



ДРЖАВЕН ЗАВОД ЗА РЕВИЗИЈА  
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STATE AUDIT OFFICE

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- Press release -

Skopje, 04.08.2022

## Stagnation, slow dynamics and increased costs for infrastructure projects

*A standstill and slow dynamics of strategic infrastructure projects, while project costs have increased due to higher construction costs than the originally planned and other secondary costs*

The State Audit Office carried out performance audit on the topic **"Borrowing of public sector entities, credit utilization ratio, paid and incurred expenses"** to answer the question whether public investments financed with loans implemented in efficient and economical way.

We ascertained the following:

- public investment management lacks systemic legal framework, procedures, competent institutions and defined indicators for the system for monitoring and supervising implementation of public investments, which contributes to untimely corrective measures;
- main projects are monitored in a decentralized manner and there is no comprehensive understanding of the progress made in the implementation;
- regulations in the field of construction as a whole do not contribute to efficient implementation of projects according to international FIDIC standards for construction;
- construction contracts signed in line with FIDIC standards cause additional costs and risks of additional claims from the contractor, risk of contract termination and international arbitration;
- there are construction deviations from the main project and additional and unforeseen works during construction (variations) are recognized;
- with pending expropriation, building permits were issued for line infrastructure projects regulated in the Law on construction. The complex procedure for determining compensation for expropriation, as well as the procedure for approving infrastructure projects, affect the degree of realization - slow dynamics and stagnation of projects.

The audit covered projects that created costs amounting to 58 million euros and refer to one-time commission, interest on withdrawn funds and commission on non-withdrawn funds.

11 AUDITED PROJECTS	LOAN	WITHDRAWN FUNDS	COSTS
Construction of highway section Kicevo - Ohrid	505.044.966\$	382.598.046	38.634.019\$
National Roads Program	181.000.000€	90.774.210€	7.091.325€
Kicevo Ohrid, additional financing	179.694.573\$	/	/
Construction of new and reconstruction of existing section Beljakovce - Kriva Palanka	145.000.000€	1.450.000€	6.384.940€
Upgrade and development of section Rankovce - Kriva Palanka	73.000.000€	32.347.299€	1.655.085€
Construction of express road Stip – Radovish	64.000.000€	64.000.000€	2.890.219€
Water supply and wastewater drainage in municipalities in RNM	50.000.000€	40.140.000€	3.038.865€
Rehabilitation of the railway on Corridor 8 first section Kumanovo - Beljakovce	46.400.000€	31.900.955€	2.766.377€
Construction and modernization of the Regional Clinical Center - Stip	26.937.458€	13.500.000€	320.098€
Corridor 10 overhaul project	17.600.000€	16.318.013€	1.308.761€
Financing road section Kriva Palanka - Deve Bair	10.000.000€	5.100.000€	255.129€

## TOTAL COSTS: 57.998.830€

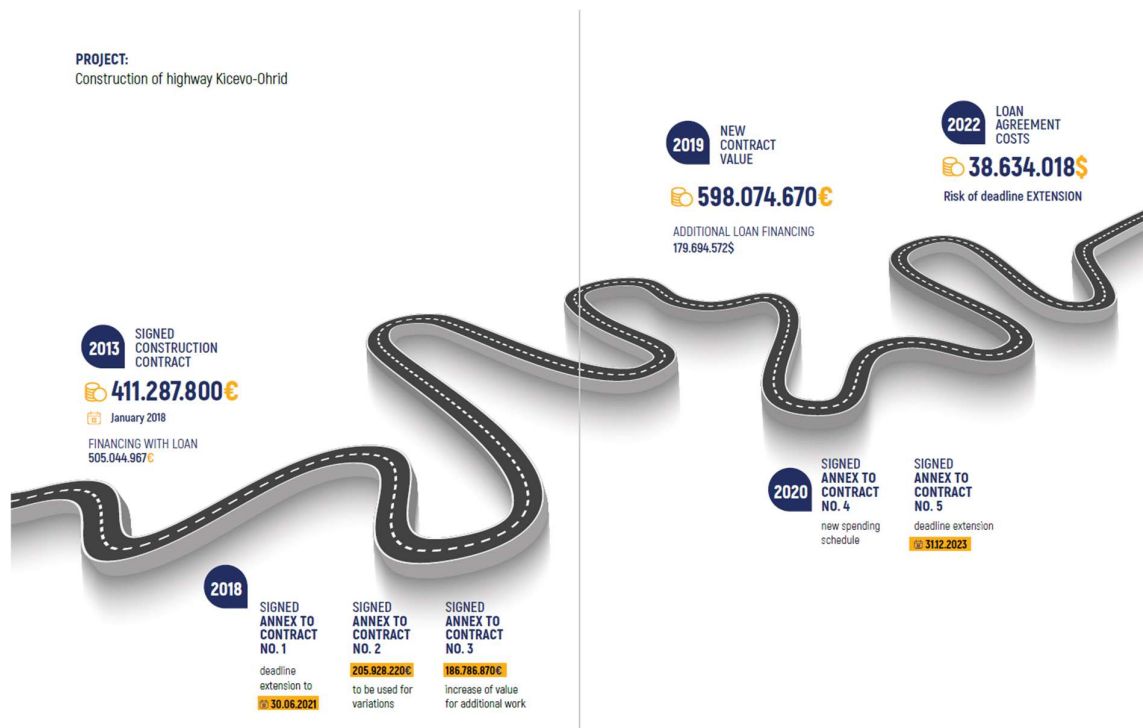
The auditors found that the project documentation is not the result of systemic, technical, economic and financial analyses of the entities that are responsible for the project realization.

Namely, construction contracts were signed in the amount of 12.856.639.000 denars, and the value increased to 15.354.883.000 denars due to recognition of additional and unforeseen works.

By analyzing the revenue of PE for state roads, we found that the revenues are less than the value of total investments on annual level, except for 2020 and 2021, which causes uncertainty in the realization of investments in road infrastructure.

The auditors identified that the majority of projects implemented by the PE for state roads were started in the period of 2014-2016.

They have slow pace of implementation due to weaknesses in the technical solutions of the project documentation, termination of contracts with contractors for various reasons, initiation of international arbitration proceedings, administrative obstacles for starting expropriation, complex legal framework with multiple institutions involved for determining the compensation for expropriation that blocks the efficient resolution of expropriation.



Also, the audit report states that financial operations of PE Railways of RNM Infrastructure with loss and lack of financial assets for a long period of time negatively affect the timely implementation of strategic projects and debt servicing under loan agreements.

The projects of PE Railways of RNM Infrastructure were started in the period 2012-2014 and they are at a standstill, they have not been completed. In the period 2018-2019 the degree of realization is on average only 1% per month, and in 2019 and 2020 the contracts for Corridor X and VIII were terminated.

During the audit, evaluations for selection of new contractors for Corridor X and VIII were ongoing.

**PROJECT:**

Rehabilitation of the east part of  
Corridor 8 railway - **first section**

**PHASE 1**

Signed construction contract in  
**December 2013**

Completion deadline  
14 **September 2016**  
39.753.619 €

**Annex no. 1**

Deadline extension to  
20 **February 2020**  
Damages claims approved  
4.134.145 €

**Contract realization**

**27.730.000 €**

**TERMINATION OF CONTRACT**  
JUNE 2020

New tender for contractor  
announced in July 2021

**RISK OF DEADLINE EXTENSION**

Loan value: **46.400.000 €**  
Withdrawn funds: **31.900.955 €**

**COSTS UNDER  
LOAN AGREEMENT**

**2.766.377 €**

- one-time commission
- interest on withdrawals
- interest on non-withdrawals



**PHASE 2**

**CONSTRUCTION OF NEW AND  
RECONSTRUCTION OF EXISTING  
SECTION BELJAKOVCE - KRIVA PALANKA,  
CORRIDOR VIII**

**2014** Loan agreement with EBRD  
**145.000.000 €**

**COMMISSIONS PAID 6.385.202 €**

One-time commission 1450.000 €  
Commission for non-withdrawn funds 4.929.000 €  
Interest on withdrawals 8.202 €

**2016** Unsuccessful procedure for selection of contractor  
"no objection" not received from EBRD

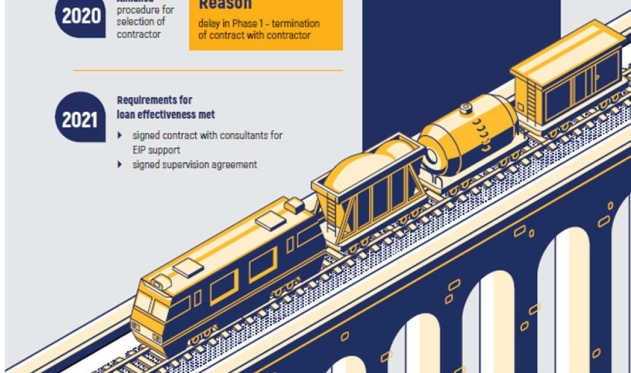
**PROJECT EFFECTS:**

- loan agreement signed, costs per loan agreement paid
- contractor not yet selected, in selection phase
- phase 1 is at a standstill, requirement for starting construction of phase 2
- the project should be operational by 2025
- risk of losing grant funds

**2018** Grant awarded by WBIF Instrument  
**68.558.824 €**

**2020** Annulled procedure for selection of contractor  
**Reason**  
delay in Phase 1 - termination of contract with contractor

**2021** Requirements for loan effectiveness met  
signed contract with consultants for EIP support  
signed supervision agreement



Due to the slow dynamics of project implementation, changes in the project documentation, cancellation of the loan agreement by the creditor and further financing of the project, there is uncertainty about the completion of the project for construction of the Regional Clinical Center in Stip. This situation complicates further procedures for continuation and realization of the project by the Government of RNM and the competent institutions, with risks of increased cost of the project, additional costs and efficient management of the projects.



To overcome ascertained shortcomings, effects and results, recommendations were given in the audit report aimed at improving and advancing the overall process of managing public investments.

**Press contact:**

**Albiona Mustafa Muhadziri** +389 72 228 203 [albiona.mustafa@dzt.gov.mk](mailto:albiona.mustafa@dzt.gov.mk)  
**Mijalche Durgutov** +389 70 358 486 [mijalce.durgutov@dzt.gov.mk](mailto:mijalce.durgutov@dzt.gov.mk)  
**Martin Duvnjak** +389 75 268 517 [martin.duvnjak@dzt.gov.mk](mailto:martin.duvnjak@dzt.gov.mk)