

Improving local budget processes:

from inclusion and transparency
to equity and quality

Authors:

Dragan Tevdovski¹, Branimir Jovanovic¹,
Viktor Mitevski¹ and Viktor Stojkoski¹





Aerial of city buildings in Skopje, North Macedonia. Photo: Aleksandar Kyng, Unsplash.

Abstract

This policy brief analyses local budget processes and provides recommendations for their improvement. The analysis is based on the example of North Macedonia. We find evidence that: 1) greater transparency leads to greater citizen satisfaction with the quality of local services, especially for marginalised groups; 2) greater inclusion leads to greater citizen satisfaction with how local budgets are prepared and implemented realised; 3) greater openness in local government leads to greater transparency and inclusion of citizens in budgetary processes. Our recommendations for improving processes include the creation of an index for comprehensive local budget process measurement, enhancement of citizens' financial literacy, a web platform for easy citizen engagement, and implementation of participatory budgeting.

About ICLD

The Swedish International Centre for Local Democracy (ICLD) is part of the Swedish development cooperation. The mandate of the organization is to contribute to poverty alleviation by strengthening local governments.

Introduction

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.

In this study, we focus on the local government budgetary process in North Macedonia, a country where citizens are doubtful about the quality of this process. In particular, according to a 2017 Eurobarometer survey in the country, 67 percent of respondents said that they did not trust local public authorities (European Commission, 2017). Moreover, one study found that transparency of local governments was much lower than that of central government (Center for Civil Communications, 2019), which might be explained by lower levels of political education and culture at local level in North Macedonia.

The purpose of this brief is to propose ways to improve transparency and inclusion of citizens in budgetary processes at local level in North Macedonia, in order to increase the efficiency of local budgets and the level of citizen satisfaction in terms of public spending. For this purpose, we investigate three main hypotheses:

- H1:** Greater transparency leads to greater citizen satisfaction with the quality of local services, especially for marginalised groups.
- H2:** Greater inclusion leads to greater citizen satisfaction with the preparation and implementation of local budgets, especially for marginalised groups.
- H3:** Greater openness of local governments leads to greater transparency and inclusion of citizens in the budgetary process.



People in the main square of Skopje, North Macedonia.
Photo: Albert Hyseni, Unsplash

Data and methodology

The analysis included four municipalities in North Macedonia (there are 81 in total in the country, see Figure 1). 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.



Figure 1:
Map of North Macedonia with municipalities included in the study indicated in red

We employed five methods to assess the current state of local budgetary processes:

1. Desk analysis, to identify the legal procedures and the level of transparency of local governments' websites.
2. Representative telephone survey with 490 respondents, conducted from 8 to 10 May 2020, for assessing citizens' attitudes regarding inclusiveness, transparency, accountability and equity of local budgetary processes, as well as the quality and equity of local public spending.
3. Multinomial regression, based on the survey data, as a tool for testing the research hypothesis.
4. Interviews with local government employees from the four selected municipalities, conducted in August 2020, to gather information for the budgetary process and on the extent to which they involve citizens' views for identifying problems and possible solutions.
5. Four focus groups with civil society and representatives of marginalised groups of citizens in the selected municipalities, for the purpose of gaining their opinion on how they are represented and involved in the different stages of the budgetary process.

*Transparency and
accountability:
Are the budget
documents presented
to the citizens?*

Results and conclusions

The survey results showed that citizens believe that there is partial transparency in the local budgetary process. 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 account – 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 the inclusion of citizens in the budgetary process as well as on building their understanding of the main budget documents.

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

90/
100



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

95/
100



Inclusion:

Are citizens consulted in the budgetary process?

The interviews with local government employees showed that municipalities organised formal activities for citizen inclusion in the budget preparation process, mostly public debates. Yet, citizens appear to have little interest in participation. Local governments use this argument to justify why they did not organise formal activities for citizen inclusion during the supplementary budget preparation or the budget execution. Moreover, local government employees point out that while there is no specific formal tool for including marginalised groups in the budgetary process, they cooperate with civil society organisations (CSOs) that represent the interests of these citizens.

The focus groups with CSOs highlighted that often, public debates are organised with biased participants who only confirm local governments' proposals and positions or at the end of the budget preparation when it is too late to propose significant changes.

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 in a public presentation or council session for the municipal budget. Most citizens who submitted a proposal were part of multiple channels of those that submitted proposals – accounting for 34.2 percent. The most-used single channel was social media, mentioned by 14.1 percent.

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

32/
100



Of the 32 citizens who submitted a proposal for a project or activity to the local government:



3 citizens
sent a written proposal to local government



4 citizens
communicated only directly with the mayor or local government official



5 citizens
communicated with the local government only through social media



12 citizens
communicated through multiple channels (written communication, direct communication, social media)



8 citizens
did not specify the channel of communication used

**3/
32**



3 proposals (out of 32)
were accepted by the local government

Participation through informal channels of communication can be viable source of support for patronage activities in municipalities. Frequently citizens make proposals or requests at political party gatherings where they are expected to vote in exchange for support for their proposal. 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. We highlight therefore, the need to incentivise local government to improve formal channels of inclusion of citizens in the budgetary process.

Equity: Does local government take care of marginalised groups?

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 municipalities use their websites as a tool for communicating with citizens, as well as social networks, through which 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. In order to integrate citizens’ engagement at a structural, organic level, municipalities need to have a clear communication plan which is inclusive, engaging and most of all, transparent.

The survey results indicate that only 18 percent of citizens think that local government fully takes care of marginalised groups. More citizens think that local government only partially takes care (according to 29.8 percent of respondents) or does not take care at all (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.

**18/
100**



18 in 100 citizens
think that local government fully takes care of marginalised groups



2 in 10 marginalised citizens
said that local government fully takes care of marginalised groups

Checking relationships: Can we accept the research hypothesis?

Using multinomial regression, we find that the three research hypotheses could be accepted².

- 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. This should serve as an incentive for local-level politicians to become more transparent.
- Respondents who think that the municipality is fully transparent are more likely to answer that the municipality fully takes care of marginalised populations.
- Respondents who think that the municipality completely takes care of marginalised citizens are more likely to answer that the municipal budget reflects their needs.
- Respondents who stated that the municipality consults them are more likely to say that the municipality is completely transparent.

Moreover, 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 results suggest that it is important to improve all elements of the budgetary process. While in the past decade, most emphasis had been placed on transparency, it is now time to focus on accountability, inclusion and equity.

Policy 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 European Union (64 percent); citizens in North Macedonia scored slightly lower than the SEE average at 56% (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.

²Multinomial regression results can be shared upon request.



Beige concrete building in Skopje, North Macedonia.
Photo: Tamas Marton, Unsplash.

B. Local budgets web platform

A local budgets web platform would help to increase citizens' knowledge about the local budgetary process and their engagement. 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 actively engage 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).

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 their acceptance 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.

Details

Find more details about the process of participatory budgeting from the following successful examples:

Vancouver, Canada:

<https://vancouver.ca/your-government/participatory-budgeting.aspx>

Chicago, USA:

<https://www.49thward.org/participatory-budgeting-1>

Luton, England:

https://www.luton.gov.uk/Community_and_living/Lists/LutonDocuments/PDF/2014-2015%20FINAL%20supporting%20docs.pdf

Warsaw, Poland:

https://www.participativni-rozpocet.cz/wp-content/uploads/2019/03/REPORT_WAR-SAW-PB-1.pdf

D. Pilot project: participatory budgeting

Direct voting by citizens for the allocation of local budgets can empower marginalised citizens (Civil Society Academy, 2017). The idea of this proposed 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 to be funded with the local budget. To implement this, the following general steps should be followed:

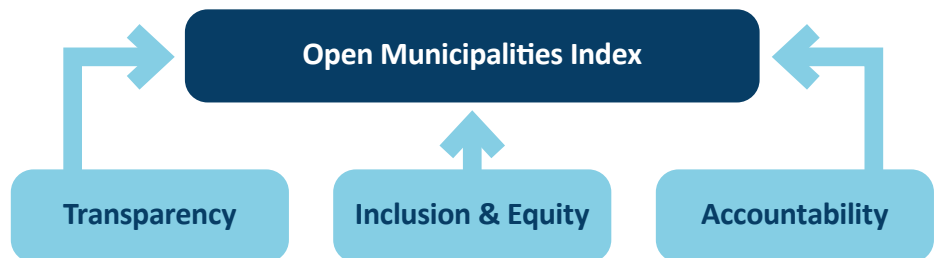
1. Local government allocates a certain portion of the budget to the participatory process.
2. Local government informs citizens about possibilities of participatory budgeting and its timeline.
3. Citizens develop proposals.
4. Local government organises sessions for the presentation of citizens' proposals.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

E. Index for measuring the local budgetary process

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), which 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, empirical research has thus far failed to produce proper tools for assessment and promotion of local government budget practices, although a pioneering attempt at selecting indicators for local government transparency was done by da Cruz et al. (2016). Nonetheless, a focus on transparency alone is not enough to drive improvement of local budgetary processes. We argue that a local budgetary process index should integrate all 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 and improve different dimensions of their budgetary processes.

For this purpose, we aim to introduce the Open Municipalities Index. Through the OMI, assessment of local budget process practices would be encapsulated through 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 to 100 in the overall index of the municipality. The value of the OMI for a particular municipality represents a simple average of the value registered in the three dimensions (see Figure 2). This implies that each dimension is equally relevant in the local budgetary process of each municipality.

Figure 2:
Structure of the Open Municipalities Index



Questions for discussion with local governments:

- How do you engage with your citizens during budget processes?
- How often do you take into consideration citizens’ proposals and initiatives when preparing your municipal budget?
- Have you been publishing and promoting a Citizen Budget?

Questions to ask citizens about how transparent and inclusive their local budget is:

- When was the last time you proposed a project to your municipality or took part in a public consultation process regarding the local budget?
- What is the most common communication channel that you use to engage with the municipality?
- What is the most suitable way for municipalities to engage their citizens during the budget planning and execution processes?

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The recommendations in this policy brief exclusively reflect the views of its authors.

Contact details

Swedish International Centre for Local Democracy

Visiting address Söderväg 1D, 621 58 Visby
Telephone +46 498-29 91 00
E-mail info@icld.se
Web www.icld.se

