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National monitoring frameworks for public social spending

North Macedonia

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**ESPN Thematic Report on
National monitoring frameworks
for public social spending**

North Macedonia

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Summary

The frameworks for monitoring public social spending in North Macedonia are scattered and limited, and there is no centrally delegated mandate/responsibility for such an undertaking. Monitoring of overall public social spending relies predominantly on the ESSPROS/COFOG obligations. There are separate country-specific monitoring frameworks linked to the pension, health insurance and unemployment insurance schemes that rely on administrative sources. These are databases administered by the Pension and Disability Insurance Fund, the Health Insurance Fund and the Agency for Employment. Monitoring covers cash and in-kind benefits. The databases provide monthly updates on some of the indicators (e.g. number of beneficiaries) and annual updates on the expenditure that has occurred.

The country-specific monitoring frameworks based on administrative sources are more timely than the requirements of COFOG and ESSPROS, and are easily accessible online. Publication of the ESSPROS data is not prompt, and currently only data for 2015-2017 are available. The data are publicly accessible only via the Eurostat website. Monitoring of spending is regularly provided on an annual basis (for the previous year), and in some cases (pensions) there are also monthly reports on actual expenditure. Data on the country-specific monitoring frameworks are accessible as online tools, which allows for easy download, but also as Annual Reports.

There are many regular reporting/review tools that monitor the effectiveness of public spending, but only a limited number of these focus specifically on social spending and social protection. The State Audit Office conducts regular annual audits of the central budget and the social insurance funds. In addition, periodic performance audits are conducted, focusing on an assessment of the efficiency and effectiveness of operations and the use of funds in a defined area of activities or programmes. The preparation and submission to the European Commission of the annual Economic Reform Programme (ERP) represents the only direct government tool that reviews both spending on and outcomes of social protection.

Ad-hoc monitoring of social spending involves project-based monitoring, mainly conducted in cooperation with intergovernmental organisations, including the World Bank, UNICEF, the European Commission, etc. Those public spending reviews that have been undertaken with the support of intergovernmental organisations point to several bottlenecks that hamper the effectiveness of social transfers. In that respect, a recent EU twinning exercise report that focused only on the guaranteed minimum assistance and child protection allowance noted the lack of monitoring regarding the efficiency and effectiveness of performance, the lack of formalised monitoring arrangements related to performance parameters, and limited reporting that focused only on the use of the administrative/apparatus budget.

Monitoring of social spending at the local level is limited. Spending reviews at the local municipality level consist of annual reporting of the activities undertaken and the budgets spent in all sectors, including social and child protection. These reports monitor only the level of spending at the local level, and are not accompanied by outcome assessments.

Overall, the review tools complement the monitoring tools (or vice versa), and there is an increasing trend toward translating these reviews into policy processes and budget allocations. The developed practices of monitoring and regular reporting on the effectiveness of public spending within the Ministry of Finance and the State Audit Office constitute the main strengths of the national system, and these should be developed further. The main weakness of the system is the underdeveloped capacity and more pragmatic use of the Sector for Strategic Planning within the Ministry of Labour and Social Policy in the processes of monitoring the effectiveness of social spending. Hence, there is a need for more straightforward monitoring and review of social spending to be anchored in national legislation, so that it can contribute to measurable policy impacts and outcomes.

1 Country-specific monitoring frameworks for public social spending

North Macedonia relies on the harmonised international and European monitoring standards and frameworks related to public social spending. The European System of Integrated Social Protection Statistics (ESSPROS) has been implemented since 2015. Monitoring frameworks used for quantifying actual public spending in North Macedonia are based on the Classification of the Functions of Government (COFOG) in the framework of the European System of Accounts (ESA 2010). There are separate country-specific monitoring frameworks linked to the pension, health insurance and unemployment insurance schemes that rely on administrative sources.

1.1 Country-specific dedicated monitoring framework(s)

North Macedonia's monitoring framework for public social spending relies predominantly on the ESSPROS/COFOG obligations. ESSPROS data on North Macedonia, produced by the State Statistical Office of North Macedonia (*Државен завод за статистика*), are published on the website of the Statistical Office of the European Union (Eurostat). However, apart from the use of ESSPROS methodology in the independent research reports, strategic government documents do not refer to ESSPROS when reporting on public social spending or when assessing the effectiveness of social protection expenditure.

COFOG was adopted as a national standard by a Decision of the Government of the Republic of North Macedonia in 2006 (Official Gazette of the Republic of Macedonia, No. 121/2006). It is one of the classifications that are used in the system of government financial statistics regarding government and the public sector, as defined in the System of National Accounts 93 (SNA 93). Apart from the State Statistical Office, COFOG is widely used by the Ministry of Finance (*Министерство за финансии*) and the National Bank of the Republic of North Macedonia (*Народна банка на Република Северна Македонија*).

As part of the COFOG obligations, social spending is reported in an integrated manner within the total public expenditure framework. Monitoring covers both cash and in-kind benefits. The monitoring framework for total public expenditure, including social spending, consists of monthly, quarterly and annual reports by the Ministry of Finance, as well as quarterly reports published by the National Bank of North Macedonia.

The Ministry of Finance produces a monthly Statistical Review (Ministry of Finance, 2021a), which comprises statistics related to macroeconomic indicators and trends, as well as government statistics. Among other things, the government statistics within this Review comprise monthly and annual data regarding budget revenue and budget expenditure. Monthly and annual expenditure is available for the period 2006-2020. Social transfers within this Review cover: pensions, unemployment benefits, social benefits and health care. Additional transfers, for example those paid to refugees, are reported under 'other subsidies and transfers'. Other Ministry of Finance documents that monitor social spending include: Monthly Economic Reports (Ministry of Finance, 2021b), Quarterly Economic Reports (Ministry of Finance, 2021c) and the Monitoring Report on Implementation of the 2021 Action Plan for Public Financial Management Reform Programme (Ministry of Finance, 2021d).

The National Bank of the Republic of North Macedonia produces Quarterly Reports (National Bank of Republic of North Macedonia, 2021a). Publicly available since 1998, these include, among other things, data on the central budget and the budget of the social insurance funds. Social spending monitoring is also included in the bank's Annual Reports (National Bank of Republic of North Macedonia, 2021b).

Spending on health care is (also) monitored as part of the Health Accounts (HA) according to the standard international comparable methodology – System of Health Accounts, 2011 (SHA), established by the Organisation for Economic Co-operation and Development (OECD), Eurostat and the World Health Organization (WHO). Data are gathered through

the Fund for Health Insurance (*Фонд за здравствено осигурување*) and are published by the State Statistical Office. The SHA includes an overview of current healthcare expenditure observed from three aspects: Healthcare Providers; Healthcare Functions; and Expenditure on Healthcare Financing Schemes.

Overall, the monitoring frameworks for public social spending in North Macedonia are scattered and limited, and there is no centrally delegated mandate/responsibility for such an undertaking.

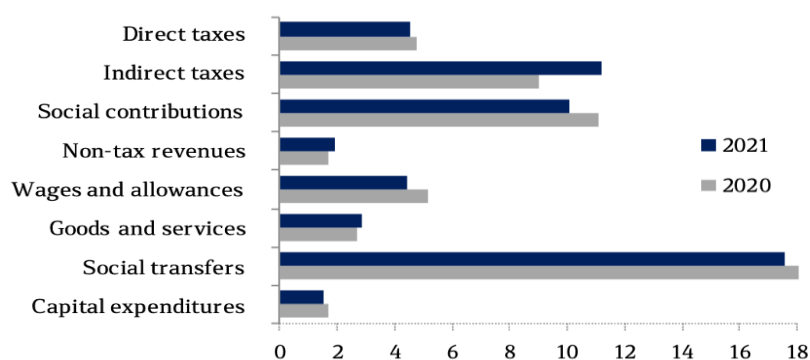
1.2 Separate monitoring framework(s) linked to schemes provided by employers

The Agency for Supervision of Fully Funded Pension Insurance – MAPAS (*Агенција за супервизија на капитално финансирано пензиско осигурување – МАПАС*) **supervises and monitors the operations of the pension companies, the pension funds, the custodians and the foreign asset managers.** It prepares and publishes an Annual Report on developments in the fully funded pension insurance sector (Agency for Supervision of Fully Funded Pension Insurance, 2021). Among other things, it monitors the revenue and expenditure structure of each pension company, as well as payments of pensions from the mandatory fully funded pension insurance and voluntary fully funded pension insurance.

1.3 Distinction between current expenditure and capital expenditure

The national monitoring frameworks draw a distinction between current expenditure and capital expenditure. As can be seen from Figure 1, the monitoring of public spending draws a clear distinction between current expenditure (i.e. on social contributions, wages and allowances, goods and services, social transfers) and capital expenditure.

Figure 1: Revenue and expenditure in Q2 2020 and 2021 (% of nominal quarterly GDP)



Source: Ministry of Finance (2021c).

1.4 Type of monitoring: level and outcomes

The national monitoring frameworks mainly observe the level of spending. The monitoring standards and frameworks that rely on ESSPROS/COFOG, and also the separate country-specific monitoring frameworks linked to the pension, health insurance and unemployment insurance schemes that rely on administrative sources, mainly report on the level of public social spending. The link with outcomes is rarely made, with the exception of unemployment. For example, the Semi-annual Report on Execution of the Budget of the Republic of North Macedonia (Ministry of Finance, 2021e) apart from the trends related to public spending, also regularly refers to labour market trends (e.g. the unemployment rate).

The effectiveness of social spending and social outcomes is monitored separately, mainly by means of the EU Statistics on Income and Living Conditions (EU-SILC) methodology (such as poverty reduction, inequality, etc.).

1.5 Level of granularity of public social spending

The national monitoring frameworks for public spending are relatively comprehensive and granular. ESSPROS data provide detailed granularity of public social spending. Expenditure is disaggregated by function (sickness/health care, disability, old age, survivors, family/children, unemployment, housing and social exclusion); receipts by type and sector of origin; and net social benefits (expenditure on social benefits, less taxes and social contributions paid on them). Social spending is presented in nominal terms for each year and as a percentage of GDP.

Separate country-specific monitoring frameworks linked to pension and health insurance schemes are also disaggregated in terms of sector (such as pensions and health care) and provide gross expenditure presented in nominal terms for each year and as a percentage of GDP. The separate country-specific monitoring framework linked to unemployment insurance is fairly granular, and reports spending in nominal terms and as a percentage of the overall budget.

1.6 Breakdown of public social spending

The country-specific monitoring frameworks (linked to a single scheme, e.g. pensions, health care, social assistance, etc.) provide an overview of public social spending broken down by specific population groups. These datasets – such as the monthly data from the Pensions and Disability Insurance Fund (*Фонд за пензиско и инвалидско осигурување*),¹ annual data from the State Statistical Office on Social Protection for Children and Adults,² etc. – are usually disaggregated according to age, gender and location of living; and, in some cases, according to economic activity.

1.7 Timing and public accessibility of data

The country-specific monitoring frameworks based on administrative sources are more timely than the requirements of COFOG and ESSPROS, and are easily accessible online. Publication of the ESSPROS data is not prompt, as currently only data for 2015-2017 are available. The data are publicly accessible only via the Eurostat website: ESSPROS data are not published or made available online on the website of the State Statistical Office in North Macedonia. The country-specific monitoring frameworks, even though they are linked to only one scheme, are published promptly, and are more timely than the requirements of COFOG and ESSPROS. Monitoring of spending is regularly provided on an annual basis (for the previous year), and in some cases (pensions) there are also monthly reports on expenditure. Data on the country-specific monitoring frameworks are easily accessible online. They are accessible as online tools, which allows for easy download, and also as Annual Reports.

1.8 Subnational frameworks

There are no monitoring frameworks for social spending at the subnational/local level. Apart from the quarterly, monthly and annual reports of local municipalities, there are no systematic frameworks for monitoring social spending at the local level. For example, quarterly reports by the local municipalities provide information on current municipality income and expenditure according to the quarterly plan, and quarterly

¹ Pension and Disability Fund of North Macedonia, <http://www.piom.com.mk/statistika/statistika-2021-2/>

² State Statistical Office, https://www.stat.gov.mk/PrikaziPoslednaPublikacija_en.aspx?id=22

realisation of the plan. These reports include all types of spending, including social spending. The reports monitor only the level of spending at the local level and are not accompanied by outcome assessments. Recent research (Bogoevska, 2019: 55) identifies the following challenges related to the monitoring of social spending at the local level: 'lack of aggregate data at the municipal level regarding expenditure for social protection, accompanied with lack of coordination between the officials responsible for the realization of the foreseen items in budget; reallocation of the part of the funds provided for social protection during the calendar year of execution of the budget which greatly changes the situation; lack of recognition of certain transfers as social protection (for example financial aid for fire incidents) which further complicates reporting of social protection expenditure'.

2 Reporting/review tools for public social spending

There are many regular reporting/review tools that monitor the effectiveness of public expenditure, but only a limited number of these focus specifically on social spending and social protection.

In accordance with the State Audit Law (Official Gazette of the Republic of Macedonia, No. 66/10 and Official Gazette of the Republic of North Macedonia, No. 122/21), the State Audit Office (*Државен завод за ревизија*) conducts regular annual audits of the central budget and the social insurance funds, including the Pension and Disability Insurance Fund, the Health Insurance Fund and the Agency for Employment (*Агенција за вработување*). These recurrent annual audits focus on compliance with laws, bylaws and internal acts, and the financial aspect of the audit focuses on examining the accuracy and completeness of the accounting records and financial statements. Following the end of each fiscal year, and prior to the adoption of the final accounts of the Budget of the Republic of North Macedonia, the State Audit Office prepares and submits an audit report on the Budget of the Republic of North Macedonia to the Assembly of the Republic of North Macedonia (*Собрание на Република Северна Македонија*) (State Audit Law, art. 34). For all auditees, the findings are accompanied by recommendations for improvement. On the basis of these, each institution provides a response on the state of play regarding implementation of the recommendations; the recommendations are then followed up at the next annual audit.

In addition, the State Audit Office periodically conducts performance audits, which focus on an assessment of the efficiency and effectiveness of operations and the use of funds in a defined area of activities or programmes. According to the State Audit Law, effectiveness is defined as 'the highest possible level of realisation of programme effects' (art. 2). In 2021, according to the Annual Work Programme of the State Audit Office, performance (effectiveness) audits are under way in the following spheres that include social protection programmes: Effectiveness of the Government's economic measures to deal with the crisis caused by COVID-19 (2021); Effectiveness of Government measures for gender equality and appropriate gender budget initiatives (2021); and Effectiveness of municipalities' own revenues for providing quality services to the citizens during the pandemic (2021). During the period 2015-2020, some of the performance (effectiveness) audits that were conducted and that involved social protection sectors included: Effectiveness of measures and activities of local municipalities financed through governmental block grants (centres for early childhood education and development, and homes for the elderly) (2020); Effectiveness of government measures to tackle labour market risks (2020); Effectiveness of measures and activities of the responsible institutions for the protection of street children (2017); Effectiveness of measures, policies and activities related to the social protection rights of older people in North Macedonia (2016); and Effectiveness of employment policies targeted at young people according to the programme for subsidised employment (2016).

Analysis of some of these periodic performance audits indicates that there are no quantitative indicators by which effectiveness is measured: the audits analyse the extent to which the programmes and measures adopted enable effective realisation of the public finances. Basically, they indicate gaps, bottlenecks and challenges that are preventing

effective realisation of the specific programmes and measures, accompanied by recommendations for improvement.

The Report on the Implementation of the Annual Work Plan of the Ministry of Labour and Social Policy (MLSP) (*Министерство за труд и социјална политика*) (MLSP, 2021a) can also be considered as a recurring review tool for assessing the level of social protection implementation and effectiveness. Monitoring of the Annual Work Plan is done on a quarterly basis and the results are published annually. The Report is prepared on the basis of the data submitted by the responsible departments/bodies within the MLSP. The monitoring is conducted using the standards set out in the following government documents: Methodology of strategic planning and preparation of the Annual Work Programme of the Government of North Macedonia; Directions for method of operation of ministries and bodies in the process of monitoring, assessment and reporting for implementation of the Strategy Plan and Annual Work Plan; Evaluation and reporting on the implementation of the Strategic Plan and Annual Work Plan; and the Strategic Planning Procedure. The Report, among other things, monitors the achievement of the indicators and the targets set in the Annual Work Plan. In the sector covering social protection, related to implementation of the Annual Programme for Social Protection, the following indicators of effectiveness are monitored: the at-risk-of-poverty rate, income inequality (Gini coefficient) and the percentage of absolute poverty (this third indicator is based on the Employment and Social Reform Programme indicator). However, despite the fact that the Report notes an improvement in two of the three indicators on which data are available through the State Statistical Office, it also signals that a target for this indicator (i.e. percentage increase/decrease) was not set in the Annual Work Plan for 2020. The Report provides a set of recommendations, which, if implemented, would improve the overall monitoring and reporting of achievements and effectiveness. For example, the Report recommends 'ensuring continuous monitoring, in order to provide data related to the vertical and horizontal programmes, the established indicators in the strategic, annual plans/programmes and appropriate coordination between the sectors' (MLSP, 2021:167).

The work of the Sector for Strategic Planning within the Ministry of Labour and Social Policy (and of its constituent Unit for Analysis, Evaluation and Monitoring of the Implementation of Policies and Programmes) does not contribute visibly to the overall monitoring of social spending. Their reports are not published and are thus not available, making it difficult to assess their contribution to the social policy processes and implementation.

The Monitoring Report on Implementation of the 2021 Action Plan for Public Financial Management Reform Programme (Ministry of Finance, 2021f) is a six-monthly tool for monitoring implementation of (among other things) the identified priority of Transparent Government Reporting. To this end, the Report indicates that the Ministry of Finance has launched several monitoring tools, such as: Citizens' Budget,³ Performance of Capital Investments in the Budget of the Republic of North Macedonia⁴ and Fiscal Counter.⁵ These promote fiscal transparency and monitoring of spending. The Annex to the Monitoring Report tracks progress in implementation, by marking the activities in each priority area as achieved, partially achieved or not achieved. While not explicitly focused on social protection or spending, this Monitoring Report provides twice-yearly updates on the wider country framework related to budget expenditure, including that on social protection.

The Ministry of Finance also participates in the Public Expenditure Management Peer Assisted Learning network (PEMPAL),⁶ which, as part of its activities, conducts spending reviews. Based on information from this network, the latest spending review in North

³ <http://budget.finance.gov.mk>

⁴ <https://kapitalni-rashodi.finance.gov.mk/?lang=english>

⁵ <https://finance.gov.mk/2021/03/14/fiscal-counter-new-transparency-tool-of-the-ministry-of-finance-to-provide-for-daily-insight-in-the-budget/?lang=en> (info in English) and <https://finance.gov.mk/> (in Macedonian)

⁶ <https://www.pempal.org>

Macedonia was conducted in 2021. The results show that, in the 16 countries of the Europe and Central Asia region that conducted this review (including North Macedonia), the spending review priorities were: improvement of effectiveness within programmes and policies; alignment of expenditure with government priorities; and control over the level of total expenditure/savings.⁷

The preparation and submission of the annual Economic Reform Programme (ERP) (Ministry of Finance, 2021g) to the European Commission (since 2015) and the country's earlier participation in the Pre-Accession Economic Programmes (from 2006 to 2014), represent a recurring exercise tool for monitoring the effectiveness of public social expenditure. Given that one of the ERP areas has an explicit focus on social protection, this makes the document the only direct government tool that reviews both spending and outcomes in social protection.

In addition, the Annual Report on implementation of the Revised Employment and Social Reform Programme ESRP2022 (MLSP, 2021b) is another EU-related exercise that monitors (among other things) the effectiveness of the social protection scheme. Monitoring of the achievements of ESRP2020 is the responsibility of the Sector Working Group on Education, Employment and Social Policy, a key policy dialogue platform co-chaired by the Minister of Education and Science and the Minister of Labour and Social Policy. In the priority area of social inclusion and social protection, there are six specific objectives, including increasing the efficiency and effectiveness of the social assistance system. The headline indicator for this strategic objective is the poverty rate (defined as the share of people with equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60 per cent of the national median equivalised disposable income after social transfers). The target for this strategic objective is to reduce the poverty rate to 16 per cent in 2022. For the objective of increasing the efficiency and effectiveness of the social assistance system, there are four indicators. Three of them are related to the increase in social protection coverage (all types of social protection cash transfers, child allowance and social services), while one is related to the reduction in the rate of absolute poverty. The target for absolute poverty that is to be achieved by 2022 is less than 1.0 per cent.

The Cash Benefit Management Information System (CBMIS), administered by the MLSP and financially supported by the World Bank, serves, among other things, as an analytical and monitoring tool for assessing the effectiveness of the tax-financed social protection benefits that are set out in the Law on Social Protection, the Law on Child Protection and the Law on Social Security for the Elderly. This system is not publicly accessible, and it is used by government officials and staff at the social work centres. Information from the CBMIS can be obtained on application to the MLSP for access to information of public interest.

There are also various project-based ad-hoc monitoring exercises and reviews of public social spending in North Macedonia that have been conducted by intergovernmental organisations and government partners, such as the World Bank, the International Monetary Fund (IMF), the European Commission, the United Nations Development Programme (UNDP), the United Nations Children's Fund (UNICEF) and others. For example, the World Bank has contributed to two public expenditure reviews in recent years: *Republic of North Macedonia Public Finance Review: Sowing the Seeds of a Sustainable Future* (2018) and *FYR Macedonia Public Expenditure Review: Fiscal Policy for Growth* (2015). Its latest public finance review (World Bank, 2018) assesses (among other things) spending on social assistance, based on different targeting methods, and suggests possible spending scenarios. Similarly, in the section on pensions, it considers different replacement rates, different contribution rates for the second pension pillar and provides different pension policy simulations. UNICEF has also contributed to several child-focused public expenditure reviews/assessments in North Macedonia (Pereznieto and Uzunov, 2009; Carraro and Beazley, 2013; Petreski et al., 2020), which have included simulations related to public

⁷ <https://www.pempal.org/node/3729>

spending on children and its impact on the child poverty rate, as well as its impact on social protection coverage among households with children. These reviews have been used by UNICEF to advocate for more child-friendly spending in North Macedonia. A recent EU exercise, conducted within an EU Instrument for Pre-accession Assistance (IPA) 2018 twinning project entitled 'Strengthening Budget Planning, Execution and Internal Control Functions', focused on an assessment of financial management and control of the guaranteed minimum assistance and the child allowance.⁸ The findings of the report indicate several process management shortcomings that influence the effectiveness of these social transfers, including: 'performance in terms of efficiency and effectiveness is not monitored; there is no formalized reporting/monitoring arrangement which gathers information on these parameters; financial information reporting from the side of the execution centers limits itself to the reporting on the use of the administrative/apparatus budget.' The report also suggests several recommendations for improving the monitoring – and hence the effectiveness – of these transfers.

Spending reviews at the local municipality level consist of annual reporting of the activities undertaken and the budgets spent in all sectors, including social and child protection. These reports monitor only the level of spending at the local level, and are not accompanied by outcome assessments.

In addition, the Annual Reports of the Pension and Disability Insurance Fund, the Health Insurance Fund and the Agency for Employment may be considered part of the exercises related to the monitoring of activities undertaken in the respective sectors. They cover the annual budget of the respective fund and associated activities implemented with that budget.

Overall, it may be concluded that these review tools complement the monitoring tools (or vice versa), and that there is an increasing trend toward translating these reviews into policy processes and budget allocations. However, there is a need for more straightforward monitoring and review of social spending to be anchored in national legislation, so that it can contribute to measurable policy impact and outcomes.

⁸ National Academy of Finance and Economics, Ministry of Finance of the Kingdom of the Netherlands (2020) Follow-up pilot assessment of Financial Management and Control (draft report, not published).

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