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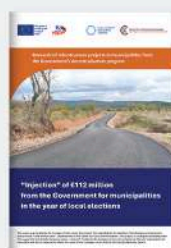
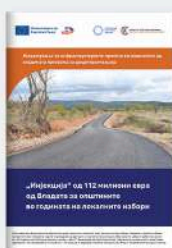
RECOMMENDATIONS

FOR IMPROVING FINANCIAL TRANSFERS FROM THE GOVERNMENT FOR MUNICIPAL INFRASTRUCTURE PROJECTS

In the run-up to the latest local elections, municipalities received a significant financial “injection” from the Government for infrastructure projects financed through the so-called Hungarian loan. In that year alone, municipalities were approved for projects worth 112 million euros, with the Government projecting that total support would reach 250 million euros over a three-year period. These funds led to an average increase in the amounts of municipal capital expenditures of 92% in the election year compared to the previous year’s realization.

Although investments in local infrastructure are necessary, the timing and the model of their implementation raise serious questions regarding the fair and responsible approval and financing of such projects for municipalities.

The research “Injection” of €112 million from the Government to municipalities in the year of local elections can be downloaded in Macedonian, Albanian and English



The research and analysis of the allocation of infrastructure projects to municipalities from the government's decentralization program: "Injection of €112 million from the Government to municipalities in the year of local elections," identified several key challenges:

- Approval of significant funds from the central to local governments in the period immediately before local elections;
- Unequal distribution of funds per capita and by size, as well as exclusion of certain local governments;
- Low level of financial realization and transfer of funds to the following year;
- Classification of projects as "developmental" based on their multi-year financing, although many relate to routine local infrastructure;
- Failure to consider warnings from the Fiscal Council regarding risks associated with these projects, including the possibility of interpreting them as a populist pre-election measure and the likelihood that a large portion of funds may not be fully or efficiently used;
- Significant reduction of funds immediately after the elections, from the initially planned and announced 250 million euros to 149 million euros;
- Minimal representation of projects directly aimed at improving the living and working conditions of women, youth, and marginalized groups (less than 1% of total number of projects);
- Indications of risks in public procurement and dominance of one or a few companies that received contracts for the construction of the projects.

These research findings do not question the need for investment in municipalities and local development in the country. However, the identified weaknesses in the most recent allocation of such funds, along with previous experiences, emphasize the need for more predictable, fair, and clearly structured implementation of these projects, supported by more stable budget planning.

This will enable a more rational and effective use of public funds while also increasing trust in institutions and their protection from the possible perception of misuse of public resources for political purposes.

Therefore, this brief document proposes specific measures to improve the allocation of funds for the construction of municipal infrastructure by establishing more substantive allocation criteria, a more planned allocation of funds, and strengthened oversight.

RECOMMENDATIONS

Taking into account the research findings and the concerns raised by the timing and model of allocating these funds, a set of measures is proposed to ensure fair and sustainable financing of infrastructure projects in municipalities, in the interest of all citizens:

01

The construction and improvement of local infrastructure should be based on predictable policies, independent of election cycles. This should include strategic, multi-year planning and spending according to a medium-term budget framework.

02

Multi-year projects should have secured, stable and binding funding. This will reduce the risks of project delays and non-completion, while strengthening the financial credibility of municipalities.

03

Equal access and fair distribution of funds should be ensured for all municipalities and residents. This would also mean taking into consideration regional, development and social balance indicators to contribute to increasing equality among residents.

04

The "developmental" nature of projects should depend on their impact, multipurpose effects, sustainability and socio-economic impact. In this way, projects aimed at development will be stimulated, regardless of the time period of their financing.

05

Transparency in the awarding and implementation of projects should be increased and more detailed. This means publishing project evaluation scores, reasons for approval or rejection, as well as more frequent reporting on approved, contracted and paid amounts by municipality, and on progress in project implementation, on the implementation of public procurement for projects and publishing reports on any project audits where applicable.

06

Rules for the protection of public resources from potential pre-election misuse should be revised. This should build on past experiences of formal, but not essential safeguards of public resources, leading to more restrictive rules on spending, promotion of public projects and more detailed reporting on budget expenditures during the pre-election periods.

Considering that investments in local infrastructure are of essential importance for local development, they should be planned and implemented in a timely and strategic manner, to reduce differences within and between municipalities and ultimately – to increase public trust.

Hence, these recommendations should be further developed into concrete steps with detailed tasks, timelines, competent institutions and performance indicators. Of course, the main responsibility for implementing these recommendations lies with the Government, municipalities, the Parliament, the Ministry of Finance, the State Commission for the Prevention of Corruption, the State Election Commission and the State Audit Office.