

# From inclusion and transparency, to equity and quality: How can we improve local budget processes?

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## Abstract

The objective of this project is to investigate how equitable, inclusive, transparent and accountable budget processes are at local government level and to propose measures for their improvement. The analysis included four pilot municipalities in North Macedonia, selected to represent different geographic locations and socio-economic characteristics. We employed different methods to assess the current state of local budget processes: desk analysis for identification of legal procedures and the level of transparency of local governments' websites; a representative citizen telephone survey to assess citizens' attitudes; interviews with local government employees; and focus groups with civil society and representatives of marginalised groups. In general, we found that most of the citizens have not seen the main budget documents. Public debates are organised with participants who may be biased and only confirm local governments' positions, or are scheduled at the end of the budget preparation when it is too late to propose significant changes. At the same time, citizens' participation through informal channels of communication is found to be frequent, but it is also used to drum up support for political parties, for instance through patronage activities. As a result, citizens in general are not satisfied with the quality of budget processes.

We constructed an index (Open Municipalities Index – OMI) that measures the different dimensions of the budget process, allowing comparison between municipalities. Using the index, we broaden the analysis to include all 81 municipalities in North Macedonia.

To conclude, we provide policy recommendations that include enhancement of financial literacy, legislative changes and pilot projects for participatory budgeting. The OMI can also be an important tool, which through competition, incentivises local governments to improve their local budget processes.



## Preface



**By Johan Lilja, Secretary General, Swedish International Centre for Local Democracy - ICLD**

The mandate of the Swedish International Centre for Local Democracy (ICLD) is to contribute to poverty reduction by promoting local democracy in primarily low- and middle-income countries. In order to fulfil this mandate, we promote and encourage decentralised cooperation through our municipal partnership programme; capacity-building through our international training programmes; and investing in relevant research and creating important research networks. ICLD documents and publishes key lessons learned from our ongoing activities, initiates and funds relevant research, engages in scholarly networks, connects relevant researchers with practitioners, and organises conferences and workshops. We also maintain a publications series.

‘From inclusion and transparency, to equity and quality: How can we improve local budget processes?’ is the 18th report to be published in ICLD’s Research Reports series. A budget that reflects citizen’s needs is a key aspect of local democracy, and a vital tool in fulfilling the Sustainable Development Goals. Based on in-depth analysis of the local budget process in four municipalities in North Macedonia, the authors have developed an index that allows comparison and assessment of municipalities across the country. Their Open Municipalities Index (OMI) measures transparency, equity and inclusion, and accountability in the local budget process, which identifies key areas of improvement as well as incentivises local authorities to democratic progress. Results show that all elements are below satisfactory levels, but that equity and accountability are in particular need of addressing. To this end, the authors recommend improving financial

literacy among citizens, interactive and accessible web platforms for the budget process, as well as legislative reforms.

I believe that instruments like the OMI can drive important steps toward good governance in local authorities – equipping them to make well-founded decisions and take action to reach the goals quicker and better. That’s why the ICLD has commissioned this report: to bring about a systematic tool for assessing local budget processes and critically examine areas of potential improvement. I am convinced that the SDGs can only be achieved if citizens are involved, by means of transparency, participation and accountability. Therefore, I hope this research inspires local governments to continue the challenging work to improve local democracy by reviewing and transforming their local budget processes.

Visby, Sweden, May 2022

Johan Lilja  
Secretary General, ICLD

## About the Authors



Photo: ZMAI's archives

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Photo: ZMAI's archives

### **Viktor Mitevski, President of ZMAI**

**Mitevski** is a co-founder of ZMAI and is currently the President of the Association. From 2015-16 he resided at Texas A&M University where he obtained a Master of Science degree in Economics. From 2017 to 2019 he works as a special advisor to the Minister of Finance. Viktor is the recipient of the 2015 Fulbright Scholarship.



Photo: ZMAI's archives

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Photo: ZMAI's archives

### **Viktor Stojkoski, Data Scientist at ZMAI**

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Photo: ZMAI's archives

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Photo: ZMAI's archives

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Photo: Violeta Ogdenovska

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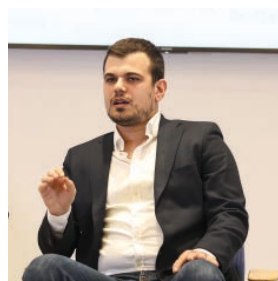


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Photo: ZMAI's archives

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Photo: ZMAI's archives

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## Introduction

This paper focuses on the local government budget process in North Macedonia, a country where citizens have doubts about the quality of this process. In particular, according to a 2017 Eurobarometer survey in the country, 67 percent of respondents tend not to trust local public authorities (European Commission, 2017), because they are rarely included in the preparation, adoption and execution of the local budgets. Moreover, the studies found that transparency of local governments is much lower than that of central government. As a result, local budgets do not adequately reflect citizens' needs, generating dissatisfaction with the provision of local public services. This is especially the case for marginalised groups, where a very visible example is that barely any local institution or public infrastructure facility is accessible to physically disabled people.

This research aims to investigate the state of equity, inclusion, transparency and accountability of the local government budget process in North Macedonia. More precisely, it investigates how marginalised groups are represented in the local budgets and during different stages of the budget process (equity); how citizens, especially marginalised groups, are involved in budget process, i.e. if their voice gets heard or if they are given a chance to influence budget processes (inclusion); if information about the budgetary process, from preparation, through adoption, to implementation, is known and easily accessible to the public (transparency); and if local government officials disclose the results of their work and of the whole budget process to the citizens (accountability).

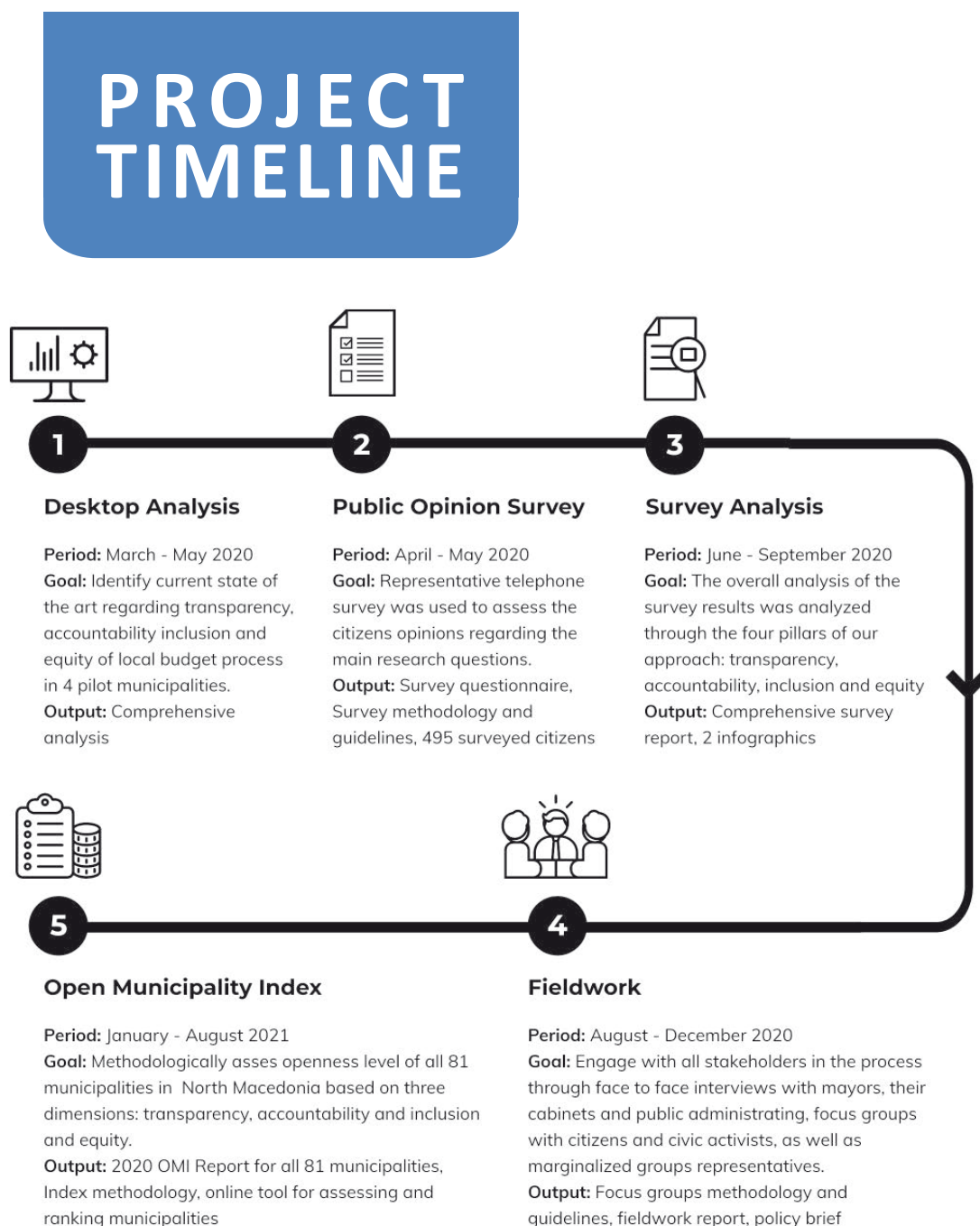
By testing four research hypotheses, we aim to identify viable public policies which will contribute towards greater inclusion of citizens, especially marginalised groups, in budget processes which will lead to envisioning and implementing citizen-centred projects and initiatives by local governments. Furthermore, for all these hypotheses, we investigate whether there are differences among various demographic lines, such as gender, age, ethnic background, degree of education, the municipality they live in etc.

Our comprehensive analysis is based on four municipalities in North Macedonia (there are 81 in total in the country). The four were chosen on the grounds of their geographic location, socio-economic background and ethnic and religious characteristics. The selected municipalities were: Karposh, an urban municipality, part of the capital city Skopje; Shtip and Gostivar, among the most important municipalities in the eastern and western regions of North Macedonia, respectively; and Valandovo as one of the smallest municipalities, predominantly rural, located in the southern part of the country. A common characteristic of the selected municipalities is that they have a proactive leadership that is willing to improve the budgetary process.

We performed the activities of the project in the period from March 2020 to November 2021 (Image 1).

This research report consists of four chapters. The first covers the current state of the art related to the openness of the local budget process. The second chapter discusses the research methodology. The third focuses on presentation of the data and general findings of the research. Finally, the paper concludes with a chapter dedicated to discussion and recommendations.

Figure 1. Map of VLRs and other relevant local reviewing documents published at the time of writing (November 2021)



## State of the art of local budget process research

Citizen participation in the local budget processes received significant attention in the literature (Isham et al., 1995; Cuthil, 2002; Irvin and Stansbury, 2004; Bingham et al., 2005; Chun et al., 2010; Bryson et al., 2014). Transparent and inclusive processes are important factors for economic and social development transformation. Stiglitz (2002) argues that they are important both for sustainable economic development and for social development that should be viewed as an end in itself and as a means to more rapid economic growth.

Empirical studies offer mixed evidence regarding the efficiency of local governments' resource allocation and public service performance in developing and post-transitional countries (Agrawal and Ostrom, 2001; Ribot, 2004; Sujarwoto, 2017). The specific reasons for inefficient allocation are rent-seeking and corruption (Blanchard and Schleifer, 2000), elite capture (Sarker, 2008), clientelism and vote-buying (Vukovic, 2018). These findings refer to a lack of transparency, accountability and inclusion of citizens in budgetary processes.

Fiscal transparency at local level is a necessary step for informing citizens. Internationally accepted standards and indices that deal with fiscal transparency at state level exist, like the International Monetary Fund (IMF) Transparency Handbooks (IMF, 2018) and the Open Budget Index (International Budget Partnership, 2018). However, empirical research has failed to produce proper tools for assessing local government transparency practices. Most contributions to the topic do not address it from a stakeholders' perspective, particularly in selecting the indicators to include in transparency indexes (da Cruz et al., 2016).

Regarding citizen participation, there is a strong consensus in the literature that participation does not refer simply to voting (Hammel et al., 2007; Warren, 2002). Participatory processes require that citizens have a voice in the decisions that affect them. However, the literature has failed to provide a clear answer on what are the systematic ways for active citizen engagement. Public hearings remain the primary formal opportunity for input in most local governments, but there is evidence of their limited effectiveness (Ebdon and Franklin, 2004). Haro-de-Rosario et al. (2018) analysed the different forms of Facebook and Twitter communication of local governments, arguing that social media are becoming a major channel of online interactive citizen participation. Advantages of participation vary by the type of mechanism used. A study done in the US by Carol Ebdon (2002) claims that public meetings in all 28 studied municipalities were open to all citizens, but the turnouts were often low, and attendees might not be representative of the community. On the other hand, citizen surveys may be generalisable if done scientifically and if they can provide valuable information about service priorities and issues; but questionable wording can affect results, intensity of opinion may not be indicated, and surveys can be costly.

Participation processes should incorporate all stakeholders in development policies, including marginalised groups. Unfortunately, local governments too often undertake development policies and programmes in response to donor demands or private sector needs (Oxfam, 2019).

## Conceptual framework

The conceptual framework used for assessing the state of the art regarding the local budget processes in North Macedonia could be summarised by presenting four research tools: conducting an initial citizen survey in four pilot municipalities, analysis of the survey answers regarding the questions of interest, desktop analysis of four pilot municipalities (legislation analysis, analysis of municipalities' websites, social and traditional media), and fieldwork with four pilot municipalities and the citizens in order to improve the state of affairs (interviews, questionnaires, focus groups). Additionally, an index for assessing municipalities with respect to equity, inclusion, transparency and accountability of their budget processes was developed and conducted in all 81 municipalities (Open Municipalities Index – OMI).<sup>1</sup>

This research aims to investigate the four main pillars of an open budget process: equity, inclusion, transparency and accountability of the local governments in North Macedonia. In addition to its main objective, it investigates how marginalised groups are represented, involved and informed about the local budgets during different stages of the budget process. Hence, our main hypotheses are:

1. Greater transparency leads to greater citizen satisfaction with the quality of the local services, especially for marginalised groups.
2. Greater inclusion leads to greater citizen satisfaction with the preparation and realisation of local budgets, especially for marginalised groups.
3. Greater openness of local governments leads to greater transparency and inclusion of citizens in the budgetary process.

By testing these hypotheses, we aim to identify viable public policies which will contribute towards greater inclusion of citizens, especially marginalised groups, in budget processes which will lead to envisioning and implementing citizen-centred projects and initiatives by local governments. Accountability and transparency are the key criteria for good governance both at central and local levels. Greater accountability and transparency of local budget processes should bring about legitimacy and popular support from the people. In the context of this report, transparency is defined as the local government's obligation to share information and documents with its citizens. These must be published online or through channels that are suitable for all citizens, especially all marginalised groups. They must be published in a timeframe that is consistent with the legal framework or, if not prescribed by law, in accordance with already established national or international good practices. Finally, these documents must include information that is comprehensive and useful.

Meanwhile, accountability in its narrowest sense, is equated with answerability. In the context of this report, it refers to the obligation to give an account of local government's actions to citizens, groups or organisations. From the perspective of a budget process, accountability means that citizens are free to hold local governments accountable for budgets they've proposed, adopted and executed and are able to influence local government's decision on planning and spending local budgets.

This report defines marginalised groups based on the definition set by the European Institute for Gender Equality (EIGE).<sup>2</sup> Hence, we consider marginalised groups to be all different groups of

<sup>1</sup> The OMI was piloted with four pilot municipalities for the fiscal year 2019, and the full assessment of the Index for all 81 municipalities was conducted for the fiscal year 2020.

<sup>2</sup> See: <https://eige.europa.eu/thesaurus/terms/1280>

people within a given culture, context and history who are at risk of being subjected to multiple discriminations due to the interplay of different personal characteristics or grounds, such as sex, gender, age, ethnicity, religion or belief, health status, disability, sexual orientation, gender identity, education or income, or living in various geographic localities. Hence, this report defines inclusion as local government's principle to engage and include citizens in the whole budget process from its planning and adoption to its execution. Moreover, this principle should be expanded by introducing formal and meaningful opportunities for citizens, including the most disadvantaged, to engage in all local budget processes.

Local governments have the potential to make a substantial and lasting impact on creating equity for all citizens in their local communities. One of the most powerful local government tools is the local budget. Hence, in this report equity means treating all people in a fair manner when planning and executing the local budgets. Equitable treatment of all people refers to fair treatment, access, opportunity and advancement for all people while striving to identify and eliminate barriers that have prevented the full participation and representation of all communities, especially those which have historically been oppressed.

## Methodology

### Survey

A representative telephone survey in four pilot municipalities (Valandovo, Gostivar, Karposh and Shtip) was used to assess citizens' opinions regarding the main research questions.

#### Response:

To collect this data, a comprehensive public opinion survey was conducted in each of the four studied municipalities. The respondents were sampled randomly from a database of 12,000 mobile phone numbers of individuals who live in the municipalities being researched. The survey allowed us to implement a dynamical statistical test for our hypotheses. Since we aimed to gather data about qualitative traits of the local government, the questionnaire mostly consisted of questions whose answers are given by a Likert scale. Likert scales are most commonly used to measure attitude, providing a range of categorical responses to a given question or statement (Jamieson, 2004). In order to minimise the possible errors due to misconceptions in interpreting the questions, before we officially conducted the survey, we tested it on a sample consisting of 0.1 percent of the adult population in each municipality. This led to a large enough data set and allowed us to implement standard statistical tools for testing our hypotheses in both spatial (within municipalities) and temporal (budget dynamics) settings. The survey questionnaire consisted of 25 questions (18 topic-related questions and seven demographic questions).<sup>3</sup>

<sup>3</sup> The whole questionnaire can be found at: <https://zmai.mk/wp-content/uploads/2021/12/Anketen-Prasalnik-Final-EN.pdf>



## Survey analysis

The survey results were analysed through the four pillars of our approach. The first part analysed the first two core principles of a participatory budget process – i.e., the level of transparency and accountability – and was approached by the question: are the budget documents presented to the citizens? The third pillar was the inclusion of the citizens during the budget preparation, using the question: are the citizens consulted in the budget process? Finally, the fourth pillar was equity, using the question: does the local government take care of marginalised groups in the community? In order to assess the connections between the answers to different questions, multinomial regressions were conducted where the dependent variables are:

- the degree to which the respondents consider the municipality transparent;
- the level to which the municipality consults the respondents;
- the respondents' opinion on how much the municipal budget reflects the needs of the citizens;
- how much the respondents think that the municipality takes care of marginalised groups;
- the amount of information that the municipality shares with its citizens; and
- the desire of the respondents to be involved in preparing the municipal budget in the future.

In all cases it is controlled for the potential effect of the respondent's gender, education, age and nationality.

## Desktop analysis and fieldwork

The desk analysis aimed to identify the current legal framework in North Macedonia regarding the legal budget processes. It was accompanied by comprehensive analysis of the practices in the four pilot municipalities, based on the investigation of the municipalities' websites, their social media accounts, their official gazettes and media posts related to local budgets.

The fieldwork investigated in more depth the current state of play in the municipalities. It contained interviews and focus groups with relevant stakeholders. Each focus group comprised eight participants who were representatives of local civil society organisations (CSOs), coordinators of neighbourhood units and local activists advocating for different local issues (youth unemployment, low paid workers, ethnic minorities, physically disabled people and single parents). Every focus group lasted for 150 minutes and was held online.

During August 2020, our team conducted interviews with each of the four mayors and four separate interviews with local government employees (heads of finance departments, heads of communication departments, coordinators of committees for gender issues and employees at the social affairs units). These interviews were the most appropriate tool to gather information on the budgetary process and the extent to which municipalities involve citizens' opinions when identifying problems and possible solutions. Each interview was conducted by trained researchers who followed the same guidelines and asked the same set of questions.<sup>4</sup>

In order to have a full picture of the whole system and to test the findings from the desktop analysis and interviews with local officials, four focus groups were organised with civil society representatives and marginalised groups of citizens. The main goal of these focus groups was to gain information from local activists and citizens on how they are represented and involved in the different stages of the budgetary process. At the same time, we wanted to go beyond the local context and find out whether the same findings apply throughout the whole country. Therefore, we organised an additional focus group with national think tanks and support organisations that deal with local democracy and participatory budgeting. All focus groups were organised based on the guidelines provided in the Focus Groups Manual.<sup>5</sup>

<sup>4</sup> The whole set of questions could be found on the following link: <https://zmai.mk/wp-content/uploads/2021/12/Questionnaire-for-municipalities.pdf>

<sup>5</sup> See [www.icld.se/publications](http://www.icld.se/publications)

## Index

The index ranking can be a powerful mechanism for stimulating changes in a specific area. The best-known example is the Doing Business Ranking (World Bank, 2020) that incentivises competition among countries to improve business regulations for local firms. Similarly, the Open Budget Index (International Budget Partnership, 2018) deals with budget transparency at state level. However, the empirical research has failed to produce proper tools for assessment and promotion of local government budget practices. A pioneering attempt to select indicators for local government transparency was made by da Cruz et al. (2016). However, focusing only on transparency is not enough to improve the whole local budget process. A local budget process index should integrate all four elements of the budget process: transparency, inclusion, accountability and equity. The existence of such an index, and the resulting rankings will stimulate municipalities to pay much more attention to improving different dimensions of their budget processes.

For this purpose, we introduced the Open Municipalities Index (OMI). Through the OMI, the assessment of the local budget process practices is encapsulated in three dimensions: transparency; inclusion and equity; and accountability. Each dimension behaves as a sub-index that measures the individual contribution of the respective dimension on a scale of 0–100 in the overall index of the municipality.<sup>6</sup> The value of the OMI for a particular municipality represents a simple average of the value registered in the three dimensions. This implies that each dimension is equally relevant in the local budget process of each municipality.

The value of the index for each municipality in North Macedonia is calculated by utilising data gathered from the Open Municipalities Survey 2020 (OMS).<sup>7</sup> The OMS is an extensive survey for the local budget process whose questions assess both what occurs in practice and what is required by law. Thus, the answers offer an assessment of the transparency, equity and accountability of a municipality by looking not only at the official principles within the country, but also by following generally accepted good practice for public financial management.

Figure 2: The elements of the Open Municipality Survey



<sup>6</sup> An overview of the Index methodology is available at: <https://zmai.mk/wp-content/uploads/2021/12/OMI.pdf>

<sup>7</sup> The guide to the questionnaire for the OMS is available at: <https://zmai.mk/wp-content/uploads/2021/12/Vodic-EN.pdf>

## Data review and research findings

### Legislative framework

The process of preparing a local self-government budget is regulated by the Budget Law. Its adoption is regulated by the Law on Financing of Local Self-Government Units. The mayor is responsible for preparing the draft budget of the municipality and for submitting it to the municipal council.

The budget process presented above consists of the following phases:

- The Ministry of Finance submits a budget circular to the mayor of the municipality no later than 30 September. It contains the following elements: information on current and estimated macroeconomic indicators in North Macedonia; the information for estimating the revenues in the budget year and for the next two years that are distributed between the Budget of the Republic of North Macedonia and the municipalities; the government's strategic priorities; the special parameters that will be used for distribution of the approved share of VAT revenues to the municipalities; and information on the decisions of the Government of North Macedonia for the earmarked grants, block grants and other grants for the municipalities determined by law as well as estimates for these grants for the next two years.
- The municipal council adopts a budget calendar which regulates the deadlines for municipal planning for the following activities:
  1. the mayor submits to the municipal budget-users the main directions for preparation of the financial plans;
  2. the municipal budget-users submit their financial plans to the mayor; and
  3. the mayor submits the draft budget to the municipal council.
- The mayor of the municipality prepares a draft plan of development programmes that is harmonised with the guidelines of the budget circular and submits it for approval to the municipal council no later than 20 October of the current year.
- The municipal council approves the draft plan of the development programmes no later than 15 November of the current year. The approved plan of development programmes is an integral part of the draft budget of the municipality.
- The municipal council adopts the budget for the next year no later than 31 December of the current year, with all its accounts, sub-programmes and items.<sup>8</sup>
- If during the fiscal year the revenues and expenditures are not realised as planned in the municipal budget, the mayor sends a proposal for amendments to the budget (supplementary budget) to the municipal council. The supplementary municipal budget is adopted in the same procedure as the adoption of the annual municipal budget.
- After the end of the fiscal year, the municipal council adopts an annual account of the municipal budget. The annual account contains all the elements contained in the municipal budget, expressed as planned and realised revenues and expenditures for all municipal budget-users. The mayor submits the financial statement for adoption to the municipal council, no later than 28 February of the following year. The council adopts the annual account no later than 15 March of the current year, for the previous year and submits it to the Ministry of Finance no later than 31 March of the current year.

Aside from the budget-related legislation, there is another legal framework that stipulates the obligation for transparency and participation instruments<sup>9</sup> (Law on Local Self-Government,<sup>10</sup> Law on Equal Oppor-

<sup>8</sup> If the municipal council does not adopt the municipal budget by 31 December of the current year, it is obliged to make a decision on temporary financing and a financial plan for its implementation for the period from 1 January to 31 March of the current year. The mayor approves the payment of funds by accounts, sub-programmes and budget items. However, the amount should not exceed one-third of the total expenditures in the first quarter of the previous fiscal year, taking into account the cash flows. Once adopted by the mayor, the amount is accepted by the Ministry of Finance and processed through the Treasury. The financial plan for implementation of the temporary financing of the municipality is an integral part of the budget for the current year.

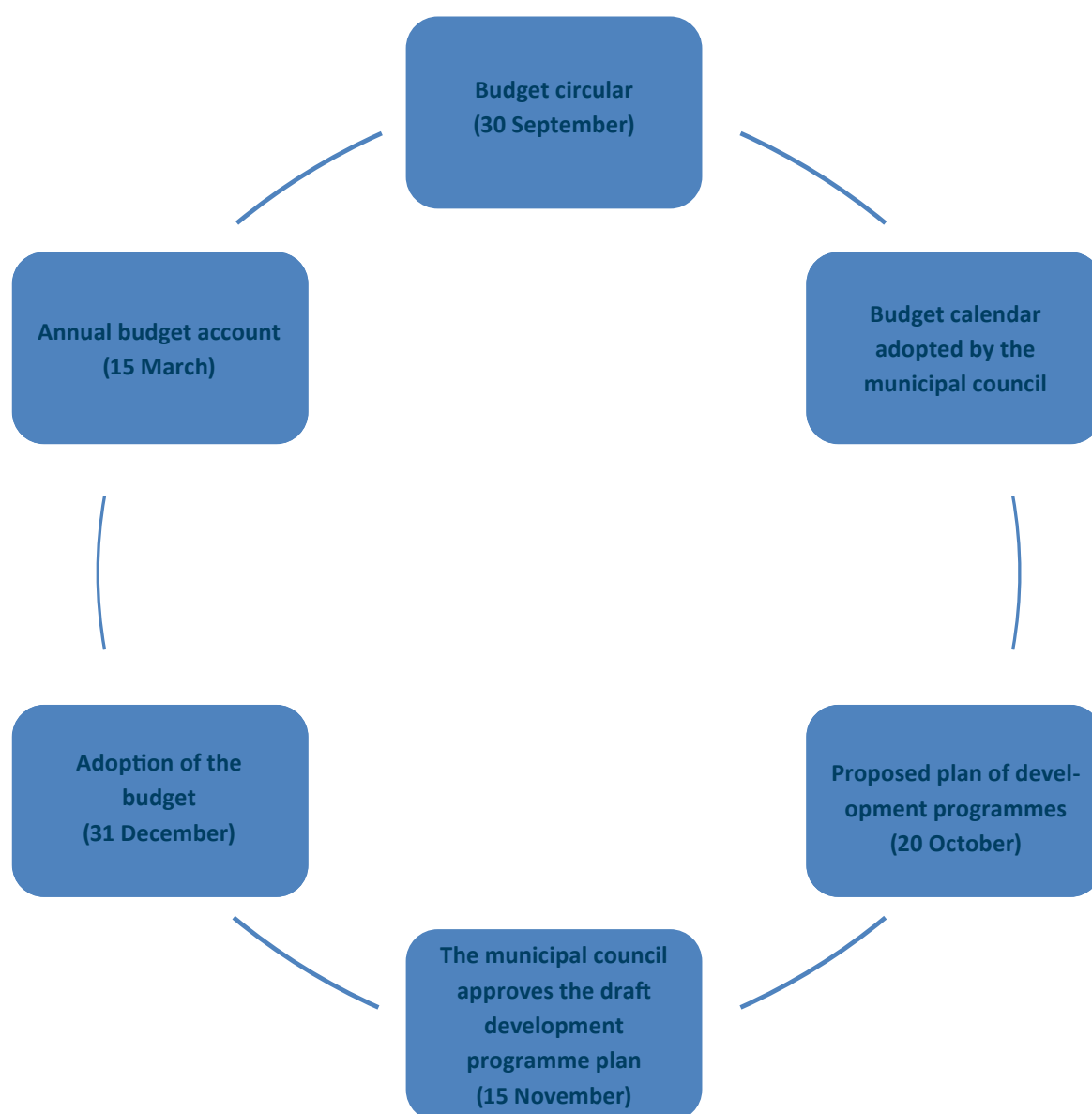
<sup>9</sup> The legislation stipulates the responsibility for municipalities for establishing committees for inter-community relations, commissions for equal opportunities and neighbourhood units.

<sup>10</sup> See: [https://mls.gov.mk/images/laws/EN/Law\\_LSG.pdf](https://mls.gov.mk/images/laws/EN/Law_LSG.pdf)

tunities of Women and Men<sup>11</sup>). These laws and their bylaws provide institutional mechanisms for citizen participation outside the scope of local budgeting. Hence, mechanisms such as public hearings, neighbourhood units, committees for inter-community relations and commissions for equal opportunities

allow municipalities to engage with citizens in order to improve local democracy processes. All these mechanisms should be an integral part of the budget process and all parties involved should be considered as relevant actors in the policy-making process.

Figure 3: Process of preparation and adoption of local budgets in North Macedonia



11 See: [https://www.legislationline.org/download/id/9677/file/NMAC\\_on%20Equal%20Opportunities%20of%20Women%20and%20Men.pdf](https://www.legislationline.org/download/id/9677/file/NMAC_on%20Equal%20Opportunities%20of%20Women%20and%20Men.pdf)

## Public opinion survey overview

### Transparency and accountability

The survey results showed that citizens believe that there is partial transparency in the local budgetary process. Among respondents, 34.1 percent think that the municipality is partially transparent, and 31 percent think it is completely transparent. A smaller proportion, 16.1 percent, think that the municipality is not transparent at all, and 18.6 percent of the respondents do not know.

Most of the respondents think that the municipalities do not provide enough information about the spending of municipal money (32 percent). In second place is the answer that municipalities provide partial information (22 percent), and the lowest number of respondents answered that municipalities provide enough information (19 percent). More than a quarter of the respondents – 27 percent – answered that they do not know if their municipality provides enough information on the way it spends the local budget.

We found that 89.6 percent of citizens have not seen the municipal budget or its citizen version (i.e. a simplified presentation of the municipal budget), while 95.1 percent of citizens have not seen the final account of the municipal budget in the last two years. Despite this, the desk analysis found that the main budget documents – the budget plan and final ac-

count – are published on the selected municipalities' websites. Therefore, we argue that an important element for improving local budgetary processes would be the enhancement of citizens' financial literacy. This element should especially focus on the possibilities for including citizens in the budgetary process as well as on building their understanding of the main budget documents. North Macedonia is not the only country that faces these issues. Part of the problem may be attributed to the slow pace of constitutional change in many countries, and to resistance on the part of vested interests in the region where traditional bases of power may be threatened (Rodrigues and Winchester, 1996: 31). In addition, there is the 'knowledge' factor. Put simply, citizens throughout the region often remain politically ill-informed, and are thus less than fully prepared to participate in community-based initiatives (Hewitt, 2007).

Similar to the municipal budget, most of the respondents in all four municipalities, or 91.4 percent, have not seen a citizen budget, which is a simplified presentation of the budget, while only 8.2 percent have seen it. In this case, there are no significant differences between the municipalities. At the same time most of the respondents in all four municipalities, or 94.3 percent, do not know at all what the budget of the municipality is. The percentage of respondents who do not know what is the budget of the municipality ranges from 90.9 percent in Karpos to 100 percent in Valandovo.

Figure 4: Overview of the results from the public opinion survey – questions about transparency and accountability  
Source: ZMAI - results from the public opinion survey

**90 in 100 of citizens have not seen the municipal budget or its citizens' version in the last two years**

90/  
100



**95 in 100 of citizens have not seen the final account of the municipal budget in the last two years**

95/  
100





## Inclusion

The survey results broadly confirmed the main findings from the interviews and the focus groups. Only 19.2 percent of respondents think that the municipality completely consults citizens in the budgetary process, while a much higher proportion of the respondents consider that local government partially consults citizens (according to 34.3 percent) or does not consult them at all (29 percent). Moreover, 31.8 percent of the citizens said that they had submitted a proposal for a project or activity to the local government. Of these proposals, only 10.3 percent were accepted. Only a small proportion of the citizens participated in the formal budgetary process, such as public presentation or council session for the municipal budget. Most citizens who submitted a proposal submitted it using multiple channels— accounting for 34.2 percent. The most-used single channel was social media, mentioned by 14.1 percent.

The last question in this section referred to how interested respondents were in being involved in the process of preparing the municipal budget in the future. The percentage of those who would like to get involved is on average 60 percent, and those who would not like to do so is close to 30 percent. Participation through informal channels of communication can be viable source of support for political patronage by local officials. Frequently citizens make proposals or requests at political party gatherings where they are expected to vote in exchange for support for their proposal.

Figure 5: Overview of the results from the public opinion survey – questions about citizen participation

Source: ZMAI - results from the public opinion survey

**32 in 100 of citizens submitted a proposal for a project or activity to the local government**



To eradicate this situation, it is important to include citizen consultation in the formal budgetary process as much as possible. However, government officials are unlikely to give up easily on possibilities for patronage and acquiring votes. Therefore, we highlight the need to incentivise local government to improve formal channels of inclusion for citizens in the budgetary process.

## Equity

The survey results indicate that only 18 percent of citizens think that local government fully takes care of marginalised groups. Most citizens think that local government only partially takes care (according to 29.8 percent of respondents) or does not take any care (also 29.8 percent) of these groups. More specifically, only 20 percent of the marginalised groups surveyed stated that local government fully takes care of them.

Figure 6: Overview of the results from the public opinion survey – questions about equity

Source: ZMAI - results from the public opinion survey

**18 in 100 of citizens submitted a proposal for a project or activity to the local government**



## Multinomial logistics regression analysis

### Transparency

Results show that there is a strong positive correlation between transparency and whether respondents saw the final account of the budget. Respondents who stated that they saw the final account are more likely to say that the municipality is completely transparent, and less likely to point out that it is not transparent at all. On the other hand, there is no statistically significant relationship between whether citizens have seen the budget and transparency. This clearly indicates that it is more important to give information about how the money is actually spent, through the final account, than about how money is planned to be spent, through the budget.

There is a clear positive link between citizen consultation and transparency. Respondents who stated that the municipality consults them (in part or in full) are more likely to say that the municipality is completely transparent, and less likely to say that the municipality is not transparent at all.

There is a clear positive relationship between the perception of whether the budget reflects the needs of citizens and transparency. Citizens who think that the budget fully reflects their needs are more likely to say that the municipality is completely transparent, and less likely to say that it is not transparent at all.

There is also a link between caring for marginalised groups and transparency. People who point out that the municipality fully cares about marginalised groups are less likely to say that the municipality is not transparent at all.

On the other hand, there is a clear negative link between municipal budget proposals and transparency. People who say they have submitted a budget proposal are more likely to say that the municipality is not transparent at all. This is an unusual finding but can be explained by the possible rejection of the proposal made by the citizens.

Similarly, there is a negative relationship between the perception of whether the municipality has enough money and transparency. Respondents who pointed out that the municipality has sufficient funds to meet its needs are more likely to say that the municipality is not transparent at all.

In terms of the demographic factors, there are no differences between people of different genders, age, degrees of education and ethnic backgrounds, in terms of their perceptions of transparency. Self-employed people are found to be more inclined to say that the municipality is fully transparent, compared to the other employment statuses. Also, people from Karposh tend to state more often that they think their municipality is fully transparent.

### Citizens' needs

There is a clear positive relationship between transparency and citizens' perception of how well the budget responds to their needs. Respondents who think that the municipality is fully transparent also say that the budget fully reflects their needs.

The same holds for consulting citizens. Citizens who say that the municipality consults them during the budget preparation are more likely to say that the budget fully reflects their needs.

Similarly, people who think that the municipality cares for marginalised groups are more likely to say that the budget fully responds to their needs.

There are no differences regarding these questions between people with different demographic characteristics. The only difference is that people from Valandovo and Karposh more often tend to say that the budget fully reflects their needs.

### Care for marginalised citizens

There is a significant relationship between the opinion about the information shared by the municipality and care given to marginalised groups. Those respondents who think that the municipality partially or

sufficiently informs them, are more likely to answer that the municipality fully takes care of marginalised citizens.

People who say that the budget fully reflects their needs are also more likely to say that the municipality cares for marginalised groups.

Similarly, respondents who say that the municipality is fully transparent are more likely to say that the municipality cares for marginalised groups.

There is no connection between the respondents' perceptions of care for marginalised persons and the budget review, the final account and the activity of the respondents in sharing ideas for activities and projects to the municipality.

There are some demographic differences regarding this question. Public sector employees, unpaid family workers and pensioners tend to think more often that the municipality cares sufficiently for marginalised groups. People educated to high school level, on the other hand, tend to think less often that the municipality cares for marginalised groups.

## Fieldwork overview

According to the feedback received from the mayors of the four municipalities, it can be inferred that the municipalities use different types of citizen engagement activities aimed at gathering citizens' opinions during the budgetary planning process. These activities include public gatherings, which are announced in advance, mainly through urban communities. All four municipalities, regardless of their attributes (GDP level, urbanisation, population etc.) use their websites as a tool for communicating with citizens. At the same time all four municipalities use their social media accounts, where citizens have the opportunity to submit their ideas to the municipality throughout the whole year. On the other hand, representatives of civil society stressed that they are not satisfied with the way that municipalities engage with their citizens, since all activities are ad hoc and have no official logistical or

legal framework. Hence, in order to integrate citizens' engagement at a structural level, they suggested that municipalities should have a clear communication plan which is inclusive, engaging and most of all, transparent with the citizens.

## Focus groups overview

The purpose of the focus groups was to obtain information on the opinion of citizens and representatives of civil society organisations in the municipalities of Valandovo, Shtip, Karposh and Gostivar regarding the municipal budget. All focus groups discussed three key issues:

1. The municipality's transparency and accountability level
2. Experience of the focus group participants in cooperating with the municipality and whether they have ever been involved in the municipal budget-making process
3. Suggestions by focus group participants on ways to improve citizen involvement and accountability in the budget-planning process.

In general, all focus groups with CSOs highlighted that often, public debates are organised with participants who are biased and who only confirm local governments' proposals and positions. They also said that debates are scheduled for the end of the budget preparation when it is too late to propose significant changes.

The impression of most organisations is that the municipality does not have systematised information and databases, which further complicates the provision of complete information when seeking an answer to a question. Organisations and CSOs have easier access to the information they need because they are more familiar with the way of working and reporting to the municipality, and because of the network of contacts. But for the ordinary citizen, being informed is difficult because the website of the municipality is not easy to use and needs to be simplified.

Usually, the municipalities organise public presentations of the local budget very late or at the end of the year, after the draft budget has already been drafted. So far, in general, almost no proposals have been accepted by the municipalities; however, there are positive examples where organisations' proposals were not accepted in the current year, because they were consulted late, but they were considered during the following year when the proposal entered the next year's budget. Yet, some citizens say that for the most part, the budget is mirrored from one year to another, i.e. nothing changes significantly. The recommendation of the organisations is to schedule such meetings much earlier in the year, when the draft budget is made, to allow time for the proposals of organisations to be considered by the municipal authorities.

As one of the ways to improve the involvement of and accountability to the citizens in the budget planning process, the organisations highlighted the importance of organising formal budget forums. Participants said that more budget forums should be organised. This would allow more citizens to get involved in the budget-making process way before the draft budget is adopted by the council. However, organising these forums will not solve the problem if there is no clear procedure for the municipality to review citizens' proposals and explain the decision for their acceptance or non-acceptance. If these forums become a practice, they can help citizens to understand the whole process of drafting and adopting the budget. At the same time this activity will help them to get closer to their local government. Citizens will change their attitude towards the local government and instead of criticising the local government and being unable to influence the decision-making process, they will be directly engaged in the crucial processes.

Even though citizen participation is a formal and integrative process, yet there is no budget-specific legislation that regulates it. The representatives of local associations believe that legal changes should be made so that citizens can formally be involved during the budget preparation and the decision-making process. However, adopting a certain legislative change does not necessarily mean that citizens' participation will

become a regular practice. The current legislative framework stipulates several citizens' participation mechanisms. However, citizens mentioned that these are not used for budget processes. Hence, the whole community, including the local government should see the benefit of introducing such practices and of establishing a culture that will not only support citizen participation, but will also identify it as an integral part of the decision-making process in all relevant areas of public life.

Finally, the citizens that come from smaller ethnic communities mentioned that when they communicate with the local authorities, they are immediately directed to the unit responsible for ethnic communities, regardless of whether their request is within the competence of that particular unit. Hence, it is very important for local communities to better understand the work of the municipalities and to address their issues to the relevant departments. By the same token, local public servants should realise that all citizens are equal and face the same issues and challenges, regardless of their background.

## Open municipality index overview

A growing body of empirical studies suggests that there are no strong linkages between the efficiency of local self-government in the allocation of resources and the production of public services. It is assumed that this result is due to corruption and manipulation of public policies in order for certain private businesses to make more profit. In order to solve the problem of this weak link between the efficiency of local self-government and the production of public services, the empirical research points towards increasing the openness of the budget process to the citizens.

A simple mechanism for stimulating change aimed at increasing the openness of municipal budgets and ensuring that it remains high is by measuring the Open Municipalities Index (OMI). The OMI is a comprehensive indicator for evaluating the municipal budget process for one fiscal year on a scale from 0 to 100. The openness is gauged by evaluating the implementation of the municipal budget process through three dimensions:

### **Transparency**

measures the extent to which the budget process is known to the public, from preparation, through adoption, to implementation.

### **Accountability**

quantifies the degree to which the results of the municipality's work and the entire budget process are shared with the citizens, thus they can hold government officials accountable for their actions.

### **Inclusion and equity**

Inclusion measures the ways in which citizens, especially marginalised groups, are involved in the budget process. More precisely, inclusion estimates whether these groups are able to express their opinion on the local budget and whether their voice is heard. Equity investigates the representation of marginalised groups at different stages of the budget process.

Each dimension is a separate index that measures the individual contribution of the respective dimension on a scale from 0 to 100 in the total Open Municipality Index. The value of the OMI for a certain municipality is a simple average of the value registered in the three dimensions. Hence, each dimension is equally relevant in the municipal budget process.

The value of the OMI for each municipality in North Macedonia is calculated using the data collected from the Open Municipal Survey (OMS). The OMS is a detailed survey of the municipal budget process for the fiscal year 2020. The questions contained in the survey evaluate both what is happening in practice and what is required by law. Thus, the answers offer an assessment of the transparency, inclusion, equity and accountability of a municipality by not only looking at the official principles in the country, but also following the generally accepted good practice for managing public finances across the world. The structure of the OMS for 2020 is given in Footnote 5.

The goal of this report is to show the state of openness of the municipalities in North Macedonia through the OMI for 2020. The results show that the average value of the OMI for 2020 is 31. On the other hand, the standards (which will be defined in the subsequent section) for openness imply that a municipality must have an index value of at least 61 to have a satisfactory level of openness. Only one municipality (Bogdanci) has a satisfactory level of openness.

Most municipalities have a minimal level of openness regarding the budget process (OMI value of between 21 and 40). All of this points towards insufficient openness of municipal budgets in 2020.

Additionally, there are differences in the levels of openness when the municipalities are divided into: 1) urban and rural (based on the social settlement of the municipality headquarters); 2) based on the geographical location; and 3) according to the dimension through which the openness is considered. Municipalities with headquarters in an urban settlement show greater openness, as opposed to those whose headquarters are located in a rural area. When considering the differences between the regions, we find that in the Vardar, East, Southeast and Northeast regions, the majority of the municipalities have a minimal level of municipal budget openness, while in the Skopje and Polog regions the municipalities with insufficient openness have the highest representation. Finally, if we consider the differences between the scores by dimensions, we come to the conclusion that the average score for transparency is 39, for inclusion and equity it is 16 and for accountability it is 38. Hence, it is obvious that a reliable factor for poor openness of municipalities is the low level of inclusion and equity. Nevertheless, independently of how we divide the municipalities, the results show that it is necessary to improve the openness of the budget processes across all dimensions.



## The general state of openness of municipal budget processes in North Macedonia

The results of the OMS in 2020 tell us that the average score for openness of the municipal budget processes is 31. In order to differentiate the municipalities, we classify them into five categories: municipalities with comprehensive openness of their budget process (OMI between 81 and 100); satisfactory openness of the budget process (OMI between 61 and 80); sufficient openness of the budget process (OMI between 41 and 60); minimal openness of the budget process (OMI

between 21 and 40); and insufficient openness of the budget process (OMI between 0 and 20).

The map for the geographical distribution of the OMI for 2020 is given in Figure 7. From the chart, it is obvious that most municipalities in North Macedonia do not reach the satisfactory level of openness of their budget process with the public. The municipality of Bogdanci has the highest OMI value for 2020 (63), while the municipalities of Arachinovo and Rankovce have the lowest value (0).

Figure 7: Overview of OMI results by municipality

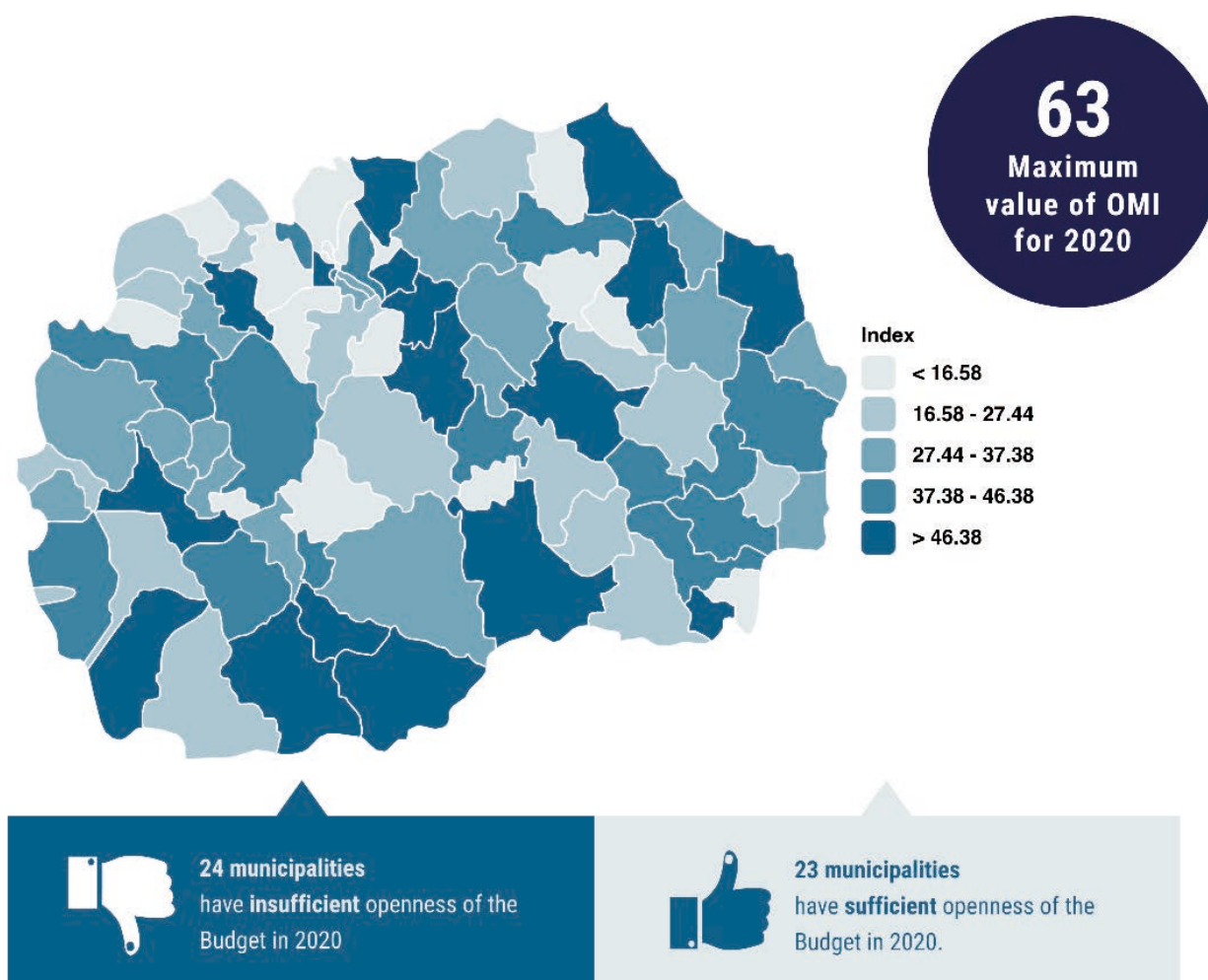


Figure 8 gives the distribution of openness of the municipal budget processes by different categories. There are no municipalities in the first category, i.e., municipalities with comprehensive openness of their budget processes. In the second category, which includes municipalities with satisfactory openness, there is only one municipality – Bogdanci. In the third category, i.e., municipalities with sufficient budget openness, there are 23 municipalities, 18 of which are urban.<sup>12</sup> The fourth category consists of municipalities that have minimal openness of their budget processes and is the most represented. In this group there are 33 municipalities: 17 urban and 16 rural. The last category comprises of municipalities that did not open up their budget enough to citizens in 2020. In this category there are 24 municipalities. The majority of these municipalities are rural (16 rural and eight urban municipalities).

There are differences in the distribution of the level of budget openness between the geographical regions of the country (Figure 9). Namely, in the Vardar, East, Southeast and Northeast regions, municipalities with a minimal level of budget process openness are the most represented, while in the Skopje and Polog region, municipalities with insufficient openness are mostly found. Only in the Southwest region are municipalities equally represented with sufficient, minimal and insufficient openness.

If we consider the differences between the scores by dimensions, it can be concluded that the average score for transparency is 39, for inclusion and equity is 16, and for accountability it is 38. These statistics indicate that a critical factor in the differences between different municipalities are the assessed levels of transparency, inclusion and equity, and accountability in the budget process. The following figure analyses the structure of municipal budgets through the prism of the four key elements, summarized in three sections of the OMI.

Figure 8: Distribution of budget process openness according to the OMI 2020

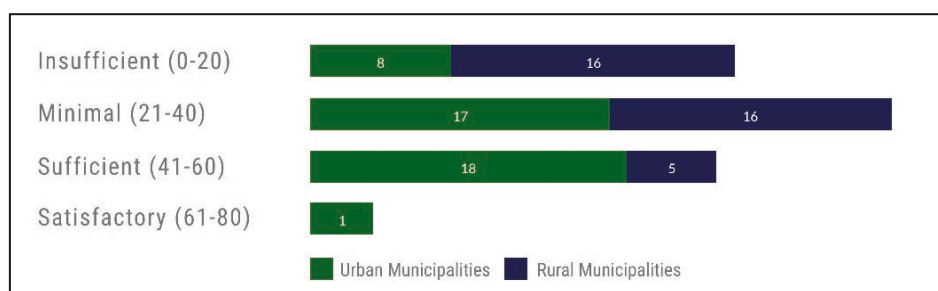
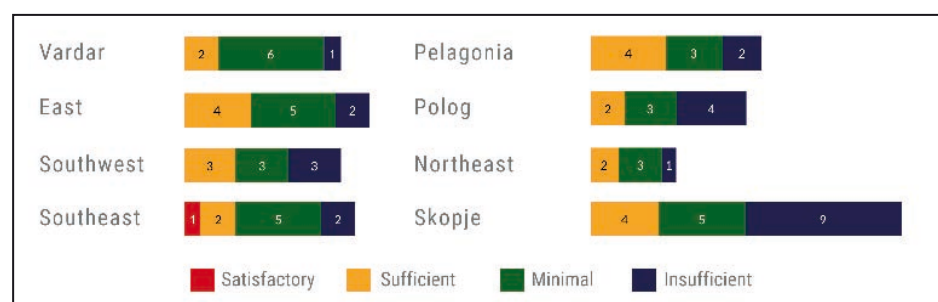
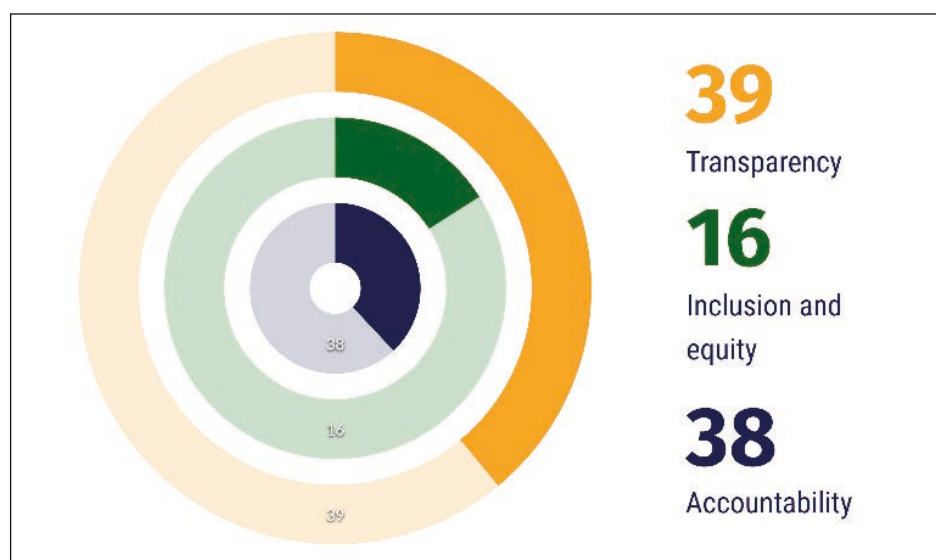


Figure 9: Distribution of the level of budget openness between the geographical regions of the country by OMI 2020



12 The classification of the municipalities into rural and urban is derived from the Law on the Territorial Organization of Local Self-Government in the Republic of North Macedonia. It is based on the location of the headquarters of the municipality. If the headquarters are in a city or a town, the municipality is considered urban, whereas if it is in a village, the municipality is considered rural.

Figure 10: The structure of municipal budgets through the prism of the four key elements of the OMI

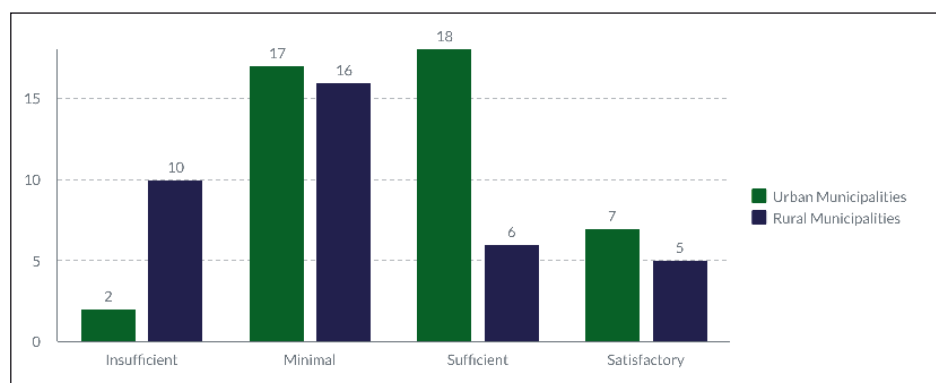


### Transparency level of municipal budgets in North Macedonia

This part gives the distribution of transparency of municipal budget processes, with the municipalities divided into the same categories as listed in the previous chapter. Figure 11 indicates that the distribution of transparency has a similar trend to the distribution of the overall index – i.e. municipalities that show greater transparency levels tend to have greater overall OMI values. The differences appear in the other dimensions, which in comparison with the transparency, are lower on average. As stated in the previous section, the average score for the transparency of budget processes between the municipalities is 39.

More importantly, no municipality achieved a comprehensive transparency level. However, unlike the overall ranking, now there are more municipalities that have a satisfactory transparency relating to the budget process – i.e. a total of 12 municipalities have a satisfactory transparency level: seven are urban and five are rural. Moreover, 24 municipalities have a sufficient level of transparency of budget processes. Out of these, 18 are urban. Again, the fourth category, where the municipalities show a minimal transparency level, is the most represented – i.e., 33 municipalities have a minimal transparency level. Among these municipalities there are 17 urban and 16 rural municipalities. Finally, 12 municipalities show an insufficient transparency level, 10 of which are rural.

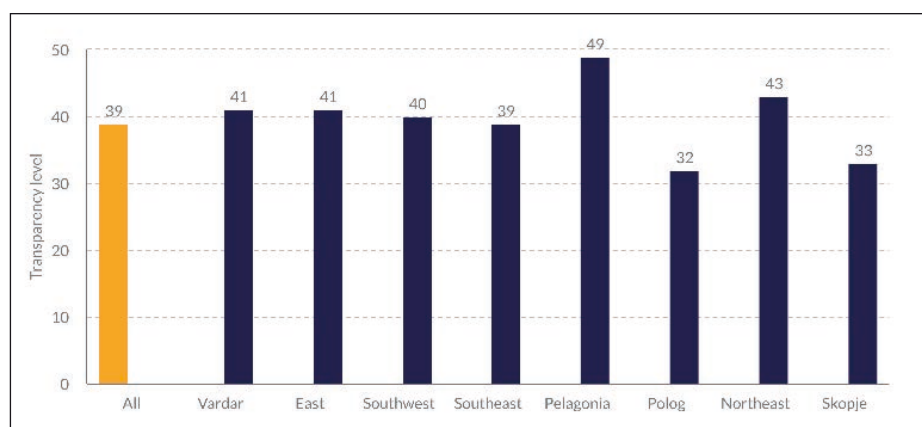
Figure 11: Distribution of the overall index value by types of municipalities according to OMI 2020



If regional differences are considered, it can be seen that no region in the country has an average transparency score greater than 50 (Figure 12).<sup>13</sup> The Pelagonia region has the highest average score of transparency (49).

Additionally, three more regions have an average score that exceeds the average at the state level. The lowest transparency of the budget process is in the Polog and Skopje regions where the average scores are 32 and 33, respectively.

Figure 12: Distribution of transparency levels according to OMI 2020



### BOX 1: What is the reason for the low level of transparency of municipal budget processes in North Macedonia?

If the answers to the questions of the OMS are examined in more detail, it can be seen that a huge number of municipalities have not shared important documents with the public. Specifically, from Table 1 it can be concluded that as many as 62 percent of the municipalities do not have a draft plan of development programmes for 2020, although this document is required in the budget calendar. This result may be due to the fact that almost half of the municipalities have not adopted a budget calendar for 2020, despite

the fact that it is legally required. If the municipalities do not have a budget calendar, there is only a small chance for them to adopt a draft plan of development programmes. Also, 12 percent of the municipalities have not adopted the budget within the legally prescribed deadline, and 89 percent do not issue the budget in an open format. A large number of municipalities do not have an online version of the supplementary budget or citizen budget, nor do they use social networks for budget information.

13 The average is calculated from the transparency assessment of the municipalities located in the region.

Table 1: Overview of transparency characteristics of local budget processes for 2020

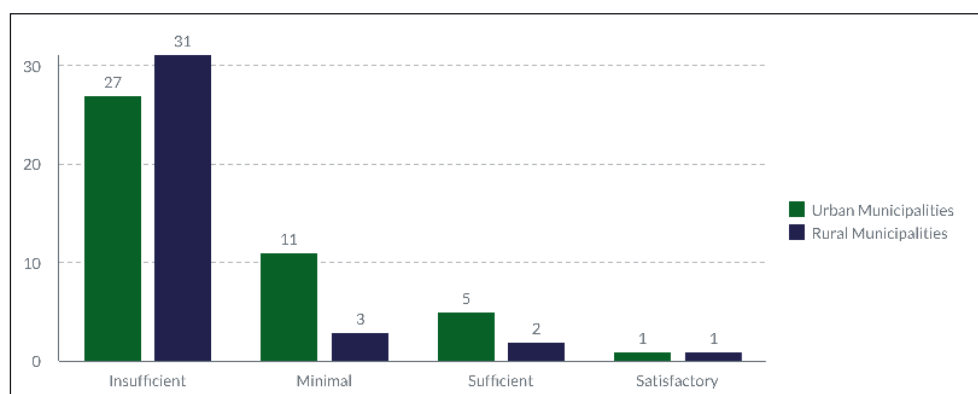
Transparency characteristics of local budgets processes	Percentage of municipalities that have the characteristic
There is no budget calendar for 2020	40%
There is no draft plan of development programs for fiscal year 2020	62%
There is no online version of the 2020 draft budget	81%
Budget for 2020 adopted outside the legal deadline	12%
The budget for 2020 is not available in open format	89%
There is no online version of the 2020 supplementary budget	37%
There is no online version of a citizens' budget for 2020	94%
Has not used social networks for budget information	70%

### Level of inclusion and equity of the local budget processes in North Macedonia

Figure 13 provides the distribution of municipal budget processes based on the level of inclusion and equity. In this dimension, most municipalities are categorised as lower. In particular, 72 municipalities (89 percent of the municipalities) are assessed as having insufficient or minimal levels of inclusion and equity in their budget processes. In terms of types of municipalities, the urban ones are ranked slightly better. That is, 25 percent (11) of the urban municipalities are assessed with a minimum

score, while 61 percent of the municipalities belonging to this type have insufficient inclusion and equity levels. On the other hand, as many as 84 percent (31) of the rural municipalities have insufficient inclusion and equity in the budget processes, and only 8 percent (three) have a minimal level. A similar distribution is observed at the higher levels. As was the case with the other dimensions, no municipality has comprehensive inclusion and equity, while out of the nine municipalities that have sufficient or satisfactory inclusion and equity levels, 67 percent (six municipalities) are urban.

Figure 13: Distribution of municipal budget processes based on the level of inclusion and equity

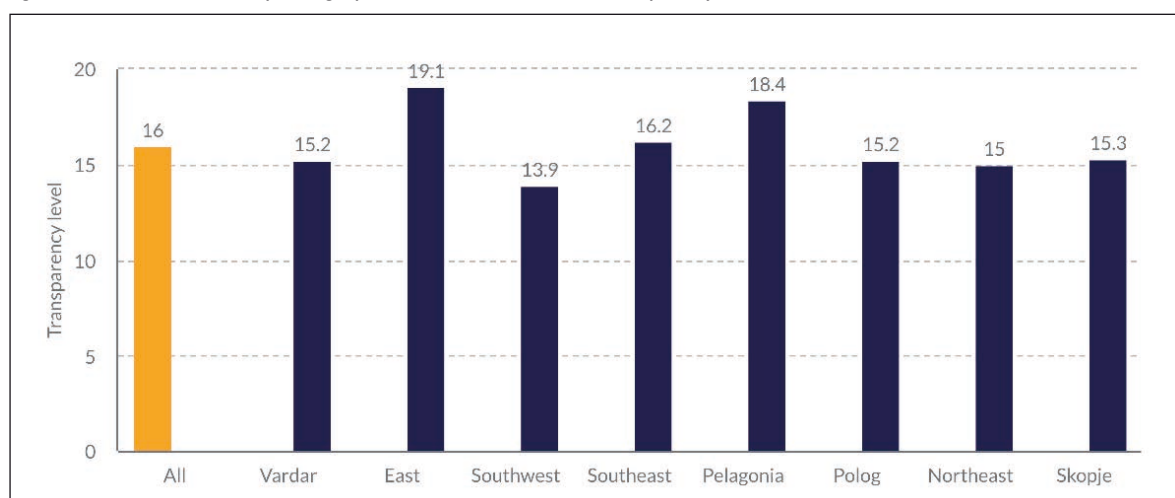




If we study the regional differences, we observe that on average all regions of the country are assessed as having insufficient inclusion and equity levels, i.e. a score lower than 20 (Figure 14).<sup>14</sup> The highest average score of inclusion and equity among the regions is registered in the East region (19.1), followed by the Pelagonia region

(18.4). On the other hand, all other regions, except the Southeast (16.2), have an average score that is below the national average. The lowest inclusion and equity level of the budget process is in the Southwest region, where the average score is 13.9.

Figure 14: Distribution of municipal budget processes based on the level of transparency



## BOX 2: What is the reason for the low levels of inclusion and equity in municipal budget processes in North Macedonia?

Given the overall low rating of the municipalities in this dimension, it is difficult to distinguish the critical factors for this low rating, i.e., municipalities must improve in all aspects of this dimension. That is, the overall conclusion from the OMS results is that the municipalities in North Macedonia generally have little interaction with their citizens, thus have low level of citizen involvement in the budget processes. However, if it were necessary to separate the 'roots' for the bad results in this dimension, we would emphasize the following five questions shown in Table 2. According to the table below, it can be seen that only three municipalities have published a list of proposals received by citizens for the budget for 2020 on their website, while

the other 78 municipalities (96 percent) do not have such an announcement. The data are even lower in terms of announcing citizens' initiatives and projects that were incorporated in the 2020 budget. Only two municipalities (Bogdanci and Ilinden) have published such a document, while 79 of the municipalities, or 97.5 percent, do not have this publication. Furthermore, only a small percentage (11 percent) of the municipalities conducted a public opinion poll in order to draft projects for the 2020 budget. Many municipalities do not have prescribed procedures for including citizens in the budget planning process (76.5 percent of the municipalities), and only 10 of them (12.3 percent) have gender responsive indicators in the budget programmes for 2020.

<sup>14</sup> The average is calculated from the assessment of inclusion and equity of the municipalities located in the region.

Table 2: Overview of inclusion and equity characteristics of local budget processes for 2020

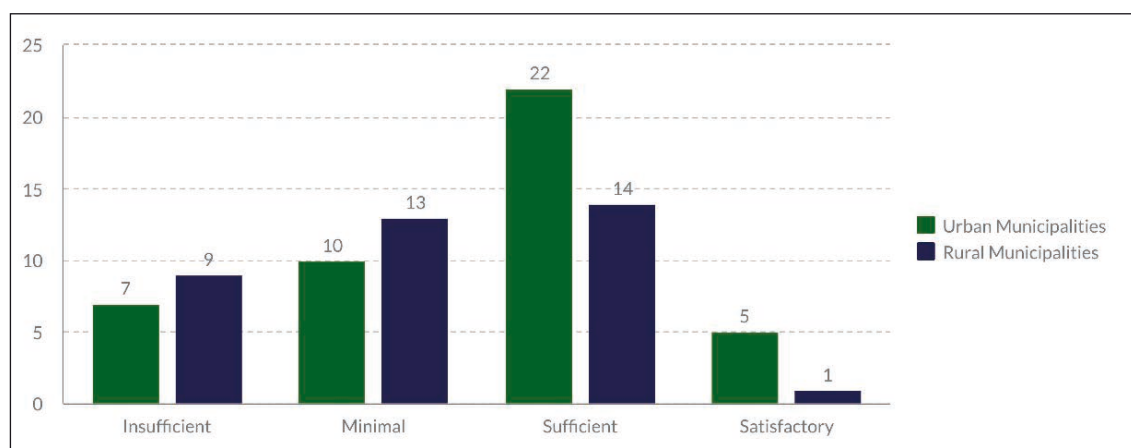
Inclusion and equity characteristics of local budgets processes	Percentage of municipalities that have the characteristic
There is a published list of proposals received by the citizens for the budget for 2020	4%
There are announcements of citizens' projects and initiatives that have been incorporated in the 2020 budget	2,5%
There is an announcement for conducting a public opinion poll for specific proposals (projects) for the draft budget for 2020.	11%
There are procedures for involving citizens in the budget planning process	23%
There are gender responsive indicators in the 2020 budget programs	12%

### Level of accountability of municipal budgets in North Macedonia

Figure 15 illustrates the distribution of municipal budget processes based on the level of accountability. The general conclusion is that, although the municipalities have an insignificantly lower average score (38) in this dimension, compared to transparency (39), the distribution based on the categories is more favourable. First, there are six municipalities with a satisfactory level of accountability, five of which are urban (83 percent). Most of the mu-

nicipalities, 36 or 44 percent, are assessed as having a sufficient accountability level of the municipal budgets. Additionally, the distribution itself in this category is relatively more evenly distributed in relation to the type of municipality. Out of the 36 municipalities with sufficient accountability, 62 percent (22 municipalities) are urban while 39 percent (14 municipalities) are rural. The distribution is similar in the lower categories in relation to the social settlement, where 39 municipalities (48 percent of all municipalities) are assessed as having minimal or insufficient accountability levels.

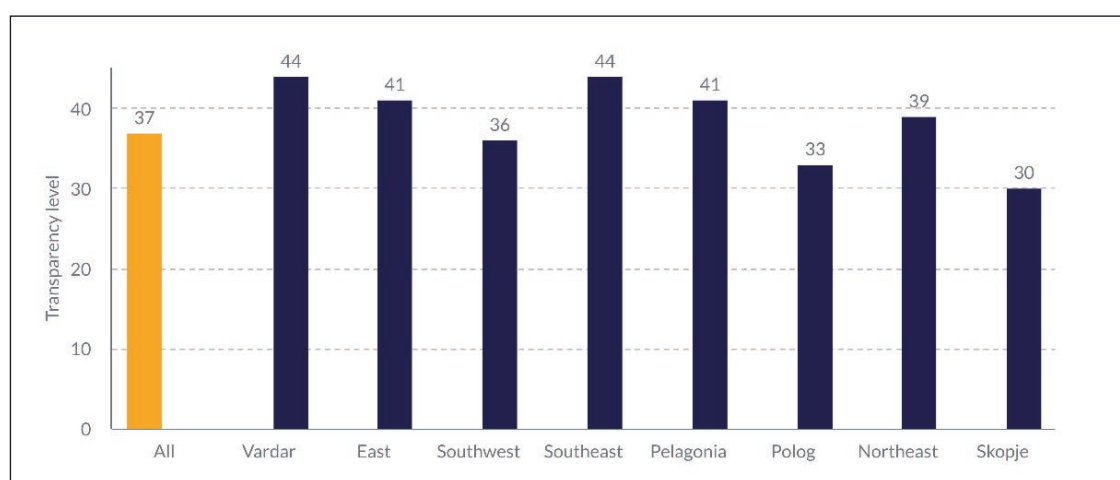
Figure 15: Distribution of municipal budget processes based on the level of accountability according to OMI 2020



Observed by regions, it can be seen that on average all regions of the country are close to the lower level of sufficient accountability, i.e. a score lower than 50 (Figure 16).<sup>15</sup> The highest average score based on this dimension is in the Vardar and Southeast regions (44).

Additionally, three regions (East, Pelagonia and Northeast) have a higher average grade than the national average. The municipalities in the Skopje region have the lowest average score (30), while those in the Polog and Southwest regions also have a lower average score than the state level.

Figure 16: Distribution of municipal budget processes based on the level of accountability by region according to OMI 2020



### BOX 3: What is the reason for the low accountability level of municipal budget processes in North Macedonia?

As seen in the questions of the OMS, the relatively low score for accountability is mainly due to five aspects (questions), highlighted in Table 3. The scores obtained by the OMS in all municipalities for these questions are far below the average score of the whole dimension and consequently contribute to a significantly lower rating for the whole dimension. As an illustration, only nine municipalities fully meet the requirements of these five issues, while 65 municipalities fully or partially meet the requirements of the remaining nine questions. The weakest aspect refers to the dissemination of the budget realisation by the municipality. Concretely, only

one municipality has organised a public debate where the municipal final account for 2020 was presented. The percentage of municipalities that funded programmes for marginalised groups and overcoming gender differences is very low. Only six of the municipalities (7.1 percent) have implemented projects for overcoming the gender differences, and only nine municipalities (11.1 percent) have implemented programmes for financing marginalised groups. Few municipalities (9 or 11.1 percent) have published the final accounts in an open format, and only 11 or 13.6 percent have published the last audit report of the municipal budget.

<sup>15</sup> The average is calculated from the accountability score of the municipalities located in the region.

**Table 3: Overview of accountability characteristics of local budget processes for 2020**

<b>Accountability characteristics of local budgets processes</b>	<b>Percentage of municipalities that have the characteristic</b>
The final account of the municipal budget for 2020 is available in open format	11%
The latest audit report of the municipal budget is published on the website of the municipality	14%
The municipality has organized a public debate at which it presented the final account for 2020	1%
The municipality has implemented programs for financing marginalized groups	11%
The municipality announced the projects it implemented in 2020 to overcome gender differences	7%

## Policy discussion and recommendations

### Checking relationships: Can we accept the research hypothesis?

Based on the triangulation of findings from survey, field research and index, we find that the three research hypotheses could be accepted.

- The index results estimated that there is partial transparency in the local budget process (average value of 39 out of 100), which is confirmed also by the survey results. Using multinomial regression of the survey results, we found that the relationship between transparency and satisfaction with budget quality appears significant. Respondents who have seen the municipal budget are more likely to answer that the budget reflects citizens' needs. Also, respondents who think that the municipality is fully transparent are more likely to answer that the municipality fully takes care of marginalised populations. These findings should serve as an incentive for local politicians to become more transparent.
- The index results estimated that there is a low level of inclusion and equity in the local budget process (average value of 16 out of 100), which is confirmed by interviews with local government employees and focus groups. Local government employees said that municipalities organised formal activities for citizen inclusion in the budget preparation process, mostly public debates, but that citizens appear to have little interest in participation. The focus groups with CSOs highlighted that often, public debates are organised with biased participants who only confirm local governments' proposals and positions or are scheduled at the end of the budget preparation when it is too late to propose significant changes. Using multinomial regression of the survey results, we found that citizens who say that the municipality consults them in the budget preparation are more likely to say that the budget fully reflects their needs.
- The regressions suggest that there is a strong positive link between transparency and whether respondents saw the final statement of the budget, whereas we find no relationship between the budget plan and transparency. This implies that citizens value the information on how money is actually spent more than how it is planned.
- These three results suggest that it is important to improve all elements of the budgetary process. While in the past decade, most emphasis was on transparency, it is now time to focus on accountability, inclusion and equity.

Current legislation does not specifically regulate citizen participation in the budget-making process, but stipulates participation through different mechanisms (neighbourhood units, public hearings, surveys or citizen forums) that can be used for all relevant processes. On this basis, we can conclude that the majority of municipalities in North Macedonia rarely use these mechanisms to engage with the citizens during the budget-planning process. According to the field research, two of the four pilot municipalities organised official public presentations of budgets in the past two years (Valandovo and Gostivar). Valandovo and Karposh have developed and used an interactive mobile app, which allowed citizens to propose concrete projects and proposals for the municipal budget for 2022.<sup>16</sup> This is a good practice that follows today's digital trends and allows citizens to participate in the budget-making process. Besides the pilot municipalities, several other municipalities have successfully practised citizen participation in the past. In 2018 and 2019, 12 public discussions were organised by municipalities throughout the country. There were four municipalities – Krushevo, Kriva Palanka, Kavadarci and Gjorce Petrov – that held public discussions two years in a row (Finance Think, 2020).

Even though our Index results show that there are five municipalities (Berovo, Bogdanci, Gjorce Petrov, Delchevo, Konche) that published some form of citizen budget, none of them has fully met the criteria for a proper citizen budget, as given in the OMI

<sup>16</sup> See: <https://www.mzaednica.mk/>



methodology.<sup>17</sup> Finally, all pilot municipalities conducted informal meetings with neighbourhood units as the main source of information for local initiatives and problems. However, this positive practice by the municipalities is not recognised as an official and structural citizens' engagement activity during the budget process.

## Recommendations

### A. Enhancement of financial literacy

Financial education is recognised as a core component in the financial empowerment of citizens. Transparency is not enough if the majority of citizens cannot use the available documents and materials. Financial education would support inclusion of citizens in the budgetary process. This is especially true for countries where financial literacy is at a lower level. The latest OECD survey found that citizens in southeast Europe (SEE) scored on average about 57 percent of the maximum possible, which is lower than the average for citizens in the European Union (64 percent); citizens in North Macedonia scored slightly lower than the SEE average at 56 percent (OECD, 2020). Educational activities for enhancing financial literacy should be undertaken by local governments in coordination with the Ministry of Finance. These can take various forms, from voluntary lectures for high school and university students to presentations for different citizens' groups at central and local levels. They should focus both on general financial knowledge and specific knowledge about local budgetary processes and budget documents.

The main components of financial education for local government officials should be:

- The local budget process: what can be done to make this transparent, accountable and inclusive?
- The structure of a local budget and final account: what is the structure of the municipal revenues and expenditures?

- Citizen budget: how should this be drafted and what elements should it contain?

Financial education for citizens may contain all four pillars of open municipalities, but the focus should be put on citizens' engagement:

- The local budget process: when and how can the citizen be involved in the process?
- The structure of a local budget and final account: what structure of the municipal revenues and expenditures?
- Citizen budget: What's the importance of a Citizen Budget? Where is the budget published? If the local government does not have sufficient tools and mechanisms to create and publish a Citizen Budget, what are the key elements of a Citizen Budget?

### B. Local budget web platform

A local budget web platform would help to increase citizens' knowledge about the local budgetary process and their engagement in it. The platform would enable citizens to get easy and user-friendly access to documents and data for their respective municipalities, explanations of the budget process and its elements. It would also allow them to engage actively with their municipality, to express their opinions and to make suggestions and comparisons with other municipalities. One participatory way to create the web platform is through a social hackathon, in order to reflect citizens' real needs. A positive example of this type of event was the design of the citizen budget for the central budget in North Macedonia in 2018, which increased citizens' access and understanding of the public budget at the central level (Ministry of Finance, 2018).

Useful examples of local budget websites in other countries are:

- Budget, finance and corporate planning of Ottawa, Canada: <https://ottawa.ca/en/city-hall/budget-finance-and-corporate-planning>

<sup>17</sup> See: <https://zmai.mk/wp-content/uploads/2021/12/Vodic-EN.pdf>, page 7-8, questions A13-A14

- Open budget of the City of Barcelona, Spain: <https://ajuntament.barcelona.cat/estrategiaifinances/pressupostobert/en/>
- Budget and accounts of Copenhagen, Denmark: <https://www.kk.dk/politik/budget-og-regnskab>

### C. Legislative changes to promote transparency, inclusion, accountability and equity

While ‘good mayors’ can improve local budgetary processes without legislative changes, we believe that in developing countries with weaker institutions and/or strong patronage mechanisms, it is always better to introduce formal rules in legislation that will limit the space for manipulation. In this regard, we propose several improvements to the legislative framework in North Macedonia in order to overcome weaknesses observed in the budgetary process:

- Public hearings (formal or electronic) should be mandatory at the beginning of the local budgetary process and municipalities must be obliged to publish documents for citizen proposals and the acceptance of these in the budget process.
- Consultations with CSOs that represent marginalised groups should be obligatory in the local budgetary process.
- Municipalities must be required to publish all budget-related documents and final statements from the past five years in open format.

### D. Pilot project: participatory budgeting

Direct voting by citizens on how local budgets are allocated can empower marginalised citizens (Civil Society Academy, 2017). The idea of this project is for local government to invite CSOs or citizens to propose projects for spending a portion of the municipal budget and for citizens to select the project/s that they think are most needed or suitable for local budget funding. To implement this, the following general steps should be followed:

1. Local government allocates a certain portion of the budget to the participatory process.
2. Local government informs citizens about possibilities of participatory budgeting and its timeline.
3. Citizens develop proposals.
4. Local government organises sessions for the presentation of citizens’ proposals.
5. Citizens vote to select projects and allocate the available budget.

More details about the process of participatory budgeting can be found in the following successful examples:

- Vancouver, Canada: <https://vancouver.ca/your-government/participatory-budgeting.aspx>
- Chicago, USA: <http://www.pbchicago.org/>
- Luton, England: [https://www.luton.gov.uk/Community\\_and\\_living/Lists/LutonDocuments/PDF/2014-2015%20FINAL%20supporting%20docs.pdf](https://www.luton.gov.uk/Community_and_living/Lists/LutonDocuments/PDF/2014-2015%20FINAL%20supporting%20docs.pdf)
- Warsaw, Poland: <https://oidp.net/en/practice.php?id=1312>

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# **THE GLOBAL GOALS**

For Sustainable Development