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## GOVERNANCE, TRANSPARENCY AND ACCOUNTABILITY AT LOCAL GOVERNMENT LEVEL: BUDGET TRANSPARENCY OF MACEDONIAN MUNICIPALITIES

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### **Abstract**

*The transparency strengthens the credibility of the government policies and improves fiscal discipline while at the same time enabling a platform for citizens' satisfaction for the public services it provides, for participation of the citizens in the process of preparation of the public policies and an ultimately increased willingness to pay (more) for the public services. In essence, an effective local governments' transparency is necessary for accountability and these are not an end in itself, but means to support effective and inclusive decision-making in the budgeting (national and local). The bottom-up participatory structures for enhancement of the local government transparency and accountability need to be enwoven in both the legal, political, and administrative tools for active involvement of the civic sector for participation. The legal and budgetary mechanism that enable contribution from the local communities/citizens are especially important for certain local government decisions in order to increase the accessibility to the general public i.e. the citizens at large.*

*Furthermore, higher budget transparency enables informed public discussion and consensus on the government's priorities, policies and programs while having a positive influence on the corrosive effect of corruption and inadequate accountability at the all government levels. Therefore, local governments' transparency and accountability should not be viewed independently, but as a crucial part of the overall good governance and public management.*

*This objective of this paper is to analyze the transparency of the local self-government units' budgets and availability of the "main" budget process documents, their accessibility in order to determine whether there has been an improvement between fiscal 2014-2015 and fiscal 2016-2017.<sup>1</sup>*

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1) Monitoring period for the fiscal 2016-2017 information covers the availability of the budget documents which are considered for the period up until 14/2/2017. Any documents published or procured after this date breaching the deadline of the Public information act or other documents that are produced afterwards were not considered as available.

## 1. Introduction

The transparency strengthens the credibility of the government policies and improves fiscal discipline while at the same time enabling a platform for citizens' satisfaction for the public services it provides, for participation of the citizens in the process of preparation of the public policies and an ultimately increased willingness to pay (more) for the public services. In essence, an effective local governments' transparency is necessary for accountability and these are not an end in itself, but means to support effective and inclusive decision-making in the budgeting (national and local). The bottom-up participatory structures for enhancement of the local government transparency and accountability need to be woven in both the legal, political, and administrative tools for active involvement of the civic sector for participation. The legal and budgetary mechanism that enable contribution from the local communities/citizens are especially important for certain local government decisions in order to increase the accessibility to the general public-citizens at large.

Furthermore, higher fiscal transparency enables informed public discussion and consensus on the government's priorities and policies while having a positive influence on the corrosive effect of corruption and inadequate accountability at the all government levels. Therefore, local governments' transparency and accountability should not be viewed independently, but as a crucial part of the overall good governance and public resource management.

Fiscal transparency can serve as an early warning for potential fiscal risks through proper reaction when economic assumptions are changed. And more, fiscal transparency provides accountability toward citizens-taxpayers and can improve creditworthiness of the country toward international capital market.<sup>2</sup>

Studies published in the past predominantly focus on the national level budget process transparency, while to a smaller extend on the local level government transparency and accountability. Thus there is a gap in the research in this area, where our paper attempts to provide a contribution. This paper examines the degree of transparency of the local level budget documents in the eighty one local government units in R. Macedonia including the City of Skopje as separate local government unit.

The objective of this paper is to determine the transparency of the local self-government units' budgets through the availability of the main budget process documents and to determine whether there has been an improvement between fiscal 2014-2015 and fiscal 2016-2017.<sup>3</sup>

Budget transparency is defined as "a full disclosure of all relevant fiscal information in a timely and systematic manner."<sup>4</sup> (OECD, 2003). Therefore, a budget transparency implies that the information in regards to the budget are publicly accessible and are wholesome, relevant, correct, produced and issued timely and presented in understandable manner.

Considering that there are no legally binding obligation for the LSGUs to publish the budget and budget execution documents on the official websites of the LSGUs, however solely within the Official Gazette (which is not electronically published among all LSGUs) there will not be an assessment of the compliance with the legal disclosure. The paper is structured as follows: review of the literatures and theories on budget transparency, next the methodology is elaborated, following the results of the budget transparency measuring are presented and finally the conclusions and recommendations are drawn.

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2) Budget process in Macedonia: Recent developments and challenges, Nikolov, Marjan, Center for Economic Analyses, 2009, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1443394](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1443394)

3) Monitoring period for the fiscal 2016-2017 information covers the availability of the budget documents which are considered for the period up until 14/2/2017. Any documents published or procured after this date breaching the deadline of the Public information act or other documents that are produced afterwards were not considered as available.

## Literature review

The theoretical model presented in this work is related to the following literature. There are three types of theories that explain the financial accountability. In this study we call upon the two theories (Principal-Agent and Stewardship theory) which give a brief description. In the past, financial accountability researchers have relied on Agency and Stewardship theories explaining the phenomena that may hinder the exchange of financial information in the accountability and transparency processes. Macedonian public sector like other countries with lower level of economic development has accountability mechanism based on an Agency model.

Accountability mechanism following the assumptions of principal – agent theory focus on monitoring procedures in order to reduce information asymmetry. This can enhance the disclosure of information but may result in an information overload problem on the part of the accountors and the accountees (Greiling & Spraul, 2010).<sup>5</sup> Agency theory describes the strategic interactions between two parties, called the principal and the agent (Halachmi, 2004).<sup>6</sup> The agent acts on behalf of the principal; with the assumptions that the actors are utility maximizers driven by self-interest who act in situations of bounded rationality and normally differ in their aversion to risk. Principal-agent theory is concerned with the problem of the conflict of goals between the principal and the agent and the difficulty or the inability of the principal to verify what the agent is doing (Eisenhardt, 1989).<sup>7</sup>

The relationship between the actor (accountor) and the forum (accountee) is often interpreted as one between agent and principal (Bovens, 2007b),<sup>8</sup> this is not only true for economics but also for political science (Greiling & Spraul, 2010).<sup>9</sup> The theory assumes that the principal's access to information is limited, and that the principal cannot perfectly and without costs monitor the agent's actions (Jacobides & Croson, 2001).<sup>10</sup>

On the other hand, transparency is a multifaceted concept that is often conflated with accountability or even corruption, impartiality and rule of law. Hood's analysis illustrates the tendency for transparency to bleed conceptually into other equally compelling normative standards such as rule of law, accountability, public participation, and deliberative democracy. (Hood 2006, 14).<sup>11</sup> Moreover, Bellver & Kaufman give a definition of transparency which includes not only making information available and accessible to stakeholders, but also laws and regulations are administered and implemented in an impartial and predictable manner.<sup>12</sup> Principal-

4) OECD Best Practices for Budget Transparency, 2003

<https://www.oecd.org/gov/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>

5) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

6) Halachmi, A. (2004.) Performance measurement, accountability, and improved performance. *Public Performance and Management Review*, 25(4), 370-374.

7) Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14(1), 57-74.

8) Bovens, M. (2007b). Analyzing and assessing accountability: A conceptual framework. *European Law Journal*, 13(4), 447-468

9) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

10) Jacobides, M., & Croson, D. C. (2001). Information policy and shaping the value of agency relationships. *Academy of Management Review*, 36(2), 202-223.

11) Hood, Christopher (2006) Transparency in historical perspective In: Hood, Christopher and Heald, David, (eds.) *Transparency: the Key to Better Governance?*. Proceedings of the British Academy (135). Oxford University Press, Oxford, UK, 3-23. ISBN 9780197263839

12) Bellver, Ana, and Daniel Kaufmann. 2005. *Transparenting Transparency: Initial Empirics and Policy Applications*. World Bank Policy Research Working Paper.

agent theory is concerned with the problem of the conflict of goals between the principal and the agent and the difficulty or the inability of the principal to verify what the agent is doing (Eisenhardt, 1989).<sup>13</sup> The main tenets of agency theory focus on information asymmetry,<sup>14</sup> pre-contractual opportunism<sup>15</sup> and moral hazard or post-contractual<sup>16</sup> (Van Slyke 2006).<sup>17</sup>

Stewardship theory serves as an alternative to the reasoning of principal-agent theory (Donaldson and Davis 1997, 27).<sup>18</sup> In other words, this theory has been developed as an explicit counterpart to principal-agent theory. Stewardship theory stems from organizational psychology and organizational sociology. (Donaldson & Davis 1991, 51).<sup>19</sup> Instead of shirking away, managers or accountors aim to do a good job and to generate value – not only for themselves but for their organization as a whole. Stewardship behavior can be interpreted as rational behavior: The steward identifies cooperative behavior as being more useful than self-serving behavior. (Davis, Schoorman & Donaldson 1997, 24).<sup>20</sup>

However, this theory fails to consider the lack of trust within government agencies, the risk-averse dispositions of public managers and the lack of incentives for public officers; the deeply politicized environment and scrutiny for oversight and accountability create pressures for not developing trusting relationships because of external perceptions of corruption (Van Slyke, 2006).<sup>21</sup> Cribb and Slyke state that steward theory has not been tested particularly in voluntary sector research and public sector.<sup>22</sup> Furthermore, it fails to provide any empirical evidence for accountability in the public sector (Greiling and Spraul 2010).<sup>23</sup>

As much of the policy literature today focuses on the role of transparency in reducing corruption, we find it compelling to explore what aspects more precisely might be necessary in order for transparency to enhance accountability and contribute to bringing about good government.

Transparency is sometimes more narrowly as “the release of information which is relevant for evaluating institutions” (Bauhr & Nasiritousi forthcoming).<sup>24</sup> Using a terminology derived from the principal agent framework, Lindstedt and Naurin make a distinction between agent controlled and non-agent controlled transparency. The release of government information by governments can be seen as a typical instance of agent

13) Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *The Academy of Management Review*, 14(1), 57-74.

14) The information asymmetry sometimes referred to as information failure, that present whenever one party to an economic transaction possesses greater material knowledge than the other party. In other words, one party has information to other group that does not possess.

15) Precontractual opportunism occurs which a party to a contract can exploit hidden information.

16) Moral hazard occurs when a party to the contract uses information and expertise and act in its own self-interest, to the exclusion of the agreed upon goals).

17) Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.

18) Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16(1), 49-64.

19) Donaldson, L. and Davis, J.H. (1991) Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management*, 16(1), 49-64.

20) Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22(1), 20-47.

21) Van Slyke, D. M. (2006). Agents or Stewards: Using theory to understand the government-nonprofit social service contracting relationship. *Journal of Public Administration Research and Theory*, 17, 157-187.

22) Ibid

23) Greiling, D., & Spraul K. (2010). Accountability and the challenges of information disclosure. *Public Administration Quarterly*, 338-377

26 24) Bauhr, Monika and Nagmeh Nasiritousi. Forthcoming. Resisting Transparency. *Global Environmental Politics*

controlled transparency, while the use of that information by external actors, such as the media, NGO or citizens is non-agent controlled.<sup>25</sup>

Transparency and accountability, as two basic principles of good governance, are crucial in providing information and insight to the public on how public money is collected, allocated and spent. Additionally, transparency and accountability are necessary to show the determination and the intention of the public institutions, as well as to inform and share this information with the public (Trenovski Borche, 2014, 6). Trenovski states that no institutions in Macedonia has taken extra effort to introduce and inform the citizens about their budget in a visually simplified manner (preparation of Citizen's budget).<sup>26</sup>

Similarly, Popovikj and Misev describe transparency as one of the eight principles of good governance that it is openness and visibility of actions, measures, costs and effects of an activity.<sup>27</sup> The Organization of United Nations ESCAP indicates that transparency means that decisions are made and implemented legally and regularly and understood that sufficient information is available and that they are available in an easily understandable forms and mediums.<sup>28</sup> This definition shows that it is not enough one information to be reported, but also the citizens to be able to find it easily and understandable.

### Research principle/methodology

Considering that the budget transparency refers also to the degree and simplicity with which the citizens can access the budget information and provide view on the planned/executed (central, local) government's revenues, allocations, and expenditures, not only the availability but also the easiness of the access to the documents and their timeliness is also relevant and considered within the paper. The budget documents are key documents since they outline the priorities of the local policies and the local programs. A transparent and open process leads to democratization and inclusiveness of the citizens in the policy creation and the public resource distribution.

Since the budgets are technical and not readily understandable for the wide public, an open process refers to information that are comprehensive, full but also simplified, understandable and provided in timely manner, which is easily accessible to the wide public.

The methodology used in the scoring of the level of availability and transparency of the LSGU budget process in the municipalities in Macedonia, covers scoring of the budget transparency both based on the level and manner (source) of availability of the basic budget and budgeting process documents. For the purposes of this paper, local government budget transparency is measured by the number of key budget documents published and the medium/source where these are published by the local units, as a level of transparency being scored on a scale from 0 to 16 index score points.



The key documents considered in the research and the availability monitored are the following eight documents: *Budget proposal*, *Enacted budget*, *In-Year quarterly budget execution reports*, *Year-end budget execution report*, *Annual report*, *Citizens budget*, *Audit report (by SAO)*<sup>29</sup> and the *Statute of the LSGU*. These documents are considered as available and scored if the following criteria are met:

25) Lindstedt, Catharina, and Daniel Naurin. 2010. Transparency is not enough: Making Transparency Effective in Reducing Corruption, *International Political Science Review*, 31: 301-322.

26) Trenovski, B. (2014). Improvement of the transparency and accountability through a performance based budget. Monitoring report on the transparency and accountability of the budget users, 6-7. [http://cea.org.mk/documents/cea\\_idscs\\_izvestaj%20od%20monitoring\\_eng.pdf](http://cea.org.mk/documents/cea_idscs_izvestaj%20od%20monitoring_eng.pdf)

27) Popovikj, M & Misev, V. (2014). Budget transparency and accountability in Macedonia. Public Policy Paper, 5-7. [http://cea.org.mk/documents/CEA\\_IDSCS\\_Transparency\\_paper\\_MK.pdf](http://cea.org.mk/documents/CEA_IDSCS_Transparency_paper_MK.pdf)

28) United Nations Economic and Social Commission for Asia and the Pacific What is Good Governance? <http://www.unescap.org/sites/default/files/good-governance.pdf>

29) SAO – State Audit Office of R. Macedonia

- *Budget proposal* – considered if a document with this title has been published on the local unit's website separately, as part of the municipal Official Gazette or has been procured through the usage of the Freedom of Information Act.<sup>30</sup> If not, the document is not considered to be published. If the budget proposal is not published/available and the reply by the LSGU is that it is the same as the enacted budget this is not considered as available document.
- *Enacted budget* - considered if a document with this title (or Budget) has been published on the local unit's website separately, as part of the municipal Official Gazette or has been procured through the usage of the Freedom of Information Act. If not, the document is not considered to be published.
- *In-Year quarterly budget execution reports* - considered if all quarterly documents with this title (for the concerning period)<sup>31</sup> have been published on the local unit's website separately, as part of the municipal Official Gazette or has been procured through the usage of the Freedom of Information Act. If not, the document is not considered to be published. If only a conclusion for adoption (by the Municipal Council) has been published or provided the documents are not considered as available.
- *Year-end budget execution report* – considered if a document with this title (or title Final Account) has been published on the local unit's website separately, as part of the Official Gazette or has been procured through the Freedom of Information Act. If not, the document is not considered to be published.
- *Annual report* – considered if a document with this title has been published on the local unit's website separately, as part of the Official Gazette or has been procured through the Freedom of Information Act. If not, the document is not considered to be published. If the annual report is not prepared/published/available and the reply by the LSGU is that it is the same as the Year-end budget execution report this is not considered as available document.
- *Citizens' budget* – considered if any kind of simplified document intended for citizens has been published on the local unit's website, following the principles of citizens' budget as considered by OBI<sup>32</sup> for central budgets was considered.
- *Audit report by SAO* – considered if any audit report in the last five years have been conducted and published on the web site of the LSGU. The availability of the Audit report only on the website of SAO is not considered as available document on the website of the municipality, therefore only if any Audit report is published on the website of the LSGUs was scored.
- *Statute of the LSGU* – the Statute is the basic constitution document of the LSGUs and defines openness, participatory level and related issues thus we consider that this is a crucial document for the transparency of the local government.

The easiness of the availability by the citizens' considers the source of availability namely whether it is: *in a designated area on the official website (2 points for each document), within the Official Gazette on the official web site (1 point for each document), requested under the Freedom of Information Act (1 point for each document), No information/no reply/does not exist/SAO has not produced an audit report within the last 5 years (0 points for each document specifically).*

30) Freedom of Information Act, official name Law on free access to public information, Official Gazette of RM (13/2006, 86/2008, 6/10, 42/14, 148/15, 55/16)

31) During the moitong period for fiscal 2016-2017, the availability of the quarterly budget execution reports for the Q1, Q2, and Q3 for the fiscal 2016 are considered if separately published (not cumulative).

32) Guide to transparency in Government Budegt Reports, Why are Budegt Reports Important and What should they include, OBI, <http://www.internationalbudget.org/wp-content/uploads/Guide-to-Transparency-in-Government-Budget-Reports-Why-are-Budget-Reports-Important-and-What-Should-They-Include-English.pdf>  
[http://siteresources.worldbank.org/EXTSOCIALDEVELOPMENT/Resources/244362-1193949504055/4348035-1352736698664/Guidance\\_Note\\_Citizen\\_Budget.pdf](http://siteresources.worldbank.org/EXTSOCIALDEVELOPMENT/Resources/244362-1193949504055/4348035-1352736698664/Guidance_Note_Citizen_Budget.pdf)



With a potential maximum of 16 index points if all eight monitored documents are available through the “most easily and fastest” accessible manner i.e. through the official website of the LSGU on a specifically designated area for budget and/or local government budget process.

Furthermore, a comparison of whether there is an upgrading, downgrading or status quo of the index has been completed through a comparison between the period of fiscal 2014-2015<sup>33</sup> and fiscal 2016-2017. Depending on the period of publishing of the documents there are two comparison periods providing information and conclusion of whether there are any improvement of the availability of the documents among all eighty LSGUs in Macedonia.

The paper found that there is a considerable scope for improvement of the transparency of the local government budget process, while at the same time there are barriers that weaken the relationship and communication between local governments and the citizens. A very limited number of the local governments in Macedonia, timely and comprehensively publish and disclose the full array of budget related documents. The problem of limited transparency and accountability at a local level are interconnected to the absence or weak participatory decision-making in the budgeting process, weak mechanisms for monitoring and evaluation, low level of human capital, which are at the same time constraints of the local government affecting the quality of the services provided to the citizens.

Citizen participation as a concept that involves the civil society into government decision-making process is an essential component of a healthy democratic society. In Macedonia, not all municipalities convened budget forums where the society can express their needs and priorities of the community where the benefit is mutual. Moreover, not all municipalities also respect the Public Information Act and their awareness of obligatory procuring the requested informations is at low level.

### Legally required budget disclosure for the local governments

The Constitution of Republic of Macedonia defines the level of self-governance as a right, and the unit for self-government - the municipality (Article 114). According to the Law on Territorial Organization (55/2004, 12/05, 98/08, 149/14), there are 80 Municipalities (NTES<sup>34</sup> level 4) and the City of Skopje (NTES level 5, with covers 10 of these municipalities). The requirements for disclosure of the budget related documents regarding local government budget are specified in the budget legislation and the freedom of information legislation.

The Law on budgets (clean text),<sup>35</sup> Official Gazette of RM (no. 64/05, 04/08, 103/08, 156/09, 95/10, 180/11 171/12 192/15, and 167/16) considers budget transparency where article 53<sup>36</sup> and 54 respectively state, “*The budget execution report of the municipalities shall be done in accordance with the law*” and “*(2) The municipal budget and its final account shall be published in the Official Gazette of the municipality*”. The Law on local self-governance (Official Gazette of RM (no.5/02) defines the obligations for informing the citizens through ways determined in the Statute “*The organs of the municipality, the council committees, and public agencies established by the municipality shall be obliged to inform the citizens about their work, as well as about the plans and programs which are of importance for the development of the municipality without any compensation, in a way determined by the statute. (2) The municipality shall be obliged to enable access to the basic information about the services that it provides to its citizens, in a way and under conditions determined by the statute of the municipality.*”<sup>37</sup>

33) The City of Skopje is not monitored in the first round, thus there is no index comparison between the two points in time

34) Nomenclature of Territorial Units - NTES is based on the territorial organization of the local self-government in the Republic of Macedonia and it is harmonized with the classification of the European Union - Nomenclature of Territorial Units for Statistics – NUTS, established by Regulation (EC) No 1059/2003

35) [http://www.finance.gov.mk/files/u249/Budget\\_law\\_cleared\\_version\\_20042010\\_0.pdf](http://www.finance.gov.mk/files/u249/Budget_law_cleared_version_20042010_0.pdf)

36) Chapter VII, Budget transparency, Article 53

37) The Law on local self-governance (Official Gazette of RM (no.5/02), Article 8

As well as the transparency of the council's work: "(2) the council sessions shall be public... (4) The presence of the public shall not be excluded at the debate on the municipal budget, annual balance sheet to the budget and the urban plans." <sup>38</sup>

While these legal acts deal only with the publicity of budget and year-end report within the Municipal Official Gazette there is no requirement for permanent availability of the key budget documents, neither for disclosure prior their approval, except for the presence on the council meetings. The Regulation does not require publicity of existing documents such as the budget plan or audit report. The legislation does not define disclosure of in-year or quarterly budget reports, but some of the local governments disclose them, mainly through the Municipal Gazette.

### Information disclosure and accountability

This paper evaluates the budget transparency among the local self-government units in Macedonia through the degree and manner of availability and disclosure of the budget documents. The disclosure requirements specified in the legislation are limited, i.e. a limited number of budget documents are obligatory to be published and there is no information of whether the noncompliance has lead/leads to any sanctions. Analysis and comparison of the disclosure practice among the 81 LSGUs in Macedonia revealed that LSGUs most often (and most likely) comply with the requirements stipulated in the budgetary laws, however often fail to comply with the requirements of the freedom of information legislation. There is no continuance of practices of disclosure of the budget documents but rather "forced" if demanded or "remained", the decreasing overall level of transparency and the large upward or downward change in the transparency through the availability of the documents indicated that there is no continuous practices among the LSGUs. The reluctance, to disclose relevant information and deliberate information overload (Eppler & Mengis 2004, 326), are two distinct forms of the practice of withholding relevant information. This "leads" to the behavior of the local governments, when the officials believe that they provide precisely the right amount and quality of information and any further request treated as offence (Greiling, Spraul, 2010). When transparency is evaluated in this paper it records which documents or information is available, either free on the Internet (through the websites, Gazette on the website) or upon request (using the Public Information Act). <sup>39</sup>

### The status of budget transparency through main budget availability in the Macedonia LSGUs

Figure 1 and Figure 2 indicate that not one of the municipalities produced and published all eight documents (as there is no score 16) on the web site of the LSGU in a specifically designated areas. None of the LSGUs has produced and published Citizens' budget.

Request for access to public information (RAPI) through the Public Information Act was sent to all 81 LSGUs for the budget documents that were not published on their web pages during monitoring the availability of budget documents on the official web pages of LSGUs.

The maximum number of documents produced and attainable by any single municipality is seven (in five instances). The maximum number of documents available (in any of the manners used for obtaining documents) is 7, only among five LSGUs: City of Skopje (two out of these seven are obtained only by RAPI<sup>40</sup> and not readily available of the website), Gjorce Petrov (2 out of seven obtained by RAPI, and 2 within Official Gazette), Bogdanci (7 obtained by RAPI, none published/disclosed on the website), Valandovo (6 out of seven obtained by RAPI), Ohrid (2 out of seven obtained by RAPI, and 1 within Official Gazette).

38) The Law on local self-governance (Official Gazette of RM (no.5/02), Article 42

39) Freedom of Information Act, official name Law on free access to public information, Official Gazette of RM (13/2006, 86/2008, 6/10, 42/14, 148/15, 55/16)

40) RAPI – Request for access to public information, through the Public Information Act



If we consider that the availability on the official websites as the easiest and fastest manner to be accessed, two municipalities can be separated as most transparent with availability of the six (out of seven)<sup>41</sup> budget documents available on the LSGUs' websites in a designated location specific to the budget process, these are the Municipalities of Bitola and Demir Hisar. On the other hand, there are still municipalities that do not have official web pages and those that do not use the official Macedonian language on their web pages.

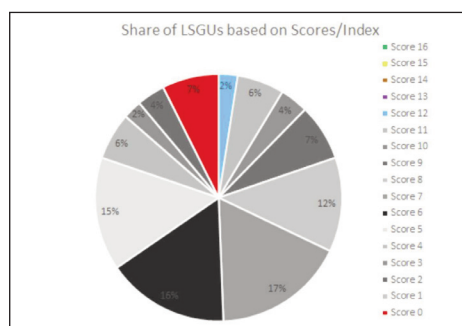
With the worst levels of budget transparency are scored the municipalities of Aracinovo, Saraj, Cair, Novo Selo Vrapciste and Negotino with zero score and no document available neither on the website, nor responded or provided the documents through RAPI. This accounts to over 7% of all LSGUs in the country.

In regards to the municipalities Zelenikovo, Karbinci, Demir Kapija only one of the monitored documents was obtainable and these were disclosed only through the websites i.e. in all three instances the *Year-end budget execution report* was available.<sup>42</sup>

A good portion of the LSGUs do not have Official Gazette published on the website, which makes it rather impossible for the citizens to access the local budget documents.

**Figure 1**

*Level of LSGU budget transparency, in % share*



### Documents most often published and document not produced or published at all

Voluntary disclosure of budget documents (or proactive transparency) among the LSGUs in Macedonia is scant. The budget document that is most easily accessed regardless of the method for attaining the document is the Year-end budget execution report, followed by the Statute of the LSGU, the Enacted budget and the In-year quarterly reports. Most often not disclosed are the Budget proposal, as a document that often is "the same" as the Enacted budget, the Annual report and the Audit reports (if) conducted by the State Audit office.

The Annual reports are either not compiled or often "confused" and associated with the Year-end budget execution report, thus the intent of being a "general purpose" report is associated with the detailed legal requirements and mainly delivered to internal stakeholders of the Year-end budget execution report. Moreover, most local governments do not use any alternative tools to communicate their results with substantial information which covers the degree of "realization" of the objective or performance linked with the financial effects on the budget. This raises the questions if any and how the LSGUs give account for their performance to their citizens.

The inability of the LSGUs to provide the information grows if these and their accessibility (web site, official gazette, RAPI) is to be presented in a manner that the general public understands it or is interested in it, which is the case of a preparation of a Citizen's Budget. None of the LSGUs prepared and published such a document.

41) Not including the Citizen's budget as a document

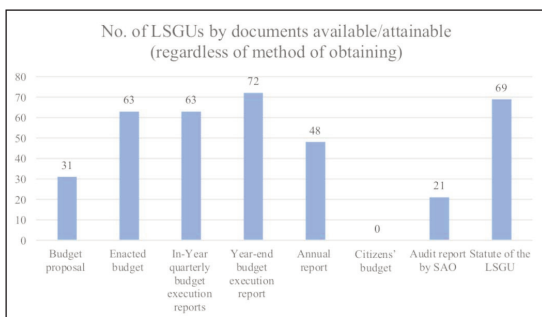
42) In all instances RAPI was requested for all monitored budget documents, there was not response on the RAPI. The Year-end budget execution report is for 2015 fiscal, as the Year-end budget execution report for 2016 were not due

**Figure 2** Index of budget document availability by LSGU

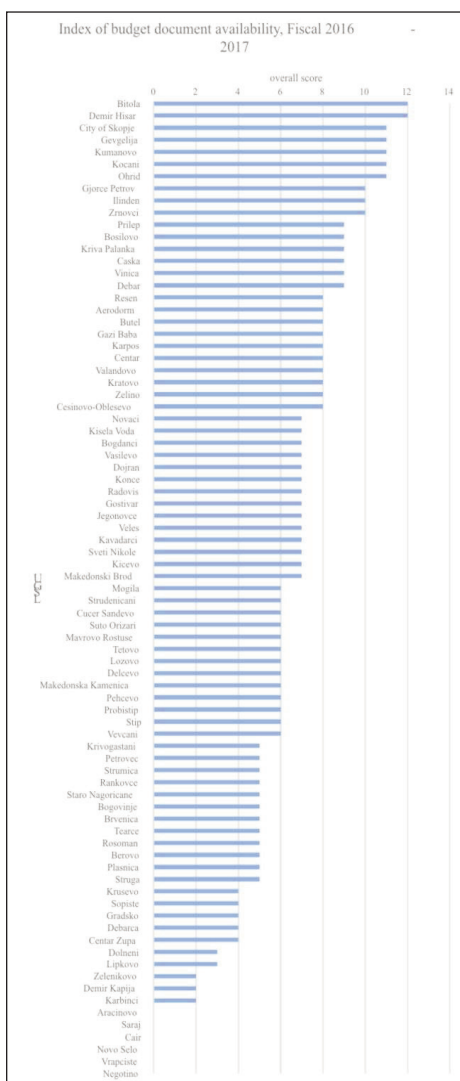
As Rubin states (Rubin, 2000, 9) *"Accountability does not happen by itself; budgets do not wade into crowds and draw around them circles of admiring readers. Budgets need to be interpreted and someone has to tell a good story to get the readers involved"*<sup>43</sup>

**Figure 3**

Number of LSGUs with available /attainable budget documents, by document 2016-2017

**Budget transparency through document availability improved or declined?**

Most significant improvements compared with the previous period are the availability of the Year-end budget execution document, and the availability of the Audit reports, the availability of the budget documents has deteriorated, however most significant declining can be noticed for the budget documents, overall decreasing of the LSGUs budget document availability of Annual report, Enacted budget and Budget proposal.

**Factors correlated with budget transparency**

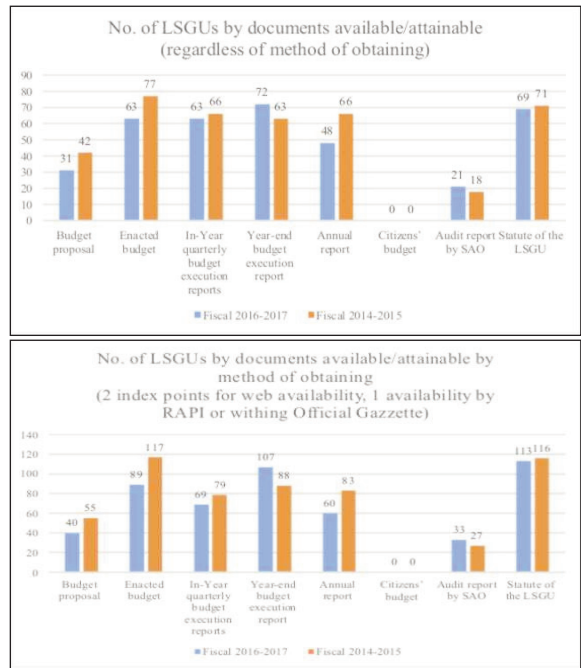
In the attempt to consider if the indexes of budget transparency are correlated with several factors it can be concluded that the availability and manner of availability of the budget associated documents on a local level government are positively associated: although to a limited degree with the size of the budget<sup>44</sup> (correlation 0.33), urban vs. rural municipalities (correlation 0.33), and the size of the LSGU (population) (correlation 0.28). The larger the LSGU both by population, and budget size in absolute value and an urban LSGU is more likely to be more transparent in terms of disclosing budget related information and documents.

43) Irene S. Rubin, (2010), Sixth Edition, The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing

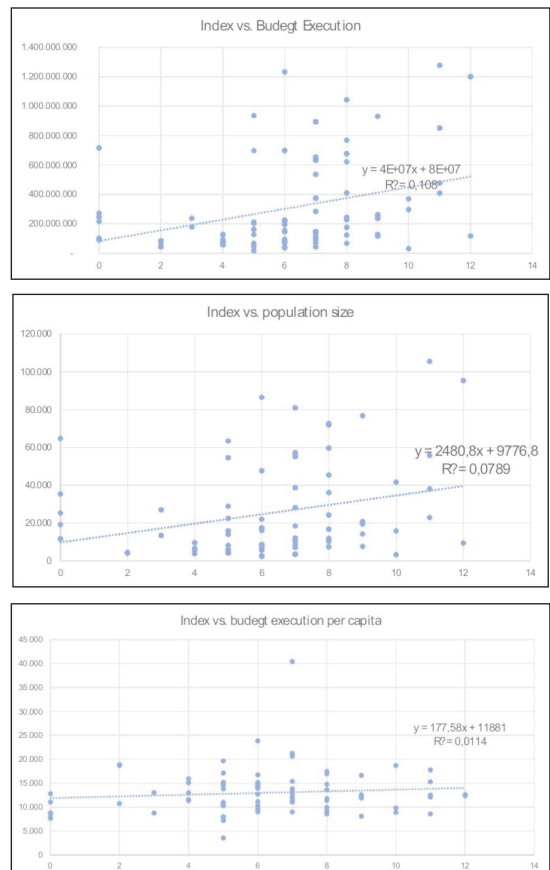
44) Executed budget, in absolute value in MKD for 2015

**Figure 4**

Number of LSGUs with available /attainable budget documents, by document, comparison 2014- 2015 & 2016-2017

**Figure 5**

Correlation of the transparency index and selected variables



CORRELATION	INDEX
BUDGET EXECUTION	0,3358
BUDGET EXECUTION PER CAPITA	0,1068
URBAN RURAL	0,3251
POPULATION SIZE	0,2832
HOUSEHOLD NUMBER	0,3027

## Conclusions & recommendations

The above analysis indicates a relatively low level of budget transparency among the Macedonian local self-governance units. The most transparent as regards the overall average level of openness (in accordance with the above described methodology) is the Municipality of Bitola and Demir Hisar with a score of 12 (out of maximum 16), followed by City of Skopje, Gevgelija, Kumanovo, Kocani and Ohrid with scores of 11. The least open are the Aracinovo, Saraj, Chair, Novo Selo, Vrapcishte, Negotino with scores 0. The average number of published/attainable documents is four. Further more:

- As many as 7% of the municipalities did not publish/provide a single budget related document.
- 28% of the municipalities did not publish a single budget related document on the web site in a specifically designated area for budget documents.
- The number of municipalities that publish the draft budget (budget proposal) for next year on the web-site is small (11%) thereby depriving the possibility of interested citizens to participate in planning the budget of their municipality.
- None of the municipalities in Macedonia prepares and publishes Citizens' budget<sup>45</sup>, suggesting that the current legislation no local government is not trying to make a greater incentive for participation of citizens in the budget of municipalities and monitoring of its implementation.
- 7% of the LSGUs publish their In-year quarterly budget execution reports in a separate location on their website while other (10%) municipalities publish them within the official gazette
- The current legislation leaves a possibility, but does not oblige the municipalities of full disclosure of information and documents related the budgeting process;

Regardless of the fact that without legal change and alteration of the fiscal decentralization process it is too optimistic to expect major improvement in the area of local budget transparency and accountability to be achieved, still there is a space for significant improvement in the area. In these circumstances the improvements are to be expected if:

- The lack of administrative and financial capacity needs is to be addressed
- Political awareness and willingness among the representatives (mayor and councils) is improved
- A demand driven trigger for increased budget transparency among the citizens and the media is achieved
- The legislation needs to put pressure for increased budget transparency
- The central government should apply pressure and create an example through own improvement
- Increased awareness and capacities among the citizens of the benefits of budget transparency

All of these with the aim of improving the local budget transparency as a stepping stone for towards increased accountability (towards the citizens), increased efficient and interest for revenue collection and public expenditure, and decreased corruption for the improved wellbeing of the citizens of the municipalities.

45) After the period that has been designated for monitoring of the availability the LSGU of Strumica and Center, prepared and published Citizens' Budget, never the less these have been prepared with external assistance – donor driven, pioniring the process of preparation of Citizens Bauget on a local level in Macedonia

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## Annex

Measured Indexes and difference (+ Improvement, - Decline)

LSGU	Fiscal 2014-2015	Fiscal 2016-2017	Improvement +, Decline -
0 City of Skopje <sup>46</sup>	N/A <sup>47</sup>	11	N/A
1 Demir Hisar	4	12	8
2 Zrnovci	2	10	8
3 Valandovo	2	8	6
4 Kumanovo	5	11	6
5 Strudenicani	3	6	3
6 Gevgelija	8	11	3
7 Kratovo	5	8	3
8 Debar	6	9	3
9 Kicevo	4	7	3
10 Vasilevo	5	7	2
11 Dojran	5	7	2
12 Kriva Palanka	7	9	2
13 Staro Nagoricane	3	5	2
14 Jegonovce	5	7	2
15 Mavrovo Rostuse	4	6	2
16 Tearce	3	5	2
17 Rosoman	3	5	2
18 Kocani	9	11	2
19 Ceginovo-Oblesevo	6	8	2
20 Bitola	11	12	1
21 Gjorce Petrov	9	10	1
22 Ilinden	9	10	1
23 Kisela Voda	6	7	1
24 Cucer Sandevo	5	6	1
25 Bosilovo	8	9	1
26 Konce	6	7	1
27 Radovis	6	7	1
28 Gostivar	6	7	1
29 Plasnica	4	5	1
30 Resen	8	8	0
31 Aerodorm	8	8	0
32 Butel	8	8	0
33 Suto Orizari	6	6	0
34 Brvenica	5	5	0
35 Pehcevo	6	6	0
36 Vevcani	6	6	0
37 Prilep	10	9	-1
38 Petrovec	6	5	-1
39 Sopiste	5	4	-1

46) City of Skopje is the only LSGU - city, and incorporates eleven of the LSGUs listed (urban Skopje planning region LSGUs)

47) Not applicable as not monitored at the period, thus there is no possibility for comparison as well



40	Centar	9	8	-1
41	Zelino	9	8	-1
42	Kavadarci	8	7	-1
43	Berovo	6	5	-1
44	Ohrid	12	11	-1
45	Centar Zupa	5	4	-1
46	Krivogastani	7	5	-2
47	Novaci	9	7	-2
48	Karpos	10	8	-2
49	Bogdanci	9	7	-2
50	Rankovce	7	5	-2
51	Vrapciste	2	0	-2
52	Veles	9	7	-2
53	Gradsko	6	4	-2
54	Sveti Nikole	9	7	-2
55	Caska	11	9	-2
56	Makedonski Brod	9	7	-2
57	Dolneni	6	3	-3
58	Zelenikovo	5	2	-3
59	Bogovinje	8	5	-3
60	Demir Kapija	5	2	-3
61	Vinica	12	9	-3
62	Delcevo	9	6	-3
63	Karbinci	5	2	-3
64	Makedonska Kamenica	9	6	-3
65	Debarca	7	4	-3
66	Gazi Baba	12	8	-4
67	Lipkovo	7	3	-4
68	Lozovo	10	6	-4
69	Probistip	10	6	-4
70	Struga	9	5	-4
71	Krusevo	9	4	-5
72	Mogila	11	6	-5
73	Novo Selo	5	0	-5
74	Tetovo	11	6	-5
75	Aracinovo	6	0	-6
76	Saraj	6	0	-6
77	Cair	6	0	-6
78	Stip	12	6	-6
79	Strumica	12	5	-7
80	Negotino	9	0	-9

