertaken by the Government of Republic of Macedonia for implementation of the strategic priorities. These priorities are defined and contained in several documents of the Government of Republic of Macedonia. The resources for financing the government programs are provided by the budget, donations and loans from international financing institutions. The established government programs comply with the regular activities of the individual ministries by providing priority for their financing. The resources planned in the Budget 2015, ensure the implementation of these programs, their implementation continuity, as well as monitoring of the effectiveness in meeting the strategic priorities." (Quoted from: Proposed Budget of the Republic of Macedonia for 2015).

In terms of measuring the performance and the effectiveness of the government programs and sub-programs that reflect the activities of the Government which are undertaken to deliver the Government's priorities in the 2015 budget of the Republic Macedonia it can be concluded:

- A brief description of the programs, goals and partially the containing activities. For example:
 - ✓ Description of the Regional development program - "The purpose of this program is to promote a balanced regional development of the country and to reduce the disparities between the development degrees of the planning regions."
 - ✓ Description of program Enhancement of the environment - "This program covers the implementation of projects concerning the environmental protection and environmental enhancement, sustainable development, valorization and revalorization of the natural values and the like."
 - ✓ Description of Investment programs in education - "Within the framework of this program, during 2015 there will be a significant financing activities in this sector: construction and reconstruction of primary and secondary schools, construction

of school gyms, reconstruction of pupils' and students' dormitories. The purpose of this program is to improve the conditions in the schools, the students' dormitories which is critical to the enhanced quality of education. "

- There are no indicators that would measure the output/performance in the process of achieving the Government's goals. There are merely narrative explanations of what are the Government's programs supposed to achieve in the area. For instance:

B. MEASURES FOR POVERTY REDUCTION	This program includes the activities related to employment increase through implementation of the operating plan for active employment measures, covering different target groups that may be difficult to engage in the labor market, and are intended at poverty reduction.
C. DEFENSE AND SECURITY ENHANCEMENT	The purpose of the program is to promote the defense and security activities of the Republic of Macedonia and support the Ministry of Defense as a leader of these activities to continue to intensify the process of joining NATO.
D. STRENGTHENING RULE OF LAW	The purpose of the program is implementation of anti-corruption Government's initiatives to strengthen cooperation with the International Criminal Court, fight against organized crime and continuation of the reform of the judiciary system.

It is of extreme importance to incorporate indicators for the government programs that should represent the priorities of the Government, which would measure the output and the performance. This is indispensable to continuously monitor the validity of the allocated funds to these programs, and the justification of the structure as well as the method of implementation of the activities related to the programs.

3. Efficiency and effectiveness

Another chronic deficiency, inevitable to be noted in this study, is the need of initiation of any evaluation of the results of the policies implemented by the institutions in Macedonia, which are spending public funds. How is audit and inspection of the public sector conducted in Macedonia?

In the beginning, we would briefly indicate the sections of the legislation related to the state audit that determine the implementation of the state audit. This is essential since it is necessary to assess the measures/activities/programs to define what is the desired achievement, and then the monetary value of those measures/activities/programsto be evaluated i.e.to simultaneously achieve efficiency and effectiveness. In that manner the misconception for fulfillment of the measures/activities/programs in the cheapest way will be avoided and manners for fulfillment of the measures/activities/programs in the best manner (efficient and effective) will be pursued:

CONDUCTING STATE AUDIT (State Audit Law – no. 07-2001/1 of May the 6th 2010, Official Gazette of RM, no. 66 of 13.05.2010)

Article 18

(1) The State Audit shall be conducted in compliance with the auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI) and the rules of INTOSAI Code of Ethics published by the Minister of Finance in the “Official Gazette of the Republic of Macedonia”. (2) **The State Audit Office shall conduct regularity audit and performance audit.**

Article 19

The state audit in the context of this law shall include:

- 1) examination of documents, papers and reports, accounting and financial procedures, electronic data and information systems and other records to ascertain whether the financial statements truly and objectively present the financial position and the results of the financial operations in accordance with the accepted accounting principles and accounting standards;
- 2) examination and assessment of reports of conducted internal control and public internal financial control, examination and assessment of the financial management and control system;
- 3) examination of financial transactions that are public revenues and public expenditures in relation to legal and earmarked use of funds;
- 4) **assessment of the use of funds in relation to achieved economy, efficiency and effectiveness,** and
- 5) assessment of measures undertaken by the auditees concerning ascertained position and recommendations given in the final audit report.

Article 22

(1) State audit shall be conducted on the Parliament of the Republic of Macedonia, the President of the Republic of Macedonia, the Budget of the Republic of Macedonia and the budgets of the municipalities, budget beneficiaries, budget spending units, public enterprises, trade companies where the state is dominant shareholder, agencies and other institutions established by law, other institutions financed by public funds, the National Bank of the Republic of Macedonia, political parties financed by Budget funds, beneficiaries of EU funds (excluding the system for implementation, management and control of the instrument for pre-accession assistance in the Republic of Macedonia) and beneficiaries of funds from other international institutions (hereinafter: auditee).

(2) State audit shall be performed, if need be, on auditees not contained in paragraph (1) of this Article and are in connection with the auditees, have economic, financial or other interest and use funds that are public expenditures.

Article 23

(1) State audit shall be conducted every year on the Budget of the Republic of Macedonia and on the budgets of the funds, whereas state audit on the other auditees from Article 22 of this Law shall be conducted in line with the Annual Programme for operation of the State Audit Office.

The legislation explicitly states that the SAO conducts audit of the regularity and performance.

The main audit performed on the budget of the Republic Macedonia (and other budget users listed in the law) is a **regularity audit**. Specifically, if we elaborate section of the audit report of the central government's budget for 2013, the scope of the audit it defined¹⁸:

- The procedure for preparation, adoption and management of the budget to be in accordance with the legal regulations;
- The institutions that have authority for planning and collection of public revenues to have established records and controls over the implementation, to have complete and reliable documentation and to have established procedures for mutual exchange of data over calculated/expected, collected/uncollected revenue, in order to provide timeliness/accuracy and completeness in the planning and revenue collection;
- Functioning of effective and proper control procedures for prevention/detection of errors in the process of functioning of the treasury account and the records.

It is clear that the audit of the budget is predominantly focused on compliance with the regulations within the budget process, focusing predominantly on the budget revenues (inputs) while the outputs/targets/performance is not even mentioned in the scope of the audit.

In order to grasp how the remarks and conclusions of the audit reports of SAO appear, short excerpts of audit reports on: the Budget of R. Macedonia for 2013, the Ministry of Agriculture and Water Economy for 2010, and the Employment Agency of the Republic Macedonia for 2013 are presented below. In the conclusions part of the audit report of the budget of the Republic Macedonia for 2013, there is a stated qualified opinion on the process of budget planning and its alignment with the strategic priorities of the budget users.

Excerpt of the final report of the chartered state auditor from the conducted audit of the Budget of R. Macedonia for 2013.¹⁹

¹⁸ See report of SAO of the Basic Budget of R.M for 2013 (page 4-5):

http://www.dzr.gov.mk/Uploads/1_Osnoven_budzet_Republika_Makedonija_2014.pdf

¹⁹See:

http://www.dzr.gov.mk/Uploads/1_Osnoven_budzet_Republika_Makedonija_2014.pdf

The compliance audit of the Budget of Republic of Macedonia for 2012 has been completed and an audit report is issued with a qualified opinion for the process of Budget Planning of Republic of Macedonia and compliance with the strategic plans of the budget users, as well as the completeness, accuracy and timeliness in collection of the tax and non-tax revenues of the Budget of Republic of Macedonia. There is an unqualified opinion for the process of functioning of the treasury system for recording.

Regarding the preparation and the adoption of the Budget of Republic of Macedonia we found that the strategic priorities of the Budget of Republic of Macedonia, the Draft Budget of the Ministry of Finance, Budget of Republic of Macedonia, as well as the basic documents for implementation of the strategic goals and programs of the separate budget users, are adopted in the legally defined deadlines, except for the fiscal strategy as a significant strategic document for allocation of the available funds in compliance with the strategic priorities. During 2013, the Government of Republic of Macedonia has adopted Fiscal strategy for the period 2014-2016.

Unofficial translation of excerpt of the audit report

Excerpt of the final report of the chartered state auditor from the conducted audit of the Ministry for Agriculture, Forestry and Water Economy for 2010.²⁰

Based on the results of the audit, we express adverse opinion for the true and objective view of the Balance Statement on 31st of December 2010, while the result of the financial activities for the year ending on the same date is in compliance with the positive legal regulative. We express negative opinion regarding the activities, financial transactions and information's compliance with therelevantlegal regulation.

As most relevant weaknesses identified, within the framework of the determined weaknesses, are the unrecorded receivables and illegally generated revenues based on an extended forest reproduction, incomplete and inauthentic

²⁰See: http://www.dzr.gov.mk/Uploads/1_2010_MZVS_Budzet_631.pdf

documentation for recording part of the expenses, illegally paid funds and partial violation of the Law on Public Procurement for procurements of goods and services.

Regarding the above stated, we pronounce to the responsible authorities within the ministry, to take actions which will enable payment of the funds for extended reproduction to adequate accounts of the Budget of RM, completeness of the accounting documents prior to their approval, recording and payment, legal and earmarked use of the budget funds and rational and efficient usage of the funds in procuring goods and services through consistent application of the Law of Public Procurement.

Unofficial translation of excerpt of the audit report

Excerpt of the final report of the chartered state auditor from the conducted audit of the Employment Agency of R. Macedonia for 2013.²¹

In the final report of the Chartered state auditor number 2011 02 03 of 2012, eight recommendations regarding the formerly stated functional areas, were given.

The recommendations are regarding measures to be undertaken by the responsible person within the Agency to eliminate the weaknesses in the information system, in the part for legal compliance, exact and objective presentation of the balance positions in the financial statements.

Unofficial translation of excerpt of the audit report

The area that we analyze regarding the fulfillment of the performances and objectives leads to the question of what does exactly Performance Audit represent to SAO and the budget users. Whether there really is an audit which determines how many of the objectives and the planned activities are successfully implemented. Bearing in mind that the regulation states that the State Audit should encompass: **assessment of the fund usage with regards to achieved economy, efficiency and effectiveness.**

Below we would only generally compare the performance audits conducted in 2014. It can be concluded (in order to grasp the real

²¹See: http://www.dzr.gov.mk/Uploads/3_Agencija_za_vrabotuvanje_sledenje_preporaki.pdf

situation there are excerpts from Performance Audit of the Ministry of Economy in 2014 is presented):

- The performance audit is conducted for portion of the state budget users;
- The title of Performance audit is: "Efficiency and effectiveness of the financial management, control and internal audit system in"
- This specified title indicates the restrictions and limitations that this Performance audit has, i.e. it is focused only on the technical aspects of financial management, control and internal audit;
- The focus of the performance audit reports (as seen in the excerpt) is aimed at review the performance audit of the infrastructure from the aspects of: legal, regulative, procedures, standards, practices in financial operations, management, control and internal audit.
- The Performance audit reports are missing a vital part to complement performance based budgeting, i.e. the efficiency/effectiveness audit in comparison with the set/planned performance/goals and evaluation of the taxpayers' value for money. One can only determine whether the results (if any results are predetermined in the planning phase of the budget) are fully achieved only when analyzing the performance indicators and objectives;

*Excerpt of the conclusions of the final report of the chartered state auditor (Performance Audit), regarding the audit of the Ministry of Economy in 2014.*²²

The Performance Audit – Efficiency and effectiveness of the financial management, control and internal audit system of the Ministry of Economy (further in the text referred as “ME”) is conducted with the aim to provide evaluation of the efficiency and effectiveness of the financial management and control in the area of implementing the operations in efficient and effective manner, compliance of the operations with the laws and by-laws, property protection, budget funds usage, enhancement of accountability in conducting the tasks and with internal audit.
“The management of the ME has undertaken policies and

²²See:

http://www.dzr.gov.mk/Uploads/8_1_RU_Ministerstvo_ekonomija_REZIME_2014.pdf

concrete activities, for adopting and implementing the strategic documents, by-law acts and internal acts, ISO standards for quality management for the vital activities, delegating authorizations, allocation of roles and responsibilities and the way of planning, execution, reporting and monitoring of the internal audit.

Besides the determined situation of insufficient human resources in the Sector of financial issues, the Department for internal audit, absence of Risk and weaknesses management strategy in the process of inventorying, the audit concludes that there are conditions for establishing and functioning of a financial management, control and internal audit system, however there is a need for undertaking measures and activities for enhancement of the efficiency and effectiveness of the system”.

Unofficial translation of excerpt of the audit report

4. Reform plan

The proposed plan is one of the most important segments of this study, which should elaborate the situation expected to be achieved by implementing the concept of performance-based budget, and development of methods and steps for successful implementation of the planned reform. In this sense, the focus is firstly on the objectives to be achieved with the reform (implementation of the new budgeting concept), and then to work out a detailed implementation plan.

The pursued objectives through the implementation of performance-based budgeting in R. Macedonia²³:

- ✓ Introduction of greater accuracy, precision and certainty in the budget process;
- ✓ Improved linkage between the budget process and the national initiatives for growth and development through better resource allocation;
- ✓ Increased fiscal discipline and aggregate control between all parties involved in the budget process (agencies, ministries, regulatory bodies, sectors/departments etc.);

²³Detailed elaboration of the expected goals of the implementation of the performance based budget in a large number of developing countries and developed countries, see Schwarz and Dorotinsky (2005).

- ✓ Improved focus of the policies and prioritization in resource allocation, program planning and management, since the resources and their allocation must be justified by national and sectorial strategies;
- ✓ Increased efficiency in the diagnosis and treatment of cases with failures in achieving the performance, as a result of systematic monitoring and results evaluation;
- ✓ Increased awareness and culture for performance measurement and the benefits, among all parties involved in the process;
- ✓ Significant assistance and support to the policy makers at all levels of decision-making based on comprehensive and precise information;
- ✓ Reduction of cases that require supplementary (adjustment) budgets and ad-hoc initiatives for budget expenditures, as well as enhancement of strategic planning;
- ✓ Promoting strong motivation among the management structure in the public sector and public administration providing public services as a result of joint consultation for setting targets, clear communication of the targets and goals to be achieved and the manners of execution, as well as the obligation for reporting of the results.

4.1. Proposed steps for implementation of performance based budgeting²⁴

- **Preparation of a platform for increasing institutional capacity**
 - ✓ Creating approach/study for implementation in line with the institutional structure of the state (the starting point is this feasibility study). **In this study the recommendations for the implementing approach are: top-down approach, partial implementation coverage, incremental timescale changes and in the beginning presentational type of performance-based budgeting;**



²⁴The general structure (5 area) for introduction of performance-based budgeting in R. Macedonia generally follows the areas (although they offer 6 areas) that Schwarz and Dorotinsky propose (Schwarz and Dorotinsky, Public Expenditure Working Group Implementation - PRMPS World Bank, May 2005), while the specific steps listed here are designed by the authors considering the current fiscal -economic environment of the country.

- ✓ **Ensuring support from the political leaders** (as well as citizens and administration) is crucial for the implementation of this reform. In order to be implemented the political elite needs to be convinced, and believe that the implementation of this concept is to their advantage and for the benefits of the citizens, which in itself will represent a major challenge. In order to implement this activity, firstly organization of meetings/appointments with the political parties should take place, where the new concept, the benefits and the implementation plan will be presented. It is also recommendable organization of workshops and round tables where the questions of the political elites will be answered (organizing special roundtables for citizens) and where they can express their opinions;
- ✓ Clear definition of the objectives and the expected results of the proposed reforms transparently shared with all stakeholders - policy makers, ministries, agencies, sectors, etc., in order to be acquainted with all the tasks and activities to be implemented. In this direction, continuous workgroups should be organized, trainings for interested parties, as well as design of a special portal where specific information and manuals will be shared, and where ideas and opinions regarding the implementation of the new concept will be gathered.
- ✓ Inclusion of all the interested parties in the process, to create a sense of ownership of the budget process reforms and to be actively involved in the process (especially in the definition of the indicators) - with own proposals, participation in the design and implementation bodies, decision making meetings and in the implementation. The previously designed portal can also be used, thus each opinion and idea concerning the implementation platform will be considered;
- ✓ Suggestion of one centralized organizer "leader" who could lead the whole process. In most countries that have implemented this concept the centralized organizer/leader is the Ministry of Finance which has proven as most successful solution. In this regard the Ministry of Finance will lead (will be leader) the activities related to the implementation of a new concept;
- ✓ Establishment of a special body (within the Ministry of Finance) that will be involved in the defining and detailing the most adequate performance based budget modality for R. Macedonia, and then of the monitoring of the implementation process and recommendations of corrective measures (alterations of the laws, procedures, pilot project implementation, providing training for

the direct implementers etc.), to enable elimination of shortcomings that may arise in the concept implementation. In the first year, the special body would organize coordination meetings at least twice a month. The body would be comprised of representatives of all units involved in the implementation of the new concept, and will be coordinated by the Ministry of Finance;

- ✓ Full assessment of the available institutional capacity. The Ministry of Finance and the special body that will be established should conduct a comprehensive analysis of: manners for resource allocation/inputs and the ability of their linkage with the results/performance, monitoring tools (through the accounts and activities) of the objectives implementation, the possibility for direct and specific linkage of the strategic goals with the programs, activities and results, assessment of the possibilities and capacities of public management, assessment of the capacities and capabilities of internal and external audit, etc.;
- ✓ It is especially recommended to consider the possibilities for reform of the accounting system from cash-based to modification or conversion (partial) to accrual based accounting where the accounting records are based on the occurred transactions;
- ✓ Implementation of the reforms and organization of training for the capacity increase of all stakeholders of the concept implementation (in accordance with the conducted analysis/assessment);
- ✓ Reform and preparation of new strategic plans in the spirit of performance-based budgeting, which would clearly associate the allocated inputs with the expected results. Hereby, it will require reform of the Budget Law, the Law on State Audit, Rules of Procedures of the Parliament of Republic of Macedonia, Fiscal Strategy of the Republic of Macedonia 2014-2016, the Strategic Plan of the Ministry of Finance 2014-2016, Strategic Plans of the pilot ministries (it is necessary to introduce multi-annual budget planning), etc.

- **Planning and budget process reforms aiming at performance**

- ✓ Development of a program classification of the budget that will continue to serve as the basis for performance based budgeting. With this innovation, besides the revenue and expenditure section of the budget, it should contain a separate section of well-defined budget plans for the direct budgetary users (to be oriented towards performance). Among other things, this means that the financial plans of the direct budget users should be oriented



towards performances/results, which should be reflected in the explanation of the financial plan as well. According to this, the goals and the associated anticipated results must be clearly defined together with the indicators for achievement of the goals. Since partial implementation would be more appropriate in the initial period, our proposal inline with the common practices in other countries²⁵, is an implementation of the **concept within the Ministry of Education, Ministry of Health and the Ministry of Labor and Social Policy;**

- ✓ Elaboration/analysis of the existing budget system and how the parts of the budget system can most easily be linked and converted into a performance based budget budget. The existing links between the objectives, plans and the activities of the individual budget users can be used as a basis for implementation of the new concept, considering that the existing strategic plans of budget users (Ministry of Education, Ministry of Health and Ministry of Labor and Social Policy) contain parts which connect their objectives with the strategic objectives of the Government and parts where there are indicators for the expected outcomes of the programs and activities;
- ✓ Development of different types of information about performances - development of different types of indicators (qualitative, quantitative, combined). In this direction, the number of targets should be limited to avoid a complicated system of performance measurement. Nevertheless, it is desirable that multiple measures and indicators for achievement of the selected targets are used. This is one of the most complex and the most important steps in the process of designing performance based budgeting. In this process the involvement of the management structure of the initial implementing budget users, is inevitable in order to set realistic indicators for performance measurement. For implementation of this activity experts with experience in the implementation of this concept could be engaged who would facilitate the overall process. –We suggest setting up of three work groups (which would later on develop into sectors) in each pilot ministry, separately composed of: 5 members from each ministry + 2 external experts + input from other employees (under the supervision of the previously created regulatory body within the Ministry of Finance;

²⁵Countries which implement the concept initially in ministries which are market oriented – citizens/businesses. See Schwarz and Dorotinsky (2005).

- ✓ Setting of precise and specific objectives (this involves good knowledge of the budget programs and the work of the budget users) and continuous measurement and monitoring of the progress towards achievement of the objectives. The achievement of the indicators set should be continuously monitored by the working body and the involved budget users, in order to avoid disappointment and reduced motivation for the concept implementation in the case if shortcomings or failure to achieve the planned performance targets occur. This activity can be part of the tasks of the established work groups in each ministry;
- ✓ Signing contracts with the departments, agencies and ministries that contain the expected performance indicators and the accompanying rights and obligations. The work groups together with the body established within the Ministry of Finance prepare the contracts for the pilot ministries and the agencies and these contracts contain the agreed performance indicators.

- **Information on performance, incentives and motivation for efficiency and effectiveness**



- ✓ Improved presentation, reporting and dissemination of the information regarding the performance indicators, which is the lifeline within the concept of performance-based budgeting. The information on performance indicators should be adequately presented in order to accomplish its goal. Nevertheless, the limits of the performance information, their role of the performance measurement and their usage should be clear as well. This activity includes preparation of reports and brief analyzes (both for the policy makers, the parliament and the public) that periodically (preferably quarterly) would report on the performance and objectives achievement per budget user's program and activities. Such analyzes periodically (quarterly) initially would be prepared by the work groups of the pilot ministries and the consolidated report would be prepared by the body within the Ministry of Finance;
- ✓ Development of an incentive system to motivate the public administration and the politicians' behavior change in understanding of the budget process. They should understand the process of implementation of performance based budgeting as an opportunity to improve the efficiency of their operations, making

appropriate/right decisions and policies, and the fulfillment of the established objectives;

- ✓ The establishment of an information and communication system and the cooperation (consultation) among the organizations/institutions which are involved in the implementation of the information based budgeting. This is particularly important in the process of implementation of the concept, but it is important for the functioning of the process (sharing experiences, problems, dilemmas, joint action, changes, notifications, cooperation). It is particularly important to identify the best practices that have proven as successful and share them with the interested parties. This can be done on a continuous basis or on defined regularity - e.g. twice a month;
- ✓ Creation of a system that would motivate behavior change among the public administration and the politicians (to support the reform process), which is particularly complex and lengthy process, however particularly significant for smooth implementation and normal functioning of the new concept. In order to achieve this roundtables, workshops and public debates could be held, where the best practices and benefits of implementation of the new concept will be noted;
- ✓ Creation of a system to motivate the administration involved in the implementation process towards achievement of a greater efficiency and effectiveness while fulfillment of the objectives. Regarding this activity, the departments, agencies and the budget users which have achieved their goals, and an outstanding performance or are leaders in the reform, etc., could be promoted, or ranked;
- ✓ Setting up of a mechanism of procedures and practices that will ensure transparency and accountability of the budget users involved in the implementation of the performance based budgeting.

- **Monitoring and Evaluation**



- ✓ Creation and implementation of an independent performance evaluation system/mechanism for the achievement of the budget users' objectives. It is especially important for the evaluation to pinpoint the best practices and lessons learned which could then be distributed back to the interested parties. The evaluation body will analyze the collected data, create reports/analyses for the budget users' achievement of the planned outputs and will grant

access of the information to the interested parties (policymakers, budget users, public, etc.). There should be a special body established for the purpose of performance evaluation;

- ✓ Performance audit –an additional audit of the process how the budget users conducted their tasks, administered the resources for achieving the established objectives and whether the objectives have been met, needs to be conducted. For this purpose there is a need for state audit regulation alteration and the aspects taken into account by SAO in the implementation of the audit should be extended.
- ✓ Setting up a system of standards which can be used for grading and evaluation of the budget users. For example: programs with similar or identical goals should report to the Ministry of Finance similar/common performance measures; integration of budget requests with the annual performance plans to be achieved with clearly specified performance targets; providing expenditure information of individual programs per unit, to reflect the total cost of the implementation of the programs.

- **Corrective measures and decision making for improvements**



- ✓ Integration of performance information in the budget process, nevertheless in the beginning strong correlation of performance results and allocation of resources should be avoided, i.e. decision-making based on the performance information should be avoided. This is particularly important because such relationships may initially discourage the participants to seriously consider the process or look for ways to create an image that the performance indicators are satisfactory, and actually not opt for improved performance.
- ✓ Identification of the problem areas and to suggest modifications for the processes of service or activities implementation or to make changes in the operating practices and procedures.
- ✓ Identification of the reasons for the problems that affect the achievement of the objectives/performance and development of an action plans to remove the problems.
- ✓ In the areas with clear indications of low performances and unfulfillment of the targets, decisions can be made or the Government may penalize certain activities, could reduce the support or sanction the management structure. In contrast, the Government may increase the support of specific programs,

promote best practices and results, reward successful budget users and managers in the public sector.

In line with the abovementioned, the same steps, with small adjustments need to be made at a budget user's level for those budget users involved in the implementation of performance-based budgeting. Since partial implementation would be more appropriate in the initial period, our proposal based on the common practices in other countries (who initially implemented this concept in the ministries which are market-citizen oriented) is an initial **implementation of the concept in the Ministry of Education, Ministry of Health and the Ministry of Labor and social Policy.**

Due to the detailed elaboration of the whole proposed process of implementation of performance based budgeting on a system level, the main phases will be once again listed:

- ✓ **Preparation of a platform for increasing institutional capacity**
- ✓ **Planning and budget process reforms aiming at performance**
- ✓ **Information on performance, incentives and motivation for efficiency and effectiveness**
- ✓ **Monitoring and Evaluation**
- ✓ **Corrective measures and decision making for improvement**

The table below presents the phased approach of introduction of performance-based budgeting. The table will be used for calculation of the direct costs used in the cost-benefit analysis for introduction of performance-based budgeting in R. Macedonia.

Table 2. Phased Approach to introduction of performance based budgeting

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase	
<i>Month/Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
<i>Preparation of a platform for increasing institutional capacity</i>	Meeting with politicians (4 meetings with the 4 large political parties).	Meeting with politicians (2 meetings with the smaller political parties). 2 round tables with the civil sector and the academic community.		Designing of a portal of information, data and directions sharing (2 new employees for maintenance of the system).											

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase
<i>Month/Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<i>Preparation of a platform for increasing institutional capacity</i>		Preparation of a study (2 foreign experts and 4 domestic experts).			Meetings with three pilot ministries which will be initially included in the implementation (3 meetings) and 2 meetings with the remaining budget users	Trainings and workshops of increasing the instruction's capacities – based on the conducted trainings needs assessment. Training for representatives (at least 5 sessions): Ministry of Finance, State Audit Office, Parliament, pilot ministries, Government.								
				Establishment of a special body within the Ministry of Finance (two meetings per month). Consisting of 3 representative of the Ministry, one representative of the 3 pilot ministries, 3 representatives of other budget users who will rotate on an annual basis and 3			Working body of the Ministry of Finance together with the representatives of the institutions preparing the strategic document for reform. Reform of the Law on budgets, Law on state audit, Rules of procedure of the Assembly of R. Macedonia, Fiscal strategy of R. Macedonia 2014-2016, Strategic plan of Ministry of Finance 2014-2016, Strategic plan of pilot ministries.							

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase
<i>Month/ Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<i>Preparation of a platform for increasing institutional capacity</i>				new employees.										
					Evaluation (study) conducted by the newly established body for institutional basis upon which the new concept will be built. Two external experts engaged.									

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase
<i>Month/ Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<i>Planning and budget process reforms aiming at performance</i>				Working body within the Ministry of finance together with 3 representatives from the 3 pilot ministries (total of 9 representatives from the pilot ministries further on are part of the work groups which should evolve in sectors), prepares program budgets for the institutions*			Development of various types of performance information—indicators (qualitative, quantitative, combined), monitoring of the implementation and contract preparation – 3 work groups comprised of maximum 7 representative members/sectors within the ministry (later on sectors) in each of the pilot ministries (5 members +2 external experts + contribution from other employees), under supervision of the regulatory body							

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase	
<i>Month/Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
<i>Information on performance, incentives and motivation for efficiency and effectiveness</i>							<p>Regulatory body at the Ministry of Finance together with the work groups within the pilot ministries are responsible for preparation of the preparation of quarterly reports for performance achievements and good practices for creation of system and policies for incentivizing of the administration and the interested parties as well as system/mechanism for transparency and accountability. The working body within the Ministry of finance together with the work groups in the pilot ministries meet twice per month.</p>								
							<p>The reports, conclusions of the meetings as well as other information are published on the formerly created portal. The rest of the budget users can get informed, provide an opinion and request for organization of round tables or other means for their involvement and information. Preferably once quarterly a discussion/meeting to be organized with all budget users, to share experiences</p>								

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase	
<i>Month/Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
<i>Monitoring and Evaluation</i>					<p>Establishment of a special body for monitoring and evaluation of the implementation process and performance achievement. The body will consist of: 2 representatives of the Ministry of Finance body, 1 representative per pilot ministry, SAO and a representative (the president) of the Committee of financing and budget</p>		<p>Changes in the SAO operating regulations (formerly mentioned). Enabling the support to SAO for establishment of a specific sector for performance and fiscal policy audit. Initially, the sector will be comprised of three employees (two new employees and one current employees who will designate 50% of their time).</p>								

<i>Phases*</i>	1st Phase			2nd Phase			3rd Phase			4th Phase			5th Phase	6th Phase
<i>Month/Activity</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14
<i>Corrective measures and decision making for improvements</i>										The reports (quarterly) of the work groups and the body within the Ministry of Finance, together with the results/reports of the monitoring and evaluation body and the SAO reports are submitted to the Committee of Financing and Budget within the Assembly and are discussed on a Parliamentary session.				

** Some of the phases/activities include establishment of bodies which will continue their operations and meet occasionally after their establishment. Due to better visual representation the table presents only the envisaged period for their establishment.*

IV. COST-BENEFIT ASSESSMENT OF PERFORMANCE BASED BUDGETING IMPLEMENTATION

The detailed development of the phases of performance based budgeting implementation allows us to get to the more specific part of the analysis that should thoroughly define the costs and the benefits of the overall process of implementation of the new concept. Considering that it is a process of reform which on one hand, causes major changes in the entire public sector, on the other hand is an revolutionary process (as the experience of other countries show) with an implementation and modification that can last a long period (over a decade); the cost-benefit assessment uses all available data, and assumptions to frame-in the entire analysis. The purpose of this assessment is to come out with a concrete empirical analysis (cost-benefit) that will demonstrate the net gain or net loss from the introduction of the concept. According to our findings, the analysis of the cost-benefit net effect from implementation of the performance-based budgeting, is the first of such a kind. Therefore, it will contain a number of assumptions and approximations that will allow to closelycover a large number of complex activities.

1. Performance based budgeting cost assessment

The analysis of the implementation costs of this complex process/concept is an intricate procedure which should include a number of activities associated with each of the steps in the implementation of performance-based budgeting. There is no methodology or system that will allow us to determine the total cost of the concept implementation, given that the design and implementation steps are different for each individual country, and the structure of the public sector in various economies has own characteristics that cannot be generalized.

Given these reasons, the basis for estimation of the implementation cost of performance-based budgeting in Macedonia will be the procedure/methodology used by the Government of the Republic Macedonia regarding the Regulatory Impact Assessment - RIA²⁶. The methodology is fully aligned with the existing system for strategic planning in the ministries and the procedures for policy and the decision-

²⁶The Ministry of Information Society and Administration is the ministry user and the ministry which manages this process. See details of the regulation, prepared reports and the documents regulating this area on: <https://ener.gov.mk/default.aspx>

making coordination within the Government of Republic of Macedonia. The methodology represents an upgrade of the existing practices introduced in 2009, which also comply with the positive experiences and practices in the European Union Member States as well as the OECD countries²⁷.

The analysis of the documents and acts regulating this area: Methodology for regulatory impact assessment Official Gazette of RM no. 107/2013; - Guidelines for the manner of acting in the work of the ministries in the involvement in the process of conducting of Regulatory Impact Assessment, Official Gazette of RM no. 106.2013; - Code of Good Practices in the participation of civil society sector in the policy making process, Official Gazette of RM no. 99/2011; as well as the Manual for regulatory impact assessment, <http://www.mioa.gov.mk> – define the key steps in the assessment of the impact/effect of new process implementation²⁸:

- ✓ Situation analysis, problem definition and goal setting;
- ✓ Identification of possible solutions;
- ✓ **Analysis of the costs, impacts and benefits of the identified solutions;**
- ✓ **Planning of the manner of conducting, monitoring and evaluation.**

The study thus far defined the situation in details, the problems and the goals to be achieved with the implementation of performance-based budgeting. The possible solutions and steps for implementation were also developed in detail. The benefits in each area (specifically) and their assessment will be developed in the following section after determining of the costs. Thus, the remaining part of the study is concerned with the analysis and cost determination of the implementation of the activities and the planned steps. Most often the specific activity implementation costs under the aforementioned acts are: - the establishment of new institutions/bodies or expanding responsibilities and organization of the existing authorities, the necessary human resources and their training needs, investments (office space), supervision needs, equipment, etc.

The following section will determine the costs for each of the previously developed activities and procedures in the implementation phase. The

²⁷See point 1 of the Methodology for Regulatory impact assessment, Official Gazette of Republic of Macedonia, no. 107/2013

²⁸For details see point 2.2 Conducting regulatory impact assessment, Methodology for regulatory impact assessment, Official Gazette of R. Macedonia no. 107/2013

calculation method will also be explained. In the process of determining the costs, the following will be taken into account: the cost of organizing the planned activities (meetings, sessions, trainings etc.), costs for creating new bodies/departments/institutions, cost for the time spent and the commitment of the participants in the process of implementation of the concept, and finally the approximate cost for all employees who will be part of the reform. However, it should be considered that the calculations and the implementation scenario of the concept in terms of the existing structure and efficiency of public administration is deliberately overestimated. This can be concluded from the numerous analyzes and recommendations of the institutions in the country and the international institutions (recommendations by the European Commission) that point to the country's extremely slow, inefficient and numerous public administration. Having this into account, part of the calculated costs, do not necessarily mean new employees or additional costs for the existing employees, given that the new system implementation can use certain dislocations of the insufficiently used resources of the public administration.

This notion is confirmed with the numerous evaluations reports of introduction of new regulations and changes in R. Macedonia, which often indicate that there are no additional implementation costs (in particular for the implementation and compliance with the regulation), although there are additional engagement of public administration²⁹.

²⁹For details see the reports for regulatory impact assessment of numerous regulations which are already implemented or are planned to be implemented. See: https://ener.gov.mk/default.aspx?item=pub_regulation

Table 3: Cost assessment of introduction of performance-based budgeting

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
I	Meeting with politicians (4 meetings with the 4 large political parties). The meetings are envisaged with 5 representatives from the Ministry of Finance and three representatives of civil society sector.	Estimated cost calculation: 40% of the average compensation of the Ministry of Finance employees (4 out of 20 working per month = 20% + 4 more days for preparation). As a proxy for the cost of the representatives of the civil society is 20% of the average gross salary paid in the country in October 2014 which is 31.080 ³⁰ denars + Plus as much for preparation. The average salary of the Ministry of Finance employee is 33.888 denars or 40% on a monthly basis is 13.556 denars. For the civil society the calculation is 12.432 denars on a monthly basis. Total = (5 * 13.556) + (3 * 12.432) = 67.780 + 37.296 = 105.076 denars	105.076 denars (occurring once, unless there is a need to repeat it as an additional cost)
I	Meeting with politicians (2 meetings with the smaller political parties). The meetings are envisaged with 5 representatives from the Ministry of Finance and three representatives of civil society sector. 2 round tables with the civil sector and the academic community. The round tables will be organized by the	Estimated cost calculation: 40% of the average compensation of the Ministry of Finance employees (4 out of 20 working per month = 20% + 4 more days for preparation). As a proxy for the cost of the representatives of the civil society is 20% of the average gross salary paid in the country in October 2014 which is 31.080 ³¹ denars + Plus as much for preparation. The average salary of the Ministry of Finance employee is 33.888 denars or 40% on a monthly basis is 13.556 denars. For the civil society the calculation is 12.432 denars on a monthly basis. Total = (5 * 13.556) + (3 * 12.432) = 67.780 + 37.296 = 105.076 denars	105.076 denars (occurring once, unless there is a need to repeat it as an additional cost)

³⁰See more: <http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=41>

³¹See more: <http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=41>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	Ministry of Finance (the same number of persons)		
I	Preparation of a study (2 foreign experts and 4 domestic experts). The domestic experts will be hired on a monthly basis -2 working months. The foreign experts will be engaged for 45 work days.	Estimated cost calculation: domestic experts (business specialists in business and administration) according to the SSO for 2010 gross earnings is 527.779 denars or 43.982 ³² on a monthly basis (2 months = 87.964 denars). 4 local experts for total of 351.856 denars. Foreign experts will be engaged for 45 work days * 10.000 denars or 900.000 denars for two experts	1.251.856 denars (the amount is for 2 working months – occurring once)
II	Designing of a portal of information sharing and communication of interested parties, data and directions (2 new employees for maintenance of the system in the Ministry of Information Society and Administration). Hiring 5 domestic experts for designing of the portal. Domestic experts will be hired for period of 2 working months. Foreign experts	Estimated cost calculation: Domestic experts (Specialized in information and communication technology) in accordance with the SSO calculations for annual gross salary for 2010 of 610.126 denars or 50.845 per month ³³ (2 months = 101.690 denars) and total for 5 experts = 508.450 denars. Foreign experts hired for 45 work days * 10.000 denars or total for 2 experts 900.000 denars. Two newly employees, a proxy for the costs are the operating costs per employee in the Ministry of Information Society and Administration which are annually recorded at 469.000 denars. (or 39.083 per month)	1.408.450 denars. (for experts-occurring once) + 78.166 (per month) or 938.000 per annum for two new employees

³²See structure of compensation per groups:
<http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=113>

³³See structure of compensation per groups:
<http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=113>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	will be hired for a period of 45 work days.		
II	Meetings with three pilot ministries which will be initially included in the implementation (3 meetings). 2 meetings with the remaining budget users previously included representatives in the meetings with the politicians are present on the meetings (3 representatives of the civil sector and 5 representatives from the Ministry of Finance).	Estimated costs calculation: 40% of the monthly compensation of the Ministry of Finance employees. A proxy for the costs for the civil society representatives is 20% of the average gross salary in the country in October 2014 which is 31.080 ³⁴ denars + as much for preparation. The average salary for the Ministry of Finance per employee is 33.888 or 40% on a monthly basis which is 13.556 denars. For the civil society sector the calculation is 12.432 denars per month. Total = $(5*13.556) + (3*12.432) = 67.780 + 37.296 =$	105.076 denars (occurring once, unless there is a need to repeat it as an additional cost)
II	Establishment of a special body within the Ministry of Finance (two meetings per month). Consisting of 3 representative of the Ministry, one representative of the 3 pilot ministries, 3 representatives of other budget users who will rotate on an annual basis and 3 new employees.	The proxy for the engagement of the tree representatives is 40% of the average compensation of the Ministry of Finance employees. The average gross salary of the Ministry of finance is 33.888 or 40% on a monthly basis 13.556 denars (for three representatives = 40.668). For the representatives of the three pilot ministries the costs are calculated at 40% of the average gross salaries = Ministry of education $(535.548*40\% = 214.219$ annually or 17.852 per month). Ministry of labor and social policy $(350.372 *40\% = 140.148$ annually or 11.680 per month). Ministry of health	$40.668 + 17.852 + 11.680 + 19.917 + 164.001 = 254.118$ denars (per month)

³⁴ See for more details: <http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=41>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
		(597.503*40%=239.001 annually, or 19.917 per month). The costs for three new employees are calculated based on the operating costs per employee in the Ministry of Finance which are recorded at 656.000 denars annually or 54.667 denars per month (for three employees= 164.001)	
II	Evaluation (study) conducted by the newly established body for institutional basis upon which the new concept will be built. 4 external experts: 2 domestic experts hired for 40 work days and 2 foreign experts hired for 20 work days.	The calculation of the costs is for the external experts only, since the engagement of the members of the newly established body within the Ministry of Finance are already calculated. Calculation of the estimated costs: domestic experts (Specialists for business and administration) According to the SSO for 2010 the gross annual salary is 527.779 denars, or 43.982 per month ³⁵ or 2.200 denars per day. (40 work days = 88.000. 2 domestic experts total 176.000 denars. Foreign experts for 20 work days * 10.000 denars or total for two experts 400.000 denars.	576.000 denars. (occurring once)
II	Working body within the Ministry of finance together with 3 representatives from the 3 pilot ministries (total of 9 representatives from the pilot ministries further on are part of the work groups which should evolve in	The representatives of the three pilot ministries are calculated as 40% of the average gross salary (for two months) = Ministry of education (17.852 per month), Ministry of labor and social policy (11.680 per month), Ministry of health (19.917 per month). Total = (3*17.852) + (3*11.680) + (3*19.917) = 53.556 + 35.040 + 59.751 = 148.347 per month.	296.694 denars. (for two months total – occurring once)

³⁵See structure of compensation per groups:

<http://www.stat.gov.mk/PrikaziSooptenie.aspx?rbtxt=113>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	sectors), prepares program budgets for the institutions		
II	Establishment of a special body for monitoring and evaluation of the implementation process and performance achievement. The body will consist of: 2 representatives of the Ministry of Finance body, 1 representative per pilot ministry, SAO and a representative (the president) of the Committee of financing and budget	<p>The representatives of the three pilot ministries cost are calculated at 40% of the average gross salaries of Ministry of education (17.852 per month), Ministry of labor and social policy (11.680 per month), Ministry of health (19.917 per month). Total =17.852+11.680+19.917= 49.450 per month.</p> <p>The representative of the SAO 40% of the monthly gross salary compensation 25.273 (63.184*40%) per month. Costs for compensation of the Parliament committee at 40% of the average gross salary of the R. Macedonia Parliament =21.281(53.204*40%) per month.</p> <p>Total for the Monitoring and evaluation body operation = 96.004 denars</p>	<p>96.004 denars. (per month)</p>
III	Changes in the SAO operating regulations (formerly mentioned). Enabling the support to SAO for establishment of a specific sector for performance and fiscal policy audit. Initially, the sector will be comprised of three employees (two new employees and one current employees who	<p>The estimated costs for this activity is based on the total operating costs for three new employees as part of the initial sector. According to the 2015 Budget the operating costs per employees in SAO is 1.012.000 (or 84.333 denars per month). Costs for two new employees will be 168.667 denars. For the current third employee 50% time the costs are 31.592 (50% of the average gross salary of SAO)</p>	<p>200.259 denars. (per month)</p>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	will designate 50% of theirtime).		
II-III	<p>Trainings and workshops of increasing the instruction's capacities – based on the conducted trainings needs assessment.</p> <p>Training for representatives (at least 5 sessions): Ministry of Finance, State Audit Office, Parliament, pilot ministries, Government.</p>	<p>Each of the sessions estimates around 30 representatives of each institution for a period of 1 week. The estimated cost per trainee for hired expert and implementation of the trainings is 15.000 denars. The cost for 30 participant trainees is 450.000 denars. The estimated value for 5 training sessions is 2.250.000 denars. The sessions can be conducted in the planned period of 5-6 months and can be repeated in the next 3-5 years.</p>	<p>2.250.000 denars. (occurring once, distributed in a 5-6 months period)</p>
II-III	<p>Working body of the Ministry of Finance together with the representatives of the institutions preparing the strategic document for reform. Reform of the Law on budgets, Law on state audit, Rules of procedure of the Assembly of R. Macedonia, Fiscal strategy of R. Macedonia 2014-2016, Strategic plan of Ministry of Finance 2014-2016, Strategic plan of pilot ministries</p>	<p>The estimated costs for this activity to be implemented in a period of 6 months is calculated based on the costs for engagement of 3 representatives (legal representative at least 2) of each of the concerned institutions by the reform of the listed documents (if needed others should be included as well): Ministry of finance, the three pilot ministries, SAO, the Assembly.</p> <p>The costs for the representatives of the three pilot ministries are calculated at 40% of the average gross salaries of Ministry of education (17.852 per month), Ministry of labor and social policy (11.680 per month), Ministry of health (19.917 per month). Total= (3*17.852) + (3*11.680) + (3*19.917) = 148.506 per month (for 6 month). SAO representative cost calculated at 40% of the monthly</p>	<p>328.863 denars (per month) Activity conducted in a period of 6 months – Total cost = 1.973.178 denars</p>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
		<p>gross salary 25.273 (63.184*40%). For the three SAO representative = 75.819. The cost for the Assembly committee 40% of the average gross salary of the Assembly of RM = 21.281(53.204*40%) per month. For three representative = 63.843.</p> <p>Costs for the Ministry of Finance as average gross salary per employees at 33.888 or 40% per month 13.556 denars (three representatives = 40.668). Total for the activity = 328.836 denars per month (deadline for implementation 6 months)</p>	
II-III	<p>Development of various types of performance information— indicators (qualitative, quantitative, combined), monitoring of the implementation and contract preparation – 3 work groups comprised of maximum 7representative members/sectors within the ministry (later on sectors) in each of the pilot ministries(5 members +2external experts + contribution from</p>	<p>Costs for representatives of the three pilot ministries calculated at 40% of the average gross salary Ministry of education (17.852 per month), Ministry of labor and social policy (11.680 per month), Ministry of health (19.917 per month). Total = (5*17.852)+(5*11.680)+(5*19.917)= 89.260+ 58.400 + 99.585=247.245 per month</p> <p>Other costs calculation: external experts (Specialists for business and administration) in accordance with the SAO calculations for gross salary for 2010 for this type of experts is 527.779 denars, or 43.982 per month³⁶. Two experts' costs per month is 87.964 denars.</p>	<p>335.209 denars (per month)</p>

³⁶See structure of compensation per groups:
<http://www.stat.gov.mk/PrikaziSooostenie.aspx?rbtxt=113>

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	other employees), under supervision of the regulatory body		
III-IV	Regulatory body at the Ministry of Finance together with the work groups within the pilot ministries are responsible for preparation of the preparation of quarterly reports for performance achievements and good practices for creation of system and policies for incentivizing of the administration and the interested parties as well as system/mechanism for transparency and accountability. The working body within the Ministry of finance together with the work groups in the pilot ministries meet twice per month.	None(previously defined)	
III-IV	The reports, conclusions of the meetings as well as other information are published on the formerly created portal. The rest of the budget users can get informed, provide an opinion and	None	

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	request for organization of round tables or other means for their involvement and information. Preferably once quarterly a discussion/meeting to be organized with all budget users, to share experiences.		
IV	The reports (quarterly) of the work groups and the body within the Ministry of Finance, together with the results/reports of the monitoring and evaluation body and the SAO reports are submitted to the Committee of Financing and Budget within the Assembly and are discussed on a Parliamentary session.	None	

Phase	Step/Activity for Performance Budgeting Implementation	Estimated costs for activity implementation	Value (In MKD.)
	<p>Approximation of the total annual costs for implementation, incentivizing and human resources for all three pilot ministries for the concept performance budgeting is estimated at 10% of the total work time and efforts of each of the ministries.</p>	<p>Ministry of education and science – number of employees: 5.646, costs for gross salaries: 3.023.706.000, the cost for 10% is 302.371.000 or 1, 35% of the ministry’s budget. Ministry for labor and social policy– number of employees 1.815, costs for gross salaries 635.925.000, the cost for 10% is 63.525.500 or 0, 2% of the ministry’s budget. Ministry of Health– number of employees 147, costs for gross salaries 87.833.000, the cost for 10% is 302.371.000 or 0, 15% of the ministry’s budget.</p>	<p>374.746.400 denars. (for all three pilot ministries, annual cost)</p> <p>31.228.867 (per month)</p>
...	<p>After three years of implementation of pilot projects, other budget users are included in the new concept of performance budgeting. Besides the already calculated costs for the functioning of bodies / authorities for implementation of the process that were presented above for the first year – an approximate cost of the entire system is also calculated – it is assumed that it will be necessary for at least three years, while the public sector is adjusting to the new concept.</p>	<p>The estimate of the total annual cost for implementation of the concept of performance-based budgeting for all budget users, for a period of three years during the implementation process and adaptation is 10% of the time and effort of each employee within the budget users in R. Macedonia. Specifically, this means that the average 20 working days of each employee an additional 2 days will be used for reform and motivation to implement the new concept. Number of employees according to the 2015 Budget are 50.325. The total costs for salaries and allowances is 24.450.405.000. Calculation of 10% of the amount for salaries is 2.455.041.000.</p>	<p>2.455.041.000 denars (annually, which is around 1% of the total budget for the budget users)</p>

Table 4 – Calculation of the costs in phases, months and years

Phase	I			II			III			IV		
Month	1	2	3	4	5	6	7	8	9	10	11	12
Costs (in denar)	105.076	105.076	1.251.856	1.408.450	105.076	148.347						
					576.000							
					148.347							
I YEAR				78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166
				254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118
					96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004
						200.259	200.259	200.259	200.259	200.259	200.259	200.259
							450.000	450.000	450.000	450.000	450.000	450.000
							328.863	328.863	328.863	328.863	328.863	328.863
								335.209	335.209	335.209	335.209	335.209
				31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867
TOTAL	105.076	105.076	1.251.856	32.969.601	32.486.578	32.334.624	32.971.486	32.971.486	32.971.486	32.971.486	32.971.486	32.192.623

Phase	I			II			III			IV		
Month	1	2	3	4	5	6	7	8	9	10	11	12
Costs (in denar)	105.076	105.076			148.347	148.347						
II YEAR	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166
	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118
	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004
	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259
							450.000	450.000	450.000	450.000	450.000	450.000
	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209
31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867
TOTAL	32.297.699	32.297.699	32.192.623	32.192.623	32.340.970	32.340.970	32.642.623	32.642.623	32.642.623	32.642.623	32.642.623	32.192.623

Phase	I			II			III			IV		
Month	1	2	3	4	5	6	7	8	9	10	11	12
Costs (in denar)	105.076	105.076			148.347	148.347						
III YEAR	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166
	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118
	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004
	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259
							450.000	450.000	450.000	450.000	450.000	450.000
	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209
31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867	31.228.867
TOTAL	32.297.699	32.297.699	32.192.623	32.192.623	32.340.970	32.340.970	32.642.623	32.642.623	32.642.623	32.642.623	32.642.623	32.192.623

Phase	I			II			III			IV		
Month	1	2	3	4	5	6	7	8	9	10	11	12
Costs (in denar)	105.076	105.076			148.347	148.347						
IV Y E A R	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166	78.166
	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118	254.118
	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004	96.004
	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259	200.259
							450.000	450.000	450.000	450.000	450.000	
	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209	335.209
	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750	204.586.750
TOTAL	205.655.582	205.655.582	205.550.506	205.550.506	205.698.853	205.698.853	206.000.506	206.000.506	206.000.506	206.000.506	206.000.506	205.550.506
<p><i>The fifth and sixth year incur the same cost as the fourth year, while starting from the seventh year the approximate costs for all employees are in amount of 204.586.750 denars, the costs for meetings are in the amount of 105.076 denars, while the costs for training with the amount of 450.000 denars are eliminated and solely the cost for the functioning and development of the new concept remain.</i></p>												

<i>Table 4</i>		Implementation period					Functioning period (costs related to the functioning of the new concept after the implementation – the same cost is kept in the following years
Months	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
1	105.076	32.297.699	32.297.699	205.655.582	205.655.582	205.655.582	963.756
2	105.076	32.297.699	32.297.699	205.655.582	205.655.582	205.655.582	963.756
3	1.251.856	32.192.623	32.192.623	205.550.506	205.550.506	205.550.506	963.756
4	32.969.601	32.192.623	32.192.623	205.698.853	205.698.853	205.698.853	963.756
5	32.486.578	32.340.970	32.340.970	205.698.853	205.698.853	205.698.853	963.756
6	32.334.624	32.340.970	32.340.970	205.698.853	205.698.853	205.698.853	963.756
7	32.971.486	32.642.623	32.642.623	206.000.506	206.000.506	206.000.506	963.756
8	32.971.486	32.642.623	32.642.623	206.000.506	206.000.506	206.000.506	963.756
9	32.971.486	32.642.623	32.642.623	206.000.506	206.000.506	206.000.506	963.756
10	32.971.486	32.642.623	32.642.623	206.000.506	206.000.506	206.000.506	963.756
11	32.971.486	32.642.623	32.642.623	206.000.506	206.000.506	206.000.506	963.756
12	32.192.623	32.642.623	32.642.623	205.550.506	205.550.506	205.550.506	963.756
Total (in MKD)	296.302.864	389.518.322	389.518.322	2.469.511.265	2.469.511.265	2.469.511.265	11.565.072
Total (in €)	4.857.424,00	6.385.546,26	6.385.546,26	40.483.791,23	40.483.791,23	40.483.791,23	189.591,34

1.1 Assessment of additional costs

The additional (indirect) costs largely relate to promotion, presentation and raising of the awareness and knowledge on performance-based budgeting, benefits of this concept and the results/effects of the concept on the budgeting process and the broader environment.

The second type of additional costs are associated with the possible occurrence of obstructions and obstacles in the process of the new concept implementation caused by the political parties, policy makers and the other stakeholders.

Following the aforementioned, these costs would include:

- Implementation of a campaign prior the implementation of the performance based budgeting, which would include:
 - ✓ organizing roundtable
 - ✓ organizing at least three public debates
 - ✓ meetings with the 4-5 major political parties in the country,
 - ✓ media publication of a brief analysis of the main aspects related to performance based budgeting.

- Implementation of campaign that would follow the implementation of the performance based budgeting in the first year:
 - ✓ organizing two public debates
 - ✓ one round table
 - ✓ half-year publication of information on the implementation process of implementation and the effects.

- Elimination of obstructions and obstacles associated with the new concepts that may arise from different parties/factors. Thus, there would be a time waste, delayed implementation of certain activities and organizing additional coordination meetings to overcome obstacles. The estimation of these costs associated with the risks is challenging, therefore a sensitivity analysis of the direct and indirect costs, will be conducted to see the impact on the economic rate of return.

2. Benefit assessment of performance based budgeting introduction

Performance based budgeting is a concept that directly affects the elimination or reduction of many of the inconsistencies and omissions in the planning, implementation and monitoring of the state budget. General benefits (which were elaborated in more detail in the section concerning the scope of the study) of the implementation of this concept are:

- Performance based budgeting will primarily have a significant impact on strengthening and a continuous development of the strategic sectors in the ministries, which will represent a key area where the strategic objectives/indicators are set, and which will further be used in the budgeting process.
- Performance based budgeting will allow for a focus change of the fiscal management, from control of the limited funds of the budget users, to control of the performance and the results that can be achieved with these funds.
- The data and the information expressed in the form of indicators arising from the process of performance based budgeting will enable continuous application of comprehensive impact assessment analyses, risk analyses, analysis of the life cycle of public expenditure, scenario preparation of the economic and fiscal variables, etc.
- Performance based budgeting will be especially important leverage mechanism for the implementation of the developmental section of the budget.
- The implementation of this concept will have a significant contribution to the fiscal transparency in the state, which is of utmost importance.

Both for the feasibility study as well as for the cost-benefit study it is necessary to analyze the benefits of the concept implementation for different stakeholders. Thus, we refer to the benefits of performance based budgeting for:

- ✓ **The Central Government**
- ✓ **Regulatory bodies (SAO, inspection services, etc.).**
- ✓ **Budget users (ministries, agencies, etc.).**
- ✓ **Business Sector**
- ✓ **Citizens**

Benefits for the Central Government:

- Direct and detailed monitoring of the work, efficiency and performance of the budget users (and their sectors, units, etc.);
- Specific information on the achievement of the targets (as well as the extend) of each budget user;
- More efficient achievement of the objectives, mission and vision of the Central Government by the budget users;
- Improved resource allocation - based on the performance information, the policy and budget decisions can cover: support and/or penalization of certain budget user/department/program, as well as alteration of the operations, where necessary etc.;
- Increased efficiency of the entire public sector (increased outputs with a reduced inputs);
- Transparent presentation of the achievements and the performance (or failure) of the work of the entire structure of the budget users;
- Improved public support for specific programs or projects that need to be implemented (based on demonstrated good performance);
- Improved support (stronger argumentation) for credit financing and other financial support from specific programs and projects of the creditors and international financial institutions;
- Specific guidelines for planning of future policies, programs and projects, especially in periods of global economic disturbances (increasing fiscal multipliers);

Benefits for the regulatory bodies:

- Establishment of a detailed/functional system of indicators to measure performance will present a solid foundation for monitoring the budget users' work as well as control/audit/regulation;
- Increased efficiency of the regulatory bodies -
 - ✓ Shortened time for conducting their work
 - ✓ Reduced costs for performing control/audit regulation
 - ✓ Improved outputs of the regulatory bodies (more detailed and more specific)
- Easier detection of flaws in the sectors/agencies/ministries that do not meet the objectives, which will enable provision of specific instructions to correct the shortcomings or failures;

Benefits for the budget user (Ministries, Agencies, etc.):

- Simplified and detailed monitoring of their work and the fulfillment of the objectives and outputs (at the level of departments, sectors, ministry);
- Better insight into the success/failure and the shortcomings in the work of their units (shortening the time and increased accuracy detection) that allows for right decision making and concrete reward, support or sanctioning;
- Improved resource allocation within the budget user;
- Improved argumentation for support from the central government and the citizens for the projects and activities carried out;
- Greater flexibility for the public sector managers - that will be unrestricted in combining the given inputs to achieve the planned outputs;
- Improved decision making (management) of policies, activities and projects to be implemented in the future.

Benefits of the business sector:

- More efficient state that will lead to a reduction of the costs for public services;
- Better/higher quality public services and public goods - which will contribute to saving time and resources (faster detection of deficiencies in the provision of the services and creation of adequate public services/goods as needed);
- Transparent monitoring of the public sector performance which is of interest to the businesses;
- Increase knowledge, awareness and ability to represent the interests of the business sector, based on the performance of the programs, departments, ministries, agencies providing public services for the interest of the business sector.

Benefits for the citizens:

- Provision of higher quality and timely public goods and services;
- Reduction of the prices of the public services/goods - more efficient public service (price reduction is referring to the needed public revenues collected from citizens for provision of public goods and services);
- Transparent monitoring of performance and efficiency of the public sector that they finance;
- Increased knowledge, awareness of the public sector;

- Stronger representation of interests in front of the responsible public services;
- Increased accountability of the public sector for the implemented policies, programs and projects.

2.1. Methodology on Benefit calculation

The methodology applied is a microeconomic approach for measuring technical efficiency in the production of gross value added in the GDP of Macedonia, using the inputs of the budget users' budgets and the number of employees. Thus, on the one hand there are budget users using public funds to provide socio-economic environment for the economic agents, and on the other hand, are the results measured in a sectorial gross value added of the GDP.

The main shortcoming of this approach is that all production sectors in the Macedonian GDP (ESS system of 2010) are taken as homogeneous, at least in terms of labor intensity. It is also assumed that the system of production of the added value is with constant sectorial economy of scale because it is difficult to evaluate adequate economy of scale for all sectors. The idea is that through the state budget funds allocation and the number of employees, the budget users are providing adequate environment for the Macedonian socio-economy and the society to produce an appropriate value added i.e. the GDP. Some budget users are more efficient and effective in their work and thus produce relatively higher value added, and other budget users are less efficient and less effective thus produce relatively lower value added.

With an assessment of the average efficiency of production of 1 denar value added of the GDP from the allocation of 1 denar to the budget user and the payment of 1 denar per employee we can get a quantified number of how much more value added would have occurred in the Macedonian GDP through an increased efficiency of the budget users to the efficiency of those budgetary users which are assessed with this methodology as the most efficient in the RM. **This higher relative efficiency in the operations would make a proportionally higher value added with a higher efficiency which will be a proxy for how much would the value added increase if the budget users think within the frames of performance budgeting.**

To measure the percentage of higher relative efficiency, which will be a proxy for the percentage increase in the value added in the Macedonian

GDP, we will use the frontier analysis obtained with mathematical programming frontier. This is a non-parametric method of Data Envelopment Analysis-DEA³⁷. We will also apply a parametric analysis method by Stochastic Frontier Analysis-SFA³⁸ to get another quantitative estimate of the average (in) efficiency of the Macedonian budget users in their impact on the production of the gross value added in the GDP.

2.2. Data Envelopment Analysis -DEA frontiers

Starting from the pioneers Charnes, Cooper & Rhodes (1978), so far there have been published some 2,800 articles and dissertations using DEA (See: Cooper, Seiford & Tone, 2000; Seiford, 2005).

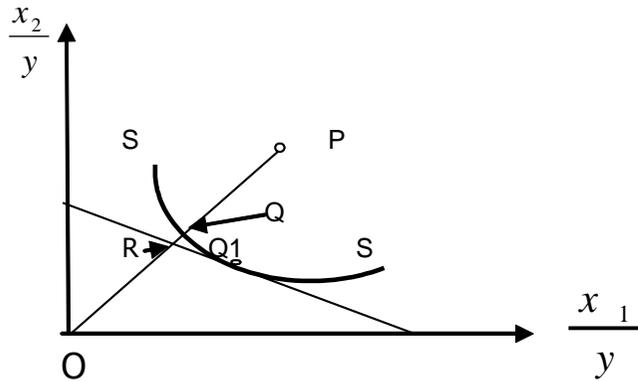
DEA is a useful method since it provides flexibility for efficient modeling of the Decision-Making Unit-DMU and allows modeling of the links between production functions with multi-input and multi-output and allows performance measurement. Furthermore, DEA is data oriented and does not require assumptions which are rather restrictive for regression calculation i.e. for purpose of statistical methods. The main drawback of this method is that it cannot model the noise and the statistical error, thus consequently the statistical hypotheses cannot be tested. Another disadvantage of DEA is its sensitivity to heterogeneous DMU. In our case DMU are the budget users grouped according to the ECC system of 2010 using the total budget allocation and the number of employees to ensure adequate gross value added of the GDP.

The DEA dynamics is illustrated in the following graph. The graph provides combination of two measures, both technical and allocative efficiency arising from the total economic efficiency.

³⁷Details of DEA programming is explained in Coelli (1996a).

³⁸Details of SFA programming is explained in Coelli (1996b).

Graph 1. Illustration of DEA dynamics



Source: T. J. Coelli, *A Guide to DEAP Version 2.1: A Data Envelopment Analysis (Computer) Program*, 1996a

The graph clearly explains that the entity (in this case the budget user) uses two inputs (budget allocation and number of employees), x_1, x_2 , and produces one output (in this case value added), y . The unit isoquant S-S is an isoquant of fully efficient entity (in this case the budget user). Regarding this isoquant, there is production function which is for fully efficient budget users. The tangent of the isoquant S-S is the technical rate of substitution and measures by how much does one input need to be adjusted to sustain constant output if the second input is not altered. If the budget user operated inefficiently for example in point P, the measure of technical efficiency is then the distance QP. This distance is the quantity by how much the input of the budget user needs to be reduced to accomplish the same value added with reduced input i.e. with increased efficiency. The percent of input reduction to achieve full technical efficiency is actually the ratio QP/OP .

Therefore the technical efficiency (TE) according to the graph is:

$$TE = OQ/OP = 1 - QP/OP \quad (1)$$

From the equation (1) it is clear that the TE will have a value or 0 to 1 and thus it is efficient quantitative indicator of technical efficiency of the budget user. For example, if the budget user is fully efficient then the adequate value of TE will have a value equal to 1.

What can be noted from the graphs and the equation (1) is that the point Q is technically efficient but it is allocatively inefficient. This occurs because the budget user need to reduce the production costs as well, in order to reach the fully efficient point. Hence, the allocative efficiency (AE) of the budget user which operates in the point P is:

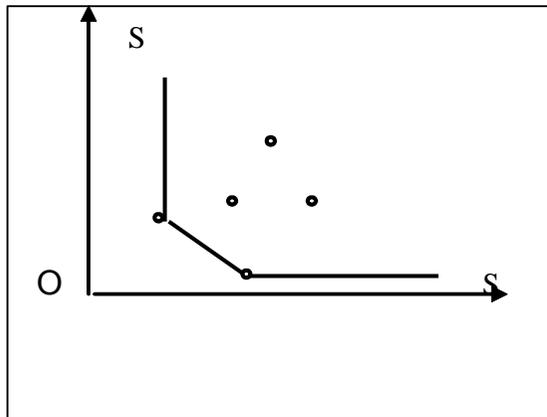
$$AE = OR / OQ \quad (2)$$

The distance RQ represents the reduction of the production costs which will occur if the production of value added is conducted with full technical and allocative efficiency i.e. in point Q₁ instead in the technically efficient, but allocatively inefficient point Q. Henceforth, the total economic efficiency will be (EE):

$$EE = OR / OP = TE \cdot AE = OQ / OP \cdot OR / OQ \quad (3)$$

Farell (1957) calculates the isoquant on a manner that the no observed point should line left or below those appropriate frontier points that are found by the mathematical programming, as it is illustrated in the following graph.

Graph 2 Calculation of the data isoquant



Source: T. J. Coelli, *A Guide to DEAP Version 2.1: A Data Envelopment Analysis (Computer) Program*, 1996a

2.3. Stochastic Frontier Analysis - SFA

Another similar method for estimation of the frontier curve is a parametric method Stochastic Frontier Analysis-SFA. In this method despite the random statistical noise it introduces a noise for exogenous shocks for the budget users. This enables decomposed deviations of the budget users' performance into two components: inefficiency and noise.

This parametric approach for measuring the efficiency is developed by Aigner and Chu (1968), Aigner, Lovell and Schmidt (1977) and Meeusen and Van den Broeck (1977) and is illustrated with the following equation:

$$\ln(Y_i) = \beta \ln x_i + (V_i - U_i) \quad (4)$$

Where Y_i – is production of value added of the i-th budget user;

β Parameters vector;

x_i is (k x 1) vector of the input transformation of the i-th budget user;

V_i are independent identically distributed $N(0, \sigma_v^2)$ random variables independent of U_i ;

U_i are random variables (non-negative) which are assumed to represent the inefficiencies for production of value added and are assumed to be independently identically distributed.

The model of the equation 4 is a stochastic frontier because it is limited by the stochastic variable $\beta \ln x_i + V_i$ and the stochastic frontier which varies around the determined part $\beta \ln x_i$.

The new statistic γ – is defined to test whether the inefficiency is significant in the model and is calculated as:

$$\gamma = \frac{\sigma_U^2}{(\sigma_V^2 + \sigma_U^2)} \quad (5)$$

If $\sigma_u^2=0$ then this implies there are no effects of the budget users U_i (i.e. $\gamma=0$) and then the deterministic model should be used. If $\gamma=0$ then the deviations around the frontier are caused by a noise, and if $\gamma=1$ then the deviations are due to the technical inefficiency.

2.4. Model

The idea of this model is that the budget users with the allocation of the budget funds and the number of employees provide an adequate environment for the Macedonian socio-economy and society in order to produce appropriate value added i.e. GDP. Some budget users are more efficient and more effective in their work and thus produce relatively higher value added than average, and some budget users are less efficient and less effective and produce relatively lower value added than average.

With an assessment of the average efficiency in the production of 1 denar value added of GDP from the allocation of 1 denar to the budget user and the payment of 1 denar per employee, we will obtain a quantified figure of how much more value added would have occurred in the Macedonian GDP in a situation of increased efficiency of the budget users to the efficiency of those budget users that are relatively most efficient in RM. **This higher relative efficiency in the operations would make a proportionally higher added value, which higher efficiency will be a proxy for how much would the value added eventually increase if the budget users think within the frame of performance budgeting.**

2.5. Data

The selection of the data, inputs and outputs are based on:

- Budget of RM for 2012;
- Value Added according SSO for 2012;
- The Output is the value added for 2012 by the production method of GDP in ESS 2010 sector classification;
- The Inputs are the budget funds allocation per budget user, the costs for salaries and benefits for the budget users employees and the number of employees;
- The Inputs of the budget users are appropriately linked to the output (value added) of the sectors of the GDP production method according to the ESS 2010 classification of sectors.

According to the production method of GDP by ESS 2010 sector classification, there are 10 sectors. The budget users are linked to one of these 10 sectors of the GDP production method and by the ESS 2010 sector classification.

With the DEA and SFA analysis, we assess the average (in) efficiency of these budget users in the production of value added through the usage of the allocated budget and with the usage of the salaries and benefits.

2.6. Estimation Results

DEA-VRS Results

We estimated the DEA-VRS frontier³⁹ for one period (year 2012) for 10 sectors within the GDP production method by the ESS 2010 sector classification. We use variable economies of scale and DEA which is output oriented. The results are illustrated in the table below.

Table 6 - DEA-VRS efficiency scores

	Sector, ESS 2010	Constant	Variable	Economy of scale
1	Agriculture, forestry and fishing	0.006	0.544	0.011
2	Mining and quarrying; Manufacturing; Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities	0.141	1.000	0.141
3	Construction	1.000	1.000	1.000
4	Wholesale and retail trade; repair of motor vehicles and motorcycles; Transportation and storage; Accommodation and food service activities	0.020	1.000	0.020
5	Information and communication	0.080	0.376	0.213
6	Financial and insurance activities	0.000	0.173	0.002
7	Real estate activities	0.106	0.834	0.127
8	Professional, scientific and technical activities; Administrative and support service activities	0.002	0.190	0.011
9	Public administration and defense; compulsory social security; Education; Human health and social work activities	0.001	0.887	0.001
10	Arts, entertainment and recreation; Other service activities; Activities of households as employers; undifferentiated goods- and services-	0.003	0.142	0.024

³⁹DEAP 2.1 software used, developed by Coelli (1996a).

	producing activities of households for own use			
	Average	0.136	0.615	0.155

The estimated average efficiency of approximately 60% (0,615), which means that budget users can reduce the inputs in an average of about 40% to achieve a maximum technical efficiency. Once again we note that we do not control for the heterogeneity of the sectors in our calculations and the calculations are based on the sector, which has shown the best results in the production of value added, while the inputs of budget users are taken into account. Thus, we are not getting into the individual scoring efficiency because we are interested in the average efficiency that is considered as a proxy value.

SFA estimation results

Cobb-Douglas SFA equation in the following algebraic form is used:

$$\ln(Y_i) = \beta \ln x_i + (V_i - U_i) \quad (10)$$

The results of the SFA estimation⁴⁰ of the Cobb-Douglas production function are given in the following table. The positive signs in front of the variable indicate that the variable has a positive effect on the efficiency.

Table 7 – Results of the SFA assessment

	Variables $\beta \ln x_i$	SFA Cobb-Douglas model
0	Intercept - β_0	0.098 (0.066) ²
1	Budget allocation in denars	0.347 (1.462)
2	Salaries in denars	-0.015*** (-6.062)
	Sigma squared	2.936*** (21.608)
	γ	0.999*** (2282617)
	LL ¹⁾	-1.565

⁴⁰Used software Frontier version 4.1 developed by Tim Coelli (1996b).

Note:

10 observations

1) LL is log likelihood of the model.

2) t-statistics in parenthesis

* significant at a significance level of 10% (critical value of 1.860)

** significant at a significance level of 5% (critical value of 2.306)

*** significant at a significance level of 1% (critical value of 3.355)

From the table, we see that the γ statistics are statistically significant in showing that there is technical inefficiency and that the SFA model is better than OLS estimation model. The parameters are with the following mathematical sign: higher budget allocation would mean higher technical efficiency, and a higher rate for salaries would mean lower technical efficiency. The budget allocation is not statistically significant variable in our case, while the amount of the salaries are statistically significant at the significance level of 1%.

Comparison of DEA-VRS efficiency scores with SFA efficiency scores

The comparison is illustrated in the following table

Table 8. - DEA-VRS efficiency scores and SFA efficiency scores

	DEA scores	SFA scores
Mean	0.615	0.887
Median	0.689	0.701
Maximum	1.000	0.983
Minimum	0.142	0.007
Std. Dev.	0.369	0.353

The average technical efficiency with the SFA method is estimated at 88,7% and with the DEA-VRS method 61,5%. These results show that the efficiency can be improved in average by about 40% (DEA-VRS) or by 13% (SFA) by reduction of the inputs (lower wages or lower resource allocation for the corresponding rate) in order to achieve the same value added or with the same salaries and the same allocation of resources there could be an average increase of the value added in the range of 13% to 40%. The distribution of scores is on average around the mean, less with the SFA method than with the DEA-VRS method (difference between median and average). The standard deviation does not show large values. Once again, emphasizing the heterogeneity of sectors which are not controlled in our calculations.

2.7. Conclusion

The aim of the study was to assess in average by how much could the technical efficiency in some of the budget users be improved to provide such a socio-economic and social environment for the economic agents to achieve higher value added in the Macedonian economy. We considered that the technical efficiency in Macedonia can be improved in the range between 13% and 40%. The implicit assumption is that this improvement among some of the budget users can be achieved by achieving the efficiency of those budget users that have the highest average efficiency.

The implicit assumption is that with the introduction of performance budgeting at least we expect to happen is budget users to increase their technical efficiency at least to a level to be equal to the other more efficient budget users. If this happens, it is possible to expect benefits from the introduction of performance based budgeting at least in the range between 13% and 40% of the gross value added of the GDP. These are possible benefits in the range of 850 million euro to 2,5 billion euro.

Nevertheless, it cannot be expected that the benefits would be felt immediately. Based on the experience of a significant number of developed countries (Finland, Denmark, Sweden, which started the process in 1980s, later on the UK, Canada, Australia and Slovenia within the region Slovenia, which even after 15 years is still in the concept development phase, etc.⁴¹) That have implemented a performance based budgeting, the lesson learnt is that the introduction of this concept cannot be certainly confirmed as completed and it can last for decades. Considering the time periods of 3-4 decades of development and implementation of performance budgeting in the developed economies (with developed public sector, political and democratic system), we establish the period when the benefits and costs can be expected from the implementation of the new budgeting concept.

Therefore, in this analysis, we assume gradual benefits of 2% per annum (in the following 50 years) out of the expected 13% to 40%, which we calculated and which are amounting to 850 million euro to 2,5 billion euro.

⁴¹ 40% of the counties develop the concept for over 10 years (see OECD, 2008).

For the purposes of this study we will continue to operate in this range of benefits, from the introduction of performance budgeting in RM and with a dynamics of 2% higher value added of the expected benefits from 13% to 40% annually. This is illustrated in the following chart which shows the Macedonian GDP in euros with a projection for a long term period (2% growth in the long-run) and simulation of possible improvements of performance budgeting introduction.

Chart 1 GDP and GDP with performance introduction

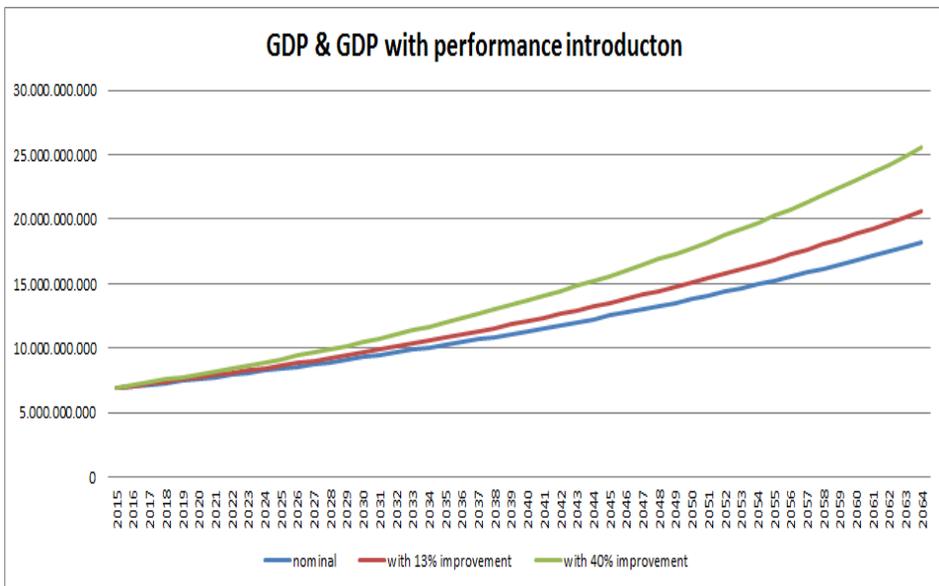


Chart: Simulation of GDP of RM from introduction of performance budgeting with 13% and 40% increased efficiency, in million denars.

3. Cost Benefit Analysis

Considering that both the costs and the benefits of the introduction of performance budgeting in Macedonia are estimated we illustrate and evaluate the cost-effectiveness for a period of 50 years of the reform in Macedonia. It assumes a long-term growth of the Macedonian economy by 2%. To assess the costs in the cost-benefit analysis Regulatory Impact Assessment – RIA⁴² is used. The methodology is fully aligned with the existing system for strategic planning in the ministries and the policies coordination procedures and the decision-making in the Government of Republic of Macedonia.

The costs for each of the previously developed activities and procedures in the implementation phase were determined. The method for the cost calculation was also explained. In the process of determining the total costs following cost are taken into account: organization of the planned activities (meetings, meetings, trainings etc.), establishment of new bodies/departments institutions, time and commitment of the participants in the process of implementation of the concept, as well as the approximate cost for all employees who will be part of the reform.

The costs are assessed by the dynamic illustrated in the table below expressed both in denars and in euro.

Table 9.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Functioning period (costs related to the functioning of the new concept after the implementation – the same cost is kept in the following years)
296.302.864	389.518.322	389.518.322	2.469.511.265	2.469.511.265	2.469.511.265	11.565.072
4.857.424	6.385.546,26	6.385.546,26	40.483.791,23	40.483.791,23	40.483.791,23	189.591,34

⁴² The Ministry of Information Society and Administration is a ministry user and ministry managing the process. See details on the regulations, prepared reports and documents regulating this area: <https://ener.gov.mk/default.aspx>

Net present value of the estimated costs for a period of 50 years is 99 million euro (8% discount rate⁴³).

To assess the benefits the study uses a microeconomic approach for measuring technical efficiency in production of gross value added in the Macedonian GDP using the inputs of the budget users' budgets and their employee number. Therefore, on one hand the budget users are expending public funds to provide socio-economic environment for the economic agents, and on the other hand the result is measured in sectorial gross value added of the GDP.

The idea behind our model is that the budget users with the state budget funds allocation and with the number of employees provide adequate socioeconomic and societal environment in order to produce an appropriate value added i.e. GDP. Some budget users are more efficient and effective in their work and thus produce relatively higher value added than average, while other budget users are less efficient and less effective and thus produce relatively lower value added than average. With the valuation of the average efficiency in production of 1 denar value added of GDP by the allocation of one denar to the budget user and the payment of 1 denar per employee, we obtain a quantified rate of how much more value added would have occurred in the Macedonian GDP with an increased efficiency of the budget users to the efficiency of those budgetary users which are assessed as relatively most efficient in the RM using this methodology.

This relative higher efficiency would result in proportionally higher value added, and the higher efficiency will be a proxy for the increase of the value added if the budget users think within the frameworks of performance budgeting.

The expected benefits of the introduction of the performance budgeting by using this methodology are within the range of 13%-40% of the gross value added of the GDP. These are the potential benefits within the range from 850 million to 2,5 billion euro. Still, these benefits cannot be expected immediately. It is assumed that these will gradually take place in the next 50 years with 2 percentage points per annum.

⁴³ According to CEA's estimation of the public sector discount rate. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20short%20version%20final.pdf>.

The net present value of the benefits is expected to reach 4,2 billion euro in the next 50 years (with a discount rate of 8%⁴⁴) with a 13% technical efficiency improvement. The net present value of the benefits is expected to reach 13 billion euro in the next 50 years (with a discount rate of 8%⁴⁵) with a 40% technical efficiency improvement.

The estimated benefits are higher than the estimated costs for the same period with a net present value of 99 million euro. Or, for every denar invested in this reform there are additional 2.600 denars of gross value added in the Macedonian GDP expected, if there is 13% technical efficiency improvement or for every denar invested in this reform there are additional 8.000 denars of gross value added in the Macedonian GDP expected, if there is 40% technical efficiency improvement.

Taking into consideration the results of the cost-benefit analysis, without reluctance we can confirm that this reform of the Macedonian budget system is more than needed. The costs of implementation are symbolic in terms of what the policy makers in Macedonia can accomplish – i.e. create an efficient and effective mechanism for the allocation of public money. Thus, we hope that this attempt and pioneering analysis for assessment of the effects of the introduction of this concept will be initial trigger that will provoke an impetus for the reform.

⁴⁴According to CEA's estimation of the public sector discount rate. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20hort%20version%20final.pdf>.

⁴⁵According to CEA's estimation of the public sector discount rate. See: <http://www.cea.org.mk/documents/studii/Public%20Sector%20Discount%20Rate%20hort%20version%20final.pdf>.

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Annex

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
1001	President of Republic of Macedonia	70,990	25,970	48	Number of employees: 48 Operating costs per employee (in thousand denars): 1.334	Number of international visits of the President and return visits of state representatives of other countries: 49
1002	Intelligence Agency	163,038	126,322	220	Number of employees: 220 Operating costs per employee (in thousand denars): 707	none
2001	Assembly of Republic of Macedonia	689,110	293,051	459	Number of employees: 459 Operating costs per employee (in thousand denars): 1.059	Number of effective hours in held sessions/meetings: 840
2002	State Audit Office	117,405	72,030	95	Number of employees: 95 Operating costs per employee (in thousand denars): 1.012	Number of conducted audits: 80

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
2003	State Commission for Prevention of Corruption	31,232	18,032	25	Number of employees: 25 Operating costs per employee (in thousand denars): 1.165	Number of implemented activities by the institutions responsible for implementing the activities of the State program compared to the total number of activities: 80%
2004	State Election Commission	100,136	53,116	107	Number of employees: 107 Operating costs per employee (in thousand denars): 558	Number of days in trainings held: 30
2005	Commission for Protection of Competition	20,869	17,159	28	Number of employees: 28 Operating costs per employee (in thousand denars): 778	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
2006	Directorate for Personal Data Protection	23,834	15,574	24	Number of employees: 24 Operating costs per employee (in thousand denars): 985	Number of regular, extraordinary and control inspections at controllers and processors collections of personal data in the public and private sector: 400
2007	State Appeals Commission for Public Procurement	15,372	11,662	14	Number of employees: 14 Operating costs per employee (in thousand denars): 1.072	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
2008	Data Verification Commission	20,490	16,660	18	Number of employees: 18 Operating costs per employee (in thousand denars): 1.130	none
2009	Housing Regulatory Commission	8,430	6,860	7	Number of employees: 7 Operating costs per employee (in thousand denars): 1.161	none
2010	Audit Promotion and Supervision Council	5,257	3,567	4	Number of employees: 4 Operating costs per employee (in thousand denars): 1.289	Number of issued licenses for certified auditors, audit companies and certified auditors - sole proprietors: 15
2011	Commission for protection against discrimination	4,557			none	Number of delivered/completed complaints: 160

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
2012	State Commission for Decisions in Administrative Procedures and Procedures of Employment in Second Degree	51,749	47,040	48	Number of employees: 48 Operating costs per employee (in thousand denars): 1.060	none
2013	Audit Authority for audit of the European Union pre-accession assistance	39,575	29,106	33	Number of employees: 33 Operating costs per employee (in thousand denars): 1.179	Number of annual audit reports: 33

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
2014	State Commission on Second Degree Decisions in the Area of Inspection Oversight and Violation Procedure	6,900	6,200		none	none
3001	Constitutional Court of Republic of Macedonia	34,224	23,520	26	Number of employees: 26 Operating costs per employee (in thousand denars): 1.304	none
4001	Government of Republic of Macedonia	1,297,383	239,410	547	Number of employees: 547 Operating costs per employee (in thousand denars): 1.920	Number of trips in the country and abroad (days):800 Number of individuals involved in the monitoring process of E-Government: 400

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
4002	Department of General and Common Activities in the Government of the Republic of Macedonia	2,125,150	148,960	375	Number of employees: 375 Operating costs per employee (in thousand denars): 1.814	Hygiene maintenance in m2: 1.477.692m2. Number of daily fees for the country and abroad: 100 Number of flight hours: 350
4003	Secretariat for Legislation	17,863	14,328	25	Number of employees: 25 Operating costs per employee (in thousand denars): 696	Number of prepared expert opinions of the Secretariat for Legislation: 8.000
4006	State Attorney's Office of the Republic of Macedonia	127,894	60,564	113	Number of employees: 113 Operating costs per employee (in thousand denars): 1.126	none
4008	Civil Servants Agency	39,489	25,882	45	Number of employees: 45 Operating costs per employee (in thousand denars): 763	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
4009	Secretariat for European Affairs	117,378	58,468	98	Number of employees: 98 Operating costs per employee (in thousand denars): 915	Number of meetings of the Committee for Stabilization and Association Process and subcommittees arising from the Stabilization and Association Agreement: 10 Number of civil servants sent to Mission in Brussels: 4 Number of translated and revised pages of the Official Journal of the European Union: 1602 Number of trainings and workshops conducted: 80 IPA training conducted: 60
4010	Secretariat for implementation of the Ohrid framework	611,446	566,053	1637	Number of employees: 1.637 Operating costs per employee (in	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
	agreement				thousand denars): 367	
4012	Agency for the fulfillment of rights of communities	11,692	9,617	7	Number of employees: 7 Operating costs per employee (in thousand denars): 1.659	none
4013	Agency for Managing Confiscated Property	25,273	17,112	46	Number of employees: 46 Operating costs per employee (in thousand denars): 523	Number of effective decisions for temporarily seized items: 690
4014	Inspection Council	16,608	11,858	7	Number of employees: 7 Operating costs per employee (in thousand denars): 2.286	none
5001	Ministry of Defense	5,652,810	3,368,808	7778	Number of employees: 7.778 Operating costs per employee (in thousand denars): 642	Number of personnel serving abroad as representatives of the Ministry of Defense: 31 Number of

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
						persons of ARM participating in peacekeeping: 82
5002	Directorate for Security of Classified Information	22,398	17,248	31	Number of employees: 31 Operating costs per employee (in thousand denars): 721	Number of issued NATO / EU security certificates: 4.041
5003	Protection and rescue Directorate	259,741	125,641	271	Number of employees: 271 Operating costs per employee (in thousand denars): 785	none
5004	Crisis Management Center	149,736	134,101	308	Number of employees: 308 Operating costs per employee (in thousand denars): 482	Meetings of the steering committee and assessment group: 5
6001	Ministry of Interior	9,600,482	5,998,242	10925	Number of employees: 10.925 Operating costs per employee (in thousand denars):759	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
7001	Ministry of Justice	364,320	97,020	242	Number of employees: 242 Operating costs per employee (in thousand denars): 679	none
7002	Directorate for Execution of Sanctions	740,930	335,160	847	Number of employees: 847 Operating costs per employee (in thousand denars): 646	Number of professional instructor supervisions in the correctional facilities: 22
7003	Office for management of registers of births, marriages and deaths	218,104	157,797	434	Number of employees: 434 Operating costs per employee (in thousand denars): 446	Number of certificates issued: 530.000 Number of recorded entries from registers kept manually in the new electronic system for registers: 750.000 Number of decisions in administrative

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
						procedures in the field of registering: 3.300
7004	Bureau of Representation of the Republic of Macedonia to the European Court of Human rights	5,370	3,920	4	Number of employees: 4 Operating costs per employee (in thousand denars): 1.305	none
8001	Ministry of Foreign Affairs	1,150,442	473,732	501	Number of employees: 501 Operating costs per employee (in thousand denars): 2.277	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
9001	Ministry of Finance	1,460,224	311,094	765	Number of employees: 764 Operating costs per employee (in thousand denars): 656	none
9002	Ministry of Finance– functions of the state	40,397,926			none	none
9003	Customs administration of R. Macedonia	917,110	651,460	1129	Number of employees: 1.129 Operating costs per employee (in thousand denars): 702	Fees for services rendered in the customs procedure (in thousanddenars): 61.000
9004	Agency for Stock Reserves	251,717	12,177	29	Number of employees: 29 Operating costs per employee (in thousand denars): 1.497	none
9005	Public Revenues Office	1,127,388	707,388	1255	Number of employees: 1.255 Operating costs per employee (in thousand denars): 1.273	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
9006	Financial Police Directorate	29,192	22,442	29	Number of employees: 29 Operating costs per employee (in thousand denars): 493	none
9007	Directorate of Compulsory Reserves of Oil and Oil Derivatives	874,500	11,000	16	Number of employees: 16 Operating costs per employee (in thousand denars): 3.200	none
9008	State Foreign Exchange Inspectorate	7,114	4,214		none	none
10001	Ministry of economy	668,962	137,729	269	Number of employees: 269 Operating costs per employee (in thousand denars): 1.555	Number of accepted standards: 1.500 Number of accreditation applications: 180 Number of companies and

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
						individuals involved in the voucher counseling program: 50
10002	Agency for Foreign Investments and Export Promotion of the Republic of Macedonia	475,276	79,776	65	Number of employees: 65 Operating costs per employee (in thousand denars): 4.251	none
10003	Agency for promotion and development of tourism	213,033	8,673	21	Number of employees: 21 Operating costs per employee (in thousand denars): 3.406	none
10004	Directorate for Technological Industrial Development Zones	854,130	29,400	65	Number of employees: 65 Operating costs per employee (in thousand denars): 4.629	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
10005	State Market Inspectorate	155,613	137,081	313	Number of employees: 313 Operating costs per employee (in thousand denars): 493	none
10006	State Inspectorate for Technical Inspection	20,273	15,288	33	Number of employees: 33 Operating costs per employee (in thousand denars): 589	none
11002	State Office of Industrial Property	42,786	16,986	34	Number of employees: 34 Operating costs per employee (in thousand denars): 987	Number of issued documents in the proceedings for recognition of industrial property rights: 27.500
12101	Ministry of Environment and Physical Planning	657,729	98,000	206	Number of employees: 206 Operating costs per employee (in thousand denars): 959	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
12102	State Inspectorate for Environment	15,118	12,34	24	Number of employees: 24 Operating costs per employee (in thousand denars): 630	none
13001	Ministry of Transport and Communications	3,313,597	117,450	245	Number of employees: 245 Operating costs per employee (in thousand denars): 812	Number of published and implemented procedures for public procurement: 100 Number of issued CEMT licenses: 1400
13004	State Inspectorate for transport	31,352	19,757	40	Number of employees: 40 Operating costs per employee (in thousand denars): 767	none
13005	State Inspectorate for construction and urban planning	19,494	11,564	24	Number of employees: 24 Operating costs per employee (in thousand denars): 773	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
13006	State communal inspectorate	18,010	9,310	19	Number of employees: 19 Operating costs per employee (in thousand denars): 921	none
14001	Ministry of Agriculture, Forestry and Water Economy	901,551	362,840	896	Number of employees: 896 Operating costs per employee (in thousand denars): 565	Number of contracts signed for the implementation of activities for the Program for forest reproduction: 35

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
14002	National Extension Agency, Bitola	71,234	59,584	121	Number of employees: 121 Operating costs per employee (in thousand denars): 588	Number of agricultural households with data and prepared reports with economic and physical parameters within the FMS/FADN: 600 Number of agricultural households using advisory services: 4.000 Number of agricultural producers contacted for timely information and support in the implementation of government programs: 50.000

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
14003	Hydro Meteorological Directorate	101,952	77,850	194	Number of employees: 194 Operating costs per employee (in thousand denars): 516	Number quantitative and qualitative water measurement series: 8 Number meteorological, climatological and rain measurement reports from phenological stations in the country: 12 Number of processed reports on the meteorological parameters used for weather prognosis: 365

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
14004	Agency for Financial Support of the Agriculture and the Rural Development	8,545,466	81,724		Number of employees: 169 Operating costs per employee (in thousand denars): 567	Number of approved applications for financial support in agriculture: 170.000 Number of approved applications for financial support for rural development: 1.650
14005	Food and Veterinary of R. Macedonia	408,314	133,770	312	Number of employees: 312 Operating costs per employee (in thousand denars): 579	none
14006	State Agriculture Inspectorate	115,920	71,148	132	Number of employees: 132 Operating costs per employee (in thousand denars): 850	Number of conducted controls per inspector in the SAI: 231
14007	State Inspectorate for forestry and hunting	18,438	17,346	28	Number of employees: 28 Operating costs per employee (in thousand denars): 659	none

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
15001	Ministry of Labor and Social Policy	34,169,104	635,925	1815	Number of employees: 1.815 Operating costs per employee (in thousand denars): 502	none
15002	State Labor Inspectorate	104,016	89,376	203	Number of employees: 203 Operating costs per employee (in thousand denars): 511	none
16001	Ministry of education and science	22,480,368	3,023,706	5646	Number of employees: 5.646 Operating costs per employee (in thousand denars): 1.131	none
16002	Bureau of education development	232,543	91,042	179	Number of employees: 179 Operating costs per employee (in thousand denars): 1.237	none
16003	National agency for European educational	140,586	10,976	20	Number of employees: 20 Operating costs per employee (in thousand	Trainings for the schools for implementation of

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
	programs and mobility				denars): 932	projects within e-Twinning: 1.900
16004	State Educational Inspectorate	52,423	47,803	88	Number of employees: 88 Operating costs per employee (in thousand denars): 595	Inspection Oversights: 10.000 Integral Evaluations: 140
16101	Agency for youth and sport	430,712	18,228	41	Number of employees: 41 Operating costs per employee (in thousand denars): 764	Citizens covered by activities in the area of sports: 10% Numberof sports participants in the international system of competitions: 1.200
17001	Ministry of Information society and administration	283,252	67,130		Number of employees: 196 Operating costs per employee (in thousand denars): 469	Numberof institutions included in the project interoperability: 21

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
17002	State Administrative Inspectorate	24,537	19,600	38	Number of employees: 38 Operating costs per employee (in thousand denars):636	None
18001	Ministry of culture	334,755	109,784	196	Number of employees: 196 Operating costs per employee (in thousand denars): 730	None
18010	Financing activities from the area of culture	3,554,653	962,890	2552	Number of employees: 2.552 Operating costs per employee (in thousand denars): 461	None
19001	Ministry of health	5,932,704	87,833	147	Number of employees: 147 Operating costs per employee (in thousand denars): 6.025	None
19002	State sanitary and health inspectorate	58,070	33,810	74	Number of employees: 74 Operating costs per employee (in thousand denars): 760	None

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
19101	Ministry for Local Self Government	352,181	24,727	41	Number of employees: 41 Operating costs per employee (in thousand denars): 909	Number of civil servant trainings conducted: 46 Number of inter-municipal cooperation implemented: 1.000
19102	State Inspectorate for Local Self Government	3,326	2,842	5	Number of employees: 5 Operating costs per employee (in thousand denars): 665	None
19201	Emigration Agency of Republic of Macedonia	19,473	9,898	20	Number of employees: 20 Operating costs per employee (in thousand denars): 984	None
19302	Commission for protection of the right to free access to public information	14,502	10,682	18	Number of employees: 18 Operating costs per employee (in thousand denars): 814	None

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
20001	Commission for Relations with Religious Communities and Groups	11,922	7,252	13	Number of employees: 13 Operating costs per employee (in thousand denars): 763	Decisions for issuance of approvals for temporary residence of foreign religious individuals: 150
21001	<i>Agency for real-estate cadastre</i>	770,520	342,780	913	Number of employees: 913 Operating costs per employee (in thousand denars): 604	Number of prepared DCP in scale 1:50000: 10 Number of integrated cadastral municipalities: 1419 Percentage of the territory of RM with digital maintenance of the cadaster plans: 70%
22001	State Statistical Office	205,216	124,950	290	Number of employees: 290 Operating costs per employee (in thousand denars): 559	Number of implemented statistical researches: 228 Number of

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
						prepared metadata of the statistical research: 68
24001	State Archive of R. Macedonia	123,333	100,212	260	Number of employees: 260 Operating costs per employee (in thousand denars): 461	Number of conducted visits of the inspection and expert oversights: 870
25001	Bureau for Forensic Expertise	36,508	17,052	34	Number of employees: 34 Operating costs per employee (in thousand denars): 985	Number of cases received for forensic expertise: 2.250 Number of cases received for evaluation: 450
26001	Macedonian Academy of Sciences and Arts	150,308	58,690	63	Number of employees: 63 Operating costs per employee (in thousand denars): 2.043	Number of scientific research and art projects: 104

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
28001	Bureau for Regional Development	82,012	10,166	20	Number of employees: 20 Operating costs per employee (in thousand denars): 926	Number of projects financed: 61
29010	Court Authority	1,853,691	1,559,657	3051	Number of employees: 3.051 Operating costs per employee (in thousand denars): 596	Number of court cases: 520.000 Number of participants in conducted trainings for judicial and public prosecutors candidates and continuous education of the judges and the public prosecutors etc.: 7.450
31010	Public Prosecution Office of R. Macedonia	432,197	335,511	448	Number of employees: 448 Operating costs per employee (in thousand denars): 896	Number of initiated procedures based on the filed charges: 47.500

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
31101	Ombudsman's Office of R.Macedonia	72,776	50,036	78	Number of employees: 78 Operating costs per employee (in thousand denars): 416	None
66002	Health Insurance Fund of Macedonia	24,049,736	324,146	883	Number of employees: 833 Operating costs per employee (in thousand denars): 597	Number of conducted controls (control of benefits/charges, participation and salaries, sick leave, medical treatments abroad, as well as control in PHI special hospitals, pharmacies and private clinics): 12.000 Number of contracts with Public HI and Private HI and pharmacies: 4.350

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
66003	Agency for employment of R. Macedonia	2,344,840	164,840	481	Number of employees: 481 Operating costs per employee (in thousand denars): 510	Number of unemployed who are provided with cash benefits for unemployment status: 14.318
66004	Pension and disability insurance fund of R. Macedonia	56,656,672	261,672	682	Number of employees: 682 Operating costs per employee (in thousand denars): 646	Number of decisions prepared for rights of right of pension and disability insurance: 36.000 Number of pensioners who are paid a pension: 301.560 Number of children with mental and physical development disabilities to whom the fund contributes to the costs for their housing: 110 Number

Code	Budget user	Total budget (in thousand denars)	Costs for salaries and benefits (in thousand denars)	Number of employees	Indicators (stated in the Budget for 2015)	Output indicators (stated in the Budget for 2015)
						of pensioners who are provided with an accommodation in the retirement homes: 460
	Budget Users (total)	240,648,032	24,450,405	50,325	Indicators	Output Indicators

GOVERNMENT PROGRAMS

The Government's programs and sub-programs reflect the activities of the Government of Republic of Macedonia undertaken to implement the strategic priorities. These priorities are defined and contained in several documents of the Government of Republic of Macedonia. The funds to finance the government programs are provided by the budget, donations and loans from international financial institutions. The determined government programs comply with the regular activities of the individual ministries by setting priorities for their funding. The planned/projected funding within the Budget for 2015, envisage implementation of these programs, continuity in the implementation, as well as monitoring the achievements for meeting the strategic priorities.

Government Programs - 2015	Output indicators (there are only narrative explanations within the Budget for 2015)	Total expenditures (in thousand denars)
A. DECENTRALIZATION	The development of the local government in Republic of Macedonia and the process of decentralization as its substantial segment, is defined as the main goals in the further democratization of society and the improvement of public services for the citizens. Considering the previous results of the implementation of the decentralization process, the main challenges in the coming period will be: democratic governance at the local level and integrated and sustainable development of local self-government units. The Program A - Decentralization is implemented through the subprograms A0 Decentralization and A2 Transfer of power/authorities to the LSGUs.	16,278,175
B. POVERTY REDUCTION MEASURES	This program covers the activities concerning the increase of employment by implementation of the operating plan for active employment measures, covering different target groups with difficulties to engage in the labor market, and are aiming at poverty	235,527

Government Programs - 2015	Output indicators (there are only narrative explanations within the Budget for 2015)	Total expenditures (in thousand denars)
	reduction.	
C. ENHANCEMENT OF DEFENSE AND SECURITY	The purpose of this program is to enhance the defense and security activities of the Republic of Macedonia and encourage the Ministry of Defense as an owner of these activities to continue to intensify the process of joining the NATO.	365,000
D. RULE OF LAW IMPROVEMENT	The purpose of this program is the implementation of anti-corruption government's initiatives, to strengthen the cooperation with the International Criminal Court, the fight against organized crime and continuation of judiciary reform.	34,742
E. ECONOMIC DEVELOPMENT	The activities of this program are implemented through investments in the railway infrastructure, investments in technological industrial development zones, support the development of small and medium enterprises, support of investments, as well as through economic promotion and enhancement of the business activities.	3,356,620
F. PUBLIC ADMINISTRATION REFORM	For this purpose there are trainings and specialization of the public administration conducted for efficient management of the budget funds, efficient management of the EU funds, training of the employees regarding the EU regulations, as well as implementation of efficient control mechanisms for management of these funds	558,486

Government Programs - 2015	Output indicators (there are only narrative explanations within the Budget for 2015)	Total expenditures (in thousand denars)
G. EU INTEGRATION	This program covers the activities related to the use of IPA funds with a goal to implement the strategic priority of the Government of Republic of Macedonia to start the negotiations for membership of the Republic of Macedonia in the European Union.	5,226,033
H. INFORMATION AND COMMUNICATION TECHNOLOGIES	The implementation of the development projects will enable accelerated circulation of information between the administrative bodies, creating and maintaining a central database for management of the information sectors of the state authorities, which will enable a solid IT foundation for all horizontal programs with direct or indirect support of the implementation of the priorities of the Government of R. Macedonia	133,654
I. REGIONAL DEVELOPMENT	The goal of this program is the promotion of a balanced regional development of the state and reduction of the disparities in the development level among the planning regions.	118,723
J. ENVIRONMENT ENHANCEMENT	The program incorporates implementation of projects in the areas of protection and enhancement of the environment, sustainable development, valorization and revalorization of the natural values etc.	214,345
K. EDUCATION INVESTMENTS	The goal of the program is improvement of the conditions in the schools, the student and pupil dormitories, which is crucial importance for improvement of the education quality.	540,439
Total expenditures (in thousand denars)		27,061,744

