

# Citizen-Centered Financial Management at the Local Level:

**A Data Powered Positive Deviance  
(DPPD) Approach**





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## EXECUTIVE SUMMARY

The **objective of this research** is to collect key information on different performances of municipalities in a variety of fields in order to determine the positive deviance in terms of Citizen-Centered Solid Financial Management at the Local Level in North Macedonia. The **period under consideration** is 2017–2020, whereas the cross-sectional units are all 81 municipalities. For the selected municipalities as positive deviants (success stories), we also refer to more recent trends and challenges. The indicated period of the study does not include the recent multidimensional crisis (energy crisis) that has led to a rise in municipal arrears in numerous instances.

The findings illustrate various practices of municipalities in predefined areas that are related to **sound financial management capacities of local governments**. These predefined areas are not only related to planning and executing of the budget, but also look broader on the context of planning, transparency, reporting, and ability to respond to the needs of the community.

The general public is “bombed” with toxic news about problems in local finance: poor property tax collection, low fiscal effort, limited fiscal capacities, debt-ridden municipalities, insufficient inter-governmental grants, unsatisfactory local public service delivery. However, there are also municipalities with remarkable progress in numerous areas of citizen-centered financial management. We call them **positive deviants**. They are great examples in the national context with stories that could be replicated or could inspire.

**The positive deviance** is an approach that seeks to identify outperformers to understand and replicate their strategies and practices within a community. **Data Powered Positive Deviance** is a method that combines non-traditional digital data and traditional data to identify and characterize outperformers in development related challenges.

**Size matters.** It would be methodologically inappropriate to compare all municipalities as if they were in the same category – let us say, Zrnovci with Centar. They differ in size, population density, and amenities; the first being rural one and the second – urban one. They also substantially differ in terms of their fiscal capacity and capacity for provision of local public services. For this reason, we categorize the 81 municipalities into three distinct groups: small, medium-sized, and large ones. Small municipalities have population size less than 10,000 inhabitants, medium-sized municipalities between 10,001 and 50,000 inhabitants and large municipalities have more than 50,000 inhabitants. Each group is a separate category or sub-sample. Put differently we identify positive deviants in each size category.

We focus on the following areas of citizen-centered local public financial management and measures the progress for all 81 municipalities:

- **Participatory budgeting**
- **Bottom-up approach**
- **Budget revisions per year**
- **Publishing end-of-year financial reports**
- **Searchable budget reporting**
- **Overspending**
- **Mobilizing external funds (resources)**
- **Partnerships with Local Civil Society Organisations**

Building upon a quantitative analysis, we have selected several municipalities as **outperformers** in numerous aspects of citizen-centered sound financial management.

- **Small:** Rosoman and Mavrovo and Rostushe
- **Medium:** Valandovo, Kriva Palanka, Kavadarci, Butel, Shtip, Centar, and Veles
- **Large:** Prilep and Kumanovo.

The selected municipalities are not the only ones who are positive deviants. We have pre-selected more and then we selected few among them to interview and to go further in the research with smaller sample. Due to limited time and resources, we conducted on-site structured interviews with all municipalities, except for Valandovo, Kriva Palanka, and Shtip.

A note of caution is that the good performance in various stages of the financial planning process is a precondition but does not necessarily lead to **higher quality of local public services** provided by a particular municipality. While it is an important prerequisite, sound financial management is not sufficient to ensure high-quality local governance. It seems unusual to include the municipality of Shuto Orizari among financially prudent municipalities. Despite the very low fiscal capacity and poor communal infrastructure, its municipal efforts and prudent financial approach are admirable. For these reasons, we also analyse Shuto Orizari, a medium-sized municipality within the City of Skopje that is showing remarkable progress, given the serious financial constraints.

Based on the reviews and interviews of the outperformers (positive deviants), we design a detailed roadmap for creating and/or maintaining new outperformers among municipalities in North Macedonia.

# 1. INTRODUCTION

## 1.1. Goals of the assignment

The **objective of this assignment** is to scope the data and collect key information about different performances of municipalities in a variety of fields in order to determine the positive deviance in terms of Citizen-Centered Solid Financial Management on Local Level in North Macedonia.

The **period under consideration** is 2017–2020, whereas the cross-sectional units are all 81 municipalities. For the selected municipalities as positive deviants (success stories), we also refer to more recent trends and challenges. The multidimensional crisis (ongoing pandemic, energy crisis, and higher inflation) in 2022 is seriously threatening to remove past achievements. This “perfect storm” will test the resilience of the municipalities (positive deviants) to an exceptionally large and unfavourable shock.

The findings illustrate various practices of municipalities in predefined areas that are related to **sound financial management capacities of local governments**. These predefined areas are not only related to planning and executing of the budget, but also look broader on the context of planning, transparency, reporting, and ability to respond to the needs of the community.

It is very important to highlight that sound **financial management practices may not necessarily lead to improvement or high level of quality of local public services**. We do not measure the quality of local public services (e.g., the [municipal sustainable development index](#)), but we do refer to some achievements in the provision of local public services.

## 1.2. What are positive deviants?

The general public is often overwhelmed with the negative discourse about problems in local finance: poor property tax collection, low fiscal effort, limited fiscal capacities, debt-ridden municipalities, insufficient inter-governmental grants, unsatisfactory local public service delivery. **The bad news easily crowd-out good stories about financially prudent municipalities.**

There are also municipalities with remarkable progress in numerous areas of citizen-centered financial management. We call them **positive deviants**. They are great examples in the national context with stories that could be replicated or could inspire.

So, who are they and what do they (the positive deviants) have in common? What can other municipalities learn from their experiences and how can they replicate the best practices?

## 1.3. Data Powered Positive Deviance Methodology

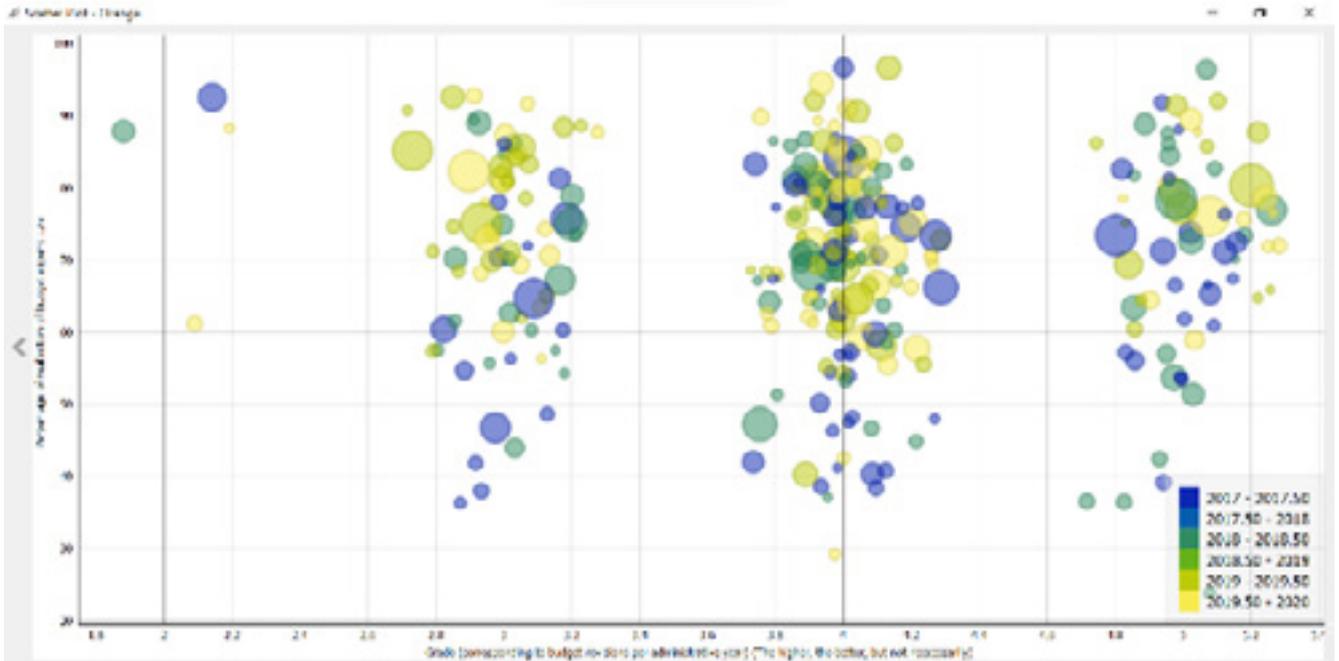
The methodological approach follows the Data Powered Positive Deviance (DPPD) method, which has been widely used across the UNDP Accelerator Labs Network, the GIZ Data Lab, the UN Global Pulse Lab Jakarta, and the University of Manchester’s Centre for Digital Development.

**The positive deviance** is an approach that seeks to identify outperformers to understand and replicate their strategies and practices within a community (DPPD Handbook, 2021).

**Data Powered Positive Deviance** is a method that combines non-traditional digital data and traditional data to identify and characterize outperformers in development related challenges.

**Size matters.** It would be methodologically inappropriate to compare all municipalities as if they were in the same category – let us say, Zrnovci with Centar. They differ in size, population density, and amenities; the first being rural one and the second - urban one. They also substantially differ in terms of their fiscal capacity and capacity for provision of local public services. For this reason, we categorize the 81 municipalities into three distinct groups: small, medium-sized, and large ones. Small municipalities have population size less than 10,000 inhabitants, medium-sized municipalities between 10,001 and 50,000 inhabitants and large municipalities have more than 50,000 inhabitants. Out of 81 municipalities, 33 are small municipalities, 35 are medium-sized and 13 are large municipalities (incl. the capital, the City of Skopje). Each group is a separate category or sub-sample. Put differently we identify positive deviants in each size category.

**Urban and rural differences.** We also acknowledge that the urban and rural difference is a very important initial condition for prudent financial management. The municipalities within the City of Skopje have the advantage to have the capital city collect local taxes and fees and distribute them across the ten municipalities. Having said that, the municipalities in Skopje have more time, resources, and energy to focus on improving the other aspects of financial management. The specifics of the two-tier system in the City of Skopje must therefore be recognized.



## 1.4. Areas of Citizen-Centered Financial Management at the Local Level

We focus on the following areas of citizen-centered local public financial management.

**Participatory budgeting.** When citizens could make their needs known and hold public institutions to account, public resources are likely to be used more efficiently to deliver public goods and services that are better aligned with citizens' needs (Fölscher, 2007). Citizens have numerous benefits from the participatory budgeting process: involvement in financial planning, opportunity to express their needs and views, possibility to strengthen the responsiveness, transparency, and accountability of local governments, mechanism to improve local governance, and ultimately, their quality of life. The potential risks are that only interests of the most vocal and local lobby groups are taken into consideration (special interests as opposed to local community interests). If local stakeholders are not well informed about the available amounts for discretionary local government expenditure (the financial envelope for new proposals and initiatives), there is also a risk that participatory budgeting could turn into a collection of wish lists. If improvised, participatory budgeting could easily lead to disappointment and discouragement of local citizens and local civil society organizations (CSOs) for future participation as well as erosion of trust.

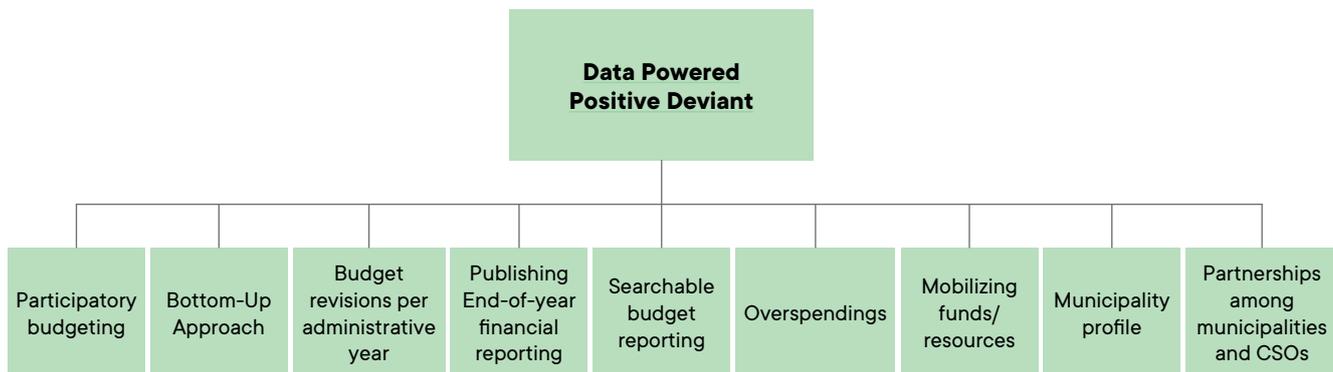
There is less consensus on what level of engagement is desirable and what form it should take. It can be in the form of: (a) public calls for consultations with interested citizens, civil society organizations, or local businesses regarding the next year's budget; (b) permanent budget forums or advisory groups (budgeting councils), (c) meetings with the local (urban/rural) communities (*urbani i mesni zajednici*), (d) online questionnaires, (e) informal conversations with citizens, etc. The activities with regard to participatory budgeting might not be entirely comparable during the 2017–2020 period, as participatory budgeting in the pandemic 2020 year was heavily constrained and mainly performed through online questionnaires (source: Interviews with local public officials in 81 municipalities, 2021).

Participatory budgeting is prescribed by the law to ensure greater inclusion, involvement and contribution by the citizens and civil society organizations. Article 2 of the Law on Local Self-Government defines “direct citizen participation as an individual or collective involvement of local citizens in affairs of local importance at various levels of decision-making”. Moreover, Chapter IV of the Law on Local Self-Government (Articles 25–30) outlines the expected forms of citizens' involvement. Article 21 (*Citizens' initiative*) of the new Law on Budgeting (in a second reading stage of the parliamentary procedure, to be adopted by end-December 2021 or early January 2022) requires from “the units of local self-government to establish mechanisms for participation of citizens in the process of proposing new initiatives, in the preparation of the strategic plans and the fiscal strategy”. The Law on Financing Local Self-Government Units does not have provisions that regulate the participation of citizens in the procedures for conducting decisions of local importance. Moreover, there are no administrative sanctions for not involving citizens in the decision-making processes and for non-disclosure of information.

**Bottom-up approach.** Activist citizens, civil society organizations, and local businesses often propose activities and initiatives. However, only some of them will be incorporated in the budget at the respective municipality. According to the Law on Local Self-Government, there are numerous channels for advancing bottom-up initiatives: citizens' initiatives, gathering of citizens, referenda, proposals and/or complaints, public debates, surveys, and discussions of proposals.

Other forms of civic engagement are written proposals, emails, person-specific address, expression of initiatives on municipal profile on the social networks, requirements for meeting the mayor, requirements for attendance of municipal council's meetings, budget forums, etc. We measure this indicator by conducting a survey across all municipalities and ask municipal officers: “From your perspective, how important and helpful were the citizens, local civil society organizations, and local businesses in the process of budget preparation?” The collected responses are in the range between 1 and 10 (1=insignificant; 10=very significant).

Figure 1. An illustration of the areas of citizen-centered financial management



**Budget revisions per year.** Frequent budget revisions (supplementary budgets) throughout the fiscal year indicate difficulties / problems with the local public finance management and the budget process. Financial management problems might occur due to unrealistic revenue planning (usually before the beginning of the fiscal year, but also until the last quarter of the year) and/or the low administrative capacity to forecast local budget expenditure. The most common reasons for revisions of municipal budgets (enactment of supplementary budgets) throughout the year are the inadequate or unrealistic planning of the revenues (and subsequently, expenditures), the need to reallocate funds for other purposes, or new grants (donations) being allocated to the municipality.

**Publishing end-of-year financial reports** on the municipal website is a key prerequisite for financial transparency and accountability. It is not a rare practice to find partial or even no financial documentation regarding the previous fiscal years.

**Searchable budget reporting.** Published reports that are easily accessible in the websites of the institutions are important for location of key budget data. Sometimes the budget reports (annual statements, budgets, revised budgets, annual financial reports) can be located on the website with extreme difficulties. In other cases, the budget reports are easily found, but they are not published in a searchable format (for example, scanned photos or non-searchable .pdf format). In many cases, the budget reports are easily located, searchable and well elaborated.

**Overspending** can be distinguished into two components: (1) legally allowed overspending, and (2) accumulation of municipal arrears beyond 60 days. Legal overspending (borrowing) by local governments can be calculated as a ratio between local government expenditure and local budget revenue. Municipalities with overspendings (higher LG expenditure) will have values for this ratio above 1, whereas municipalities with financial surplus will have ratios below 1. Municipalities with balanced local budgets will have the value of 1 for the ratio. The second indicator is captured by the stock of municipal arrears on different dates.

**Mobilizing funds (resources).** The key indicator is the value of grants (donations) in denars registered on the municipal accounts during the 2017–2020 period. Since the size of grants could also be affected by the size of the municipality, we also normalize data. For instance, a grant of 50,000 Euros could make a lot of difference for a small municipality, but not much for a very large municipality. We calculate: (a) mobilized grants (in percent of total revenue of the municipality), and (b) mobilized grants per capita. The distribution of municipalities that mobilized funds (resources) (in categories from 1=least successful, to 5=most successful) has been conducted by *K-means* clustering into five relatively distinct groups.

**Municipal profile** encompasses a wide range of indicators: municipality size (number of inhabitants, total area, and number of settlements), total budget (LG revenue and LG expenditure in nominal terms and in per capita terms); number of administration employees (total number or per 1,000 inhabitants), number of employees in the finance department, municipal arrears per capita, municipal fiscal capacity, municipal fiscal effort, and many other indicators.

**Partnerships with Local Civil Society Organisations.** Building local principle-driven and legitimate coalitions with other civil society organizations is a very important pillar of local governance. One proxy for this indicator is the total value of transfers to civil society organizations from the municipal budgets, expressed both in per capita terms and as a percentage of total local government budget expenditure. Not all municipalities have a registry of all memoranda and agreements of cooperation with local civil society organizations, which undermines comparability across municipalities.

## 1.5. Selection of indicators and data normalization

**Selection of indicators.** The indicators were considered provided they meet the following criteria: comparability among local government units and comparability over time, accessibility and publication on a regular basis, comprehensiveness and (relatively) easy interpretation, and relevance to the local governance. The sign, or the direction

of interpretation of the indicators, should be homogenous, so that higher values would indicate being closer to the 'desirable situation' or to the best-performing municipalities (outperformers).

**Multivariate analysis and normalization.** Research data for complex phenomena often has different measurement units, which require some normalization method to remove the scale effect. Possible option is to normalize data by applying the minimum-maximum approach to render the data comparable in the identical range [0, 1]. Min-Max normalizes indicators to have an identical range [0, 1] by subtracting the minimum value and dividing by the range of the indicator values. Standardization (or z-scores) converts indicators to a common scale with a mean of zero and standard deviation of one. Indicators with extreme values thus have a greater effect.

## 1.6. Selection of municipalities

Based on a wide set of indicators across the different fields of citizen-centered financial management, we identified the following municipalities outperforming in most aspects and in their respective size categories:

- **Small municipalities:** Mavrovo i Rostushe and Rosoman (out of 33 municipalities)
- **Medium-sized municipalities:** Shtip, Centar, Butel, Strumica, and Kavadarci (out of 35 municipalities)
- **Large municipalities:** Kumanovo and Prilep (out of 13 municipalities).

The selected municipalities are not the only ones who are positive deviants. We have pre-selected more and then we selected few among them to interview and to go further in the research with smaller sample.

**A special case.** It seems unusual to include the municipality of Shuto Orizari among financially prudent municipalities. Despite the very low fiscal capacity and poor communal infrastructure, its municipal efforts and prudent financial approach are admirable. For these reasons, we also analyse Shuto Orizari, a medium-sized municipality within the City of Skopje that is showing remarkable progress, given the serious financial constraints.

## 2. WHAT CAN THE POSITIVE DEVIANTS TEACH US?

Based on the Data Powered Positive Deviance methodology and cluster analysis, we divided all municipalities into three broad categories based on population size (small, medium, and large) to improve intra-group comparability. The size of the municipalities is based on the estimated population in the 2021 population Census as follows:

- **Small municipalities:** population under 10,000 inhabitants
- **Medium-sized municipalities:** population between 10,001 and 50,000 inhabitants
- **Large municipalities:** population over 50,000 inhabitants.

Building upon open and official financial datasets, collection of other primary data as well as quantitative analysis, we have selected these municipalities as outperformers in numerous aspects of citizen-centered sound financial management:

- **Small:** Rosoman and Mavrovo and Rostushe
- **Medium:** Valandovo, Kriva Palanka, Kavadarci, Butel, Shtip, Centar, and Veles
- **Large:** Prilep and Kumanovo.

A note of caution is that the performance in various stages of the financial planning process should not be mixed with the quality of local public services provided by a particular municipality. While it is an important prerequisite, sound financial management is not sufficient to ensure high-quality local governance.

### 2.1. Positive deviants among small municipalities

#### Municipality of Rosoman

**Municipal Profile.** Rosoman is a small and rural (agricultural) municipality in the central part of the country. It has 3,796 citizens served by only 10 municipal employees (or 2.6 civil servants per 1,000 inhabitants). The municipality has a high fiscal capacity that is matched by an adequate budget execution, realizing budget revenues of 82.2% and budget expenditures of 75.5%. In addition, the municipality has been recording only budget surpluses on a cash basis. In 2019 the good financial performances were backed up with additional funds from external resources. Generally, 0.43% of total budget expenditures are allocated as transfers to local CSOs. The municipality has an excellent level of participatory budgeting followed by a very significant bottom-up approach. On the other hand, all financial documents relevant for the budget process have not been published in easily accessible and searchable format. Given



these circumstances, the municipality has partially complied with the principles of transparency and accountability.

**The big turnaround in 2008.** In 2007, the municipality of Rosoman had a blocked transactions account because of missed payment deadlines. In the next year, the municipal council decided to strengthen the own-source revenue base. By visiting every house and business premise on the territory of Rosoman, three assessors – engaged on a contractual basis – built a comprehensive database for tax purposes. They compared the data with the cadastre of real estate on the territory of Rosoman. The property tax obligations in a few years rose 10 times. Rosoman strengthened its revenue base, allowing for more ambitious expenditure programs and higher quality local public service delivery.

**The blessings of geography.** Few municipalities – such as Rosoman – have resources on their territory, which are in strong demand by the industry. The municipality acquires revenue from the allowances from exploitation of sand and gravel. This is also a significant own-source revenue.

**Realistic planning of revenues.** Realistic planning of revenue, even in times when not necessarily required by the Ministry of Finance, ensured a sound financial management. In some years, the tax revenue collection is even 20% higher than the planned amounts.

**Policy of no municipal arrears.** Even in November 2018, when the government financial bailout program and a special law were adopted, the municipality of Rosoman had only a negligible amount of municipal arrears. That policy continues with a strict control of payment obligations even nowadays. The municipality has a very small amount of municipal arrears with an intention to reduce them to zero by the end of September 2022.

**Ability to work under severe constraints.** The municipality works with one of the smallest administrations (only 11 employees, if the mayor is included). The present municipal council works without a majority (the two large political parties have equal number of representatives), so that most decisions require political negotiating. The municipality has only two financial officers (one for taxation and another one for public procurement). The closest Treasury Office is in the City of Veles, imposing transportation costs for daily delivery of the payment orders. Few years ago, the closest Treasury Office was in neighbouring Kavadarci, but it was closed as part of the “expenditure rationalization program”.

**Tackling the higher electricity prices.** The recent strong increase of electricity price increased the expenditure for communal utilities. The monthly bill of 150,000 denars in 2021 is now expected to climb to 350,000 denars in the second half of 2022. Fortunately, the share of electricity costs in total municipal expenditure was low and rose from 2.2% to 5.2%. The municipality plans to cut other current expenditure to adjust to the adverse shock.

**The problem of reduced intergovernmental transfers (block grants).** Another obstacle for the sound financial management is the declining value of intergovernmental transfers from the Ministry of Labour and Social Policy and Ministry of Education. Even a few years before, these block grants were not sufficient to cover the true costs. By using own-source revenue, the municipality is actively helping the kindergarten, the primary schools, and the public enterprise “Komunalec”. This is a systemic problem that has to be discussed among ZELS and responsible ministries.

**Municipal investment must not suffer.** The ambition of the municipal council and the mayor is to preserve and increase the financial envelope for infrastructure projects of local importance. Key priorities are to separate the municipal wastewaters (fecal canalization) and surface run-off (rainwater and stormwater), also known as atmospheric canalization.

**Blended financing.** The municipality is proud of the blended financing of important infrastructure projects, partly by funds from the Ministry of Environment, World Bank loans or grants, and own-source municipal revenue.

**Cooperation with the central government can bring additional benefits.** Many opportunities for more effective local governance depend on strengthening the coordination and cooperation with the central government. There is a continuing need for an enabling framework that would allow local governments to function more effectively in achieving their role in the public sector. Typical problems in the inter-governmental relations involve – but are not limited to – assigned competences with insufficient funding, lack of coordination between central and local levels, limited fiscal autonomy that is created by the central government, etc. The actual implementation of decentralization is delayed by limitations in administrative capacity, financial constraints, and lack of monitoring oversight. Despite numerous problems, the municipality of Rosoman is generally satisfied with the cooperation with the central government.

## Municipality of Mavrovo and Rostushe



**Municipal Profile.** Mavrovo Rostushe is a small and rural municipality located in the western part of the country. The municipality is part of the Polog Statistical region. It has a population of 5,042 inhabitants, based on the 2021 Population Census. The municipal administration has 36 employees. The financial affairs division employs five full-time financial officials and one on a contractual basis. The municipality has high fiscal capacity, especially in terms of market value of residential properties of non-residents, located around the Mavrovo lake. Budget realization is high, even though it somewhat worsened since 2017 when the percentages of realized revenues and expenditures were 91.7% and 88.7%, respectively. In 2020 the municipality achieved better budget execution of revenues and expenditures of 83.6% and 79.2%.

The lower percentage of budget realization was accompanied by modest overspending on a cash basis. The municipality has limited success in mobilizing finances from other sources. Local CSOs received only 0.28% of total budget expenditures. On the other side, the citizens, local businesses, and civil sector are actively involved in the process of budget preparation and the municipality made strong efforts to consider the most important proposals and ideas. The budget is being revised once to twice per administrative year. In respect to transparency and accountability, the municipality on a regular basis regularly publishes searchable budgets and end-of-year reporting.

**Fiscal challenges to serve a large territory with a small population.** The Municipality of Mavrovo and Rostushe has a very low population density. The large territory and numerous settlements with a small number of inhabitants are a real challenge in terms of provision of local public services. This puts a strong pressure on the costs of services and municipal financial position.

**Discussed draft budget, before the budget proposal.** The employees in the financial division cherish the practice of discussing a Draft Budget with local stakeholders before a formal Budget Proposal is submitted for adoption.

**Budget forums matter!** The practice of organizing budget forums in different settlements is believed to be one of the most successful form of participatory budgeting in the Municipality of Mavrovo and Rostushe.

**The power of non-technical summaries.<sup>1</sup>** One of the strong advantages of the financial division is the ability to provide non-technical summaries of the budgets and other financial documents. This ensures that municipal council members can contribute to the debate, besides their preference for particular local infrastructure projects.

**The need for realistic budget planning.** The high percentage of budget realization, both on the revenue and expenditure side, is thought to be a consequence of realistic planning. It is not a rare practice in September or October to revise the local budget to reflect the new circumstances.

**Excellent cooperation with the planning of public procurement.** Part of the success is due to the outstanding cooperation with the public procurement division. Well synchronized processes between the financial affairs division and the public procurement division lead to smooth financing of municipal initiatives.

**Diminishing revenue potential.** Large-scale emigration from Mavrovo and Rostushe – both internal and abroad – erodes the fiscal capacity of the municipality. Only in the last two decades, the municipality lost 41.5% of its population, mainly due to emigration in Italy and Germany. As a consequence,

<sup>1</sup> A non-technical summary (NTS) is a concise document that provides a description of the process and main findings in a manner that is both appealing to read and easily understood by the general public.

local own-source revenues are forecasted to be much smaller. More importantly, it erodes the human capital, the livability in, and the economic development of the municipality.

**Fight for additional revenue mobilization.** The municipal administration is proud for several successful grant applications for cross-border cooperation, such as the project for “adrenaline bicycle paths”. This provides new revenues for the municipality.

**Gender-sensitive budgeting.** The financial affairs division is also involved in different initiatives to promote gender-sensitive budgeting, such as those provided by the country office of UN Women.

**Successful crisis management.** In an unfortunate event, the municipality lost all digital property and taxation records. Due to an exceptional effort in a short period, all electronic property records and tax obligations were recovered from the hard copy archives.

**Socially responsible initiatives.** The municipality carefully selects the financing of civil sector initiatives. The funding for one of the most prominent national cultural events – Galicka svadba (A Wedding in the village of Galicnik) comes from the local budget.

**The untapped potential of non-resident properties around Mavrovo lake.** Throughout the entire year, but mostly in spring, summer, and autumn, many tourists from Skopje, Gostivar and other neighbouring cities, spend time in their properties (villas, cottages, houses, etc.). They use the local roads, make a significant regular and construction waste disposal, and demand basic local public services. However, many property records are not included in the municipal database for taxation purposes. The reason is the high cost of property (re)evaluation for a small municipality such as Mavrovo and Rostushe. This results in a two-way dissatisfaction: the municipality concentrates the provision of local public services in permanently inhabited settlements, whereas non-residents complain about the very poor provision of services in the tourist and residential areas.

**Other threats.** One of the perceived threats for the financial affairs division is the lack of training opportunities for financial management and career advancement. This could impede the success of the municipality in the medium and long term.

## 2.2. Positive deviants among medium-sized municipalities

### Municipality of Butel



**Municipal Profile.** As an urban municipality with 37,968 inhabitants, Butel is one of the ten municipalities within the City of Skopje. The municipal administration has only 67 employees, that is equivalent to 1.85 civil servants per 1,000 citizens. The municipality strongly relies on the bottom-up approach (grade 9 out of 10). The realization of budget revenues and expenditures is above the country average with 85% of realized revenues and 82.9% of realized expenditures. After the central government bailout, the municipality has been recording small budget surpluses of 4.3% of the budget revenues. The capacity to mobilize finances from additional resources is limited. On average, 0.63% of total expenditures are allocated as transfers to local CSOs.

**Integrity.** The finance department is committed to integrity. It insists on observance of rules and procedures and defence of legality. If necessary to defend integrity, the finance department enters into disputes with members of the municipal council or the mayor.

**Experienced leadership.** The head of the finance department is an experienced professional with over 13 years of public service in local financial management.

**Human resource management.** There are 11 financial officers and no significant fluctuations of human resources in the finance department. They downplay political party affiliation and cooperate as a team.

**High-quality and timely budget cycle.** Part of the success is due to the early start of the budget preparations in April for the next fiscal year. This provides sufficient time for more analytical preparations of the municipal budget. The finance department is proud for having non-negative remarks by the State Audit Office.

#### Box 1. Extract from the latest Financial Audit Report by the State Audit Office (18.01.2016)

*“The Municipality of Butel has conducted activities for the establishment of an adequate control environment that contributes to the establishment of an efficient and effective system of financial management and control [...]. The established channels of information and communication at all levels, ensures reliable, timely and relevant information that has an important role in the decision-making by the municipal management.”*

**No interdepartmental conflicts.** There is no confrontation with other departments within the municipality regarding the internal distribution of the budgeted amounts.



## Municipality of Centar

**Municipal Profile.** The municipality of Centar is a densely populated urban municipality covering the area of 10 km<sup>2</sup> and populated by 43,893 inhabitants in the central part of the country's capital, City of Skopje. The last population census in 2002 reported 45,000 inhabitants, indicating net emigration, possibly due to higher living costs, air pollution, noise, and/or brain drain. The municipality has served as a pioneer in local initiatives and high participatory budgeting practices with moderate to high appreciation of the local input from the citizens, businesses, and CSOs (grade 7 out of 10). There are frequent budget revisions (at least three) throughout the year. The mobilization of external funding is very low, but the financial support to local partnerships with CSOs is relatively high (around 2.5% of the total budget expenditure). There is a remarkable improvement in the realization of the budget in recent years, with the best performance in 2019 with 98.2% in 2019 on the revenue side and 89.6% on the expenditure side. The municipality is a moderate over-spender with strong reliance on loans as a form of local borrowings, especially in 2017 and 2018 when local expenditure exceeded local revenues by 25.4% and 22.2%, respectively.

**Real, not formal participatory budgeting.** Regarding participatory budgeting, the municipality of Centar organizes tête-à-tête meetings with stakeholders and selects projects by voting. This experience with participatory budgeting is not a recent one, but from 2001 onwards.

**Learn to say “no”.** The employees in the finance department are respected by mayors and municipal council members from different political affiliations. They maintain a high degree of professionalism. The key is to know when to say “no” to unfeasible initiatives, or at least “not now”. This is important for designing a credible local budget, avoiding buildup of municipal arrears, and getting into unchartered financial territory. This is also linked with the need for realistic planning and observance of fiscal limitations.

### Box 2. Extract from the latest Financial Audit Report by the State Audit Office (29.03.2019)

*“The auditing of the implementation of recommendations presented in the final report by the certified state auditor for the performed audit of financial reports and the compliance audit for 2012 of the municipality of Centar was performed in 2015. We conclude that there has been substantial progress in the implementation of the recommendations.”*

**Plan realistically!** With regard to saying “no”, realistic planning of local revenue and expenditure is the fundamental driver of sound local public financial management. Usually, one – up to two -budget revision(s) per fiscal year ensures that municipal expenditure is aligned with the local revenue. The finance department was delighted when the Ministry of

**Excellent cooperation with the Municipal Council.** The finance department aims at facilitating non-technical discussions on financial issues so that more Council members understand and contribute to the decision-making process.

**Use of a specialized financial management software.** There is a specialized financial management software for 30 municipalities. This software helps municipalities deliver major change, improve performance, and drive financial efficiency by providing them five modules for financial operations.<sup>2</sup>

**Flexibility.** The Municipality of Butel immediately used the opportunity created by the government anti-crisis measures in February 2021. The government allowed channeling unused funds of 37 million MKD to municipal capital expenditure. It reallocated the unused funds from the block (earmarked) grants in 2020 and 2021 and channeled them into capital expenditure. Moreover, given the sudden rise of electricity bills and central heating bills, the municipality of Butel directly negotiated rescheduling of payments in monthly installments to ease the liquidity pressure.

**Cost-saving measures.** The municipality of Butel is replacing classical bulbs with LED light bulbs, aiming for cost saving in street lighting.

**Forward-looking attitude.** The municipality devotes a lot of attention to young generations. It has established a Youth Council, sponsored young sport talents, and provided 33 smart tables for the schools. It announced the opening of a new primary school at the beginning of 2023/24 year.

**Success is not guaranteed: New financial challenges.** One of the main immediate challenges for the municipality of Butel is the difficulty to meet recent payments for electricity bills. In only a year, municipal arrears jumped from 0.4 million MKD at end-March 2021 to 41.8 million MKD at end-March 2022. The monthly electricity bill skyrocketed from 1.2 to 4.6 million MKD, with a high probability of reaching an estimated 6.7 million MKD from July 2022 onwards. Around 30 million MKD of the newly created arrears are arrears to the electricity distribution provider EVN home. The problem is thought to be bypassed by the establishment of a new Public Enterprise for Management, Setting and Maintenance of Public Lighting Butel on April 12<sup>th</sup>, 2022.

<sup>2</sup> An in-depth investigation of the reliance on a specialized municipal software revealed that 65 municipalities use Edusoft services: Aerodrom; Arachinovo; Berovo; Bitola; Bogdanci; Bogovinje; Bosilovo; Brvenica; Butel; Valandovo; Vevchani; Veles; Vinica; Gevgelija; Gjorche Petrov; Gostivar; Gradsko; Debar; Delchevo; Demir Kapija; Demir Hisar; Dolneni; Zhelino; Zelenikovo; Iliden; Jegunovce; Karbinci; Karposh; Kisela Voda; Kichevo; Konche; Kratovo; Kriva Palanka; Krivogashtani; Krushevo; Kumanovo; Lozovo; Mavrovo I Rostushe; Makedonska Kamenica; Makedonski Brod; Mogila; Novaci; Novo Selo; Petrovec; Pehchevo; Plasnica; Prilep; Probishtip; Radovish; Rankovce; Rosoman; Saraj; Sveti Nikole; Sopishte; Staro Nagorichane; Strumica; Studenichani; Tearce; Centar Zhupa; Centar; Chair; Cheshinovo i Obleshevo; Chucher Sandevo; Shtip and Shuto Orizari.

Finance put a cap of 10% on the own-source revenue growth for the upcoming year, compared to the average for the past three years.

**Adequately staffed the finance department.** The finance department has 12 financial officers (11 as of July 2022). Most of them are full-time employees with long work experience in the department.

**Excellent cooperation with the municipal council.** Both the municipal council members and finance department employees are convinced that cooperation is a prerequisite for a sound local public financial management.

**Not popular, but respected.** The popularity of the finance department with the other departments in the municipality of Centar is not on a high level. The finance department is focused on liquidity and solvency concerns which oftentimes go against the financial needs of other departments. But the cooperation is not obstructed.

**Financial constraints on the revenue side.** The finance department of the municipality of Centar believes that the distribution formula between the municipality and the City of Skopje regarding local revenues should be revised. For instance, the fees for arrangement of construction land are split 60%:40% in favor of the City of Skopje. Shouldering the burden with the City of Skopje in a fairer way is thought to bring more local revenue for the municipality.

**A unique pressure on local expenditure: thousands of commuting vehicles daily.** Thousands of vehicles (buses, cars, vans, etc.) are commuting daily in the municipality of Centar. This implies very fast amortization of streets and a need to continuously reconstruct them. The street surface is heavily used every day. Therefore, a large part of local expenditure must be allocated for reconstruction and maintenance of streets. The financial performance of the municipality of Centar seems even greater in light of this unique pressure.

**Social responsibility.** Local revenue is used responsibly. The municipal administration works in sub-standard wooden barracks. Mayors and municipal council staff members could have decided to construct a new administrative building, but instead, they chose to finance numerous projects of local importance over the years. High-quality healthy meals and regular systematic health checks for pupils, financing a center for elderly care, subsidies for bicycles, construction of a kindergarten, etc. are some of the socially responsible activities that the municipality of Centar is proud of.

**A specialized financial management software.** The municipality of Centar negotiated a purchase with zero price of a licensed specialized software for financial management. The provider's financial interest is in the annual maintenance. As is the case with other successful municipalities, the software facilitates the decision-making process and contributes to sound financial management.

**The impact of the economic environment on financial performance.** The rise in energy prices in 2022 contributed to exceptionally high electricity bills. The entire budgeted amount for electricity bills is already spent by mid-June 2022. If last year's monthly electricity bill for street lighting was 2.5 million MKD, this year it is close to 5 million MKD. The municipality will seek for less expensive solutions on the liberalized electricity market. Almost certainly, this will reduce the amount of funding for municipal projects. The municipality of Centar has to design medium-term measures to ensure that the financing of street lighting is more resilient and more flexible to withstand future increases. **The conclusion is that numerous factors of the social and economic environment strongly influence financial performance, besides the financial management itself.**

## Municipality of Strumica



**Municipal profile.** Strumica is an urban municipality in the southeastern part of the country with nearly 50,000 inhabitants, being served by 200 employees in the municipal administration. The municipality belongs to the upper-intermediate group in terms of revenue per capita and municipal fiscal capacity. It is characterized by strong participatory budgeting practices and an effective bottom-up approach (average grade 8.3 out of 10). High reporting standards are observed, as the budget-related documents are easily accessible and searchable. 23 financial officers are in charge with the local budget, which in turn, has a realization of 83.5% and 81.4% on the revenue and expenditure side, respectively. Except for 2018 when the municipality relied on a government bailout of 2 million euros, the financial management is otherwise, generally prudent. The municipal capacity to mobilize external funds (grants) is limited, but the financial support for building partnerships with local CSOs is strong.

**Real participatory budgeting.** Strumica has a tradition in participatory budgeting. Direct consultations with local communities (*mesni and urbani zaednic*) are considered as very important for the budget process. Budget forums with citizens usually have five sessions. More importantly, a large portion of citizens' proposals are included in the budget planning stage.

**Realistic budget planning.** As in all cases of positive deviants, Strumica follows a cautious approach with realistic planning of budget revenue and expenditure.

**Prudent revenue collection.** The municipality sends property tax calculations and payment obligations in March. Few months later, the taxpayers are reminded with gentle reminders and later, with warnings. The tax morale is considered high. It is not surprising therefore that the collection of property taxes is beyond 90%.

**Collection of revenue in installments.** The municipality of Strumica allows for collection of certain revenues (such as communal fees) in installments within the fiscal year.

**Sufficient number of financial officers.** The financial department is adequately staffed with 22 employees, and human resources are considered of high quality.

**Absorption capacity for foreign grants.** The municipality is especially proud of its department for cross-border cooperation, which is able to produce winning project applications. The mobilization of external funds enables realization of important municipal projects. Four ongoing foreign grants have increased the total budget by approx. 700K euros.

**Policy of no arrears.** The municipality follows a policy of having substantial liquidity buffers (200 million denars of reserves) and a policy of no arrears to outside parties.

**Correct communication with the municipal council.** Despite the political differences, the finance department reports correct relations with the municipal council members.

**Inter-municipal solidarity.** Strumica is one of those municipalities that show solidarity within the inter-municipal cooperation. It provides technical assistance to Dojran, Novo Selo, Vasilevo, and Demir Kapija, mainly in the area of communal inspection.

**High level of transparency.** The municipal website contains a wealth of easily accessible information on financial statements, current activities, ongoing public calls, regulations, public procurement announcements, etc.

**Social responsibility.** In terms of citizen-centered financial management, the municipality is very proud of having sufficient funds to finance civil society organizations (shelter center for victims of Gender-Based Violence in collaboration with UNDP). It also allocates around 10 million denars for fostering local economic development. The municipality is opening a Youth Cultural Center with a 2 million denar budget and has applied for a host of the 2025 Youth Conference in Europe.

**New challenges.** The 2022 municipal budget was revised three times to account for the substantial increase of electricity bills and costs for water supply.

**Untapped opportunities.** The municipality believes that a greater collaboration and coordination with the central government can improve the citizen-centered financial management and maximize the social impact on the local community. Presently, this synergy seems to be untapped.

## 2.3. Positive deviants among large municipalities

### Municipality of Kumanovo



**Municipal Profile.** Kumanovo is the largest urban municipality located in the northern part of the country. The population is estimated to be around 98,000 inhabitants. The municipal administration has 231 employees. Although the number of financial officials dropped from 14 employees in the Financial Affairs Department in 2017 to only 8 in 2020, the municipality has a notable percentage of budget realization of 87.8%. The good revenue performance was facilitated by a central government financial bailout and modest external funds. The municipality did not have any significant overspendings (neither on a cash nor on an accrual basis) in the analysed period (2017–2022). On average, only 1% of total budget expenditures are given as financial support to local CSOs. The participatory budgeting and bottom-up approach are in correlation, as the citizens, local businesses and CSOs are particularly involved in the process of creating the budget and their participation is well appreciated. Although severely understaffed (with one financial official per 13,750 citizens), the finance department has been preparing realistic budgets, regularly published on the municipal website in a highly accessible manner.

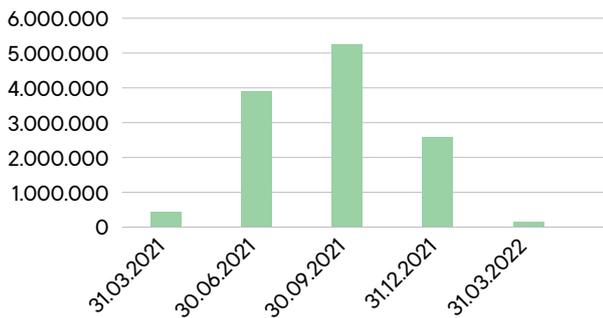
**Strong leadership.** For years, the Municipality of Kumanovo had a partially blocked transactions account during the 2013–2020 period. Only payments of wages and allowances and other essential expenditure were allowed from the current stream of revenues. Up until March 2020, the municipality was unable to meet large payment obligations, stemming from executive judicial decisions. Now, the municipality has literally no arrears. There has been a remarkable transformation from a financially fragile municipality into a financially strong municipality. Many stakeholders point out the strong municipal leadership.

**Realistic planning.** As in all other financially prudent municipalities, realistic planning is a key prerequisite of sound citizen-centered financial management. It is important to plan the revenue realistically so that the municipality will avoid generation of arrears and delays of projects.

**Significant rise of municipal revenue in the past four years.** The municipality devoted exceptional efforts on collecting the tax revenue and generating significant other own-source revenues (such as privatization proceeds). “All tax sources have been well tapped,” says the head of the finance department. The new regime in place was supported by strict and unbiased rules. The municipality would request a bank freeze of the accounts of non-compliant taxpayers for tax arrears higher than 15,000 denars.

**When it rains, it pours.** Once the local revenue increased, the municipality was able to reduce the stock of municipal arrears to almost zero (Figure 1). “Every invoice or bill is paid promptly,” highlights the head of the finance department.

Figure 2. Municipal arrears of Kumanovo (2021-2022)



Source: Ministry of Finance (July 2022).

**Paternalistic attitude.** Is it a financially prudent practice if the municipality steps in to help primary and secondary schools as well as local public enterprises? The intergovernmental transfers (block grants) for education are based on historical costs. They did not account for the spectacular rise of energy prices (gas, electricity, gasoline) in early 2022. To avoid accumulation of arrears and service delivery problems, the municipality of Kumanovo financially supported several schools and the financially constrained local public enterprise for water supply “Vodovod”- Kumanovo. Prevention of financial problems is deemed better than the cure: late payments of penalty interests.

**Expanding the development program.** In 2017, the financial envelope for the development program was 17 million denars. In the original 2022 budget it reached 400 million denars. The strong revenue increase enabled the municipality to support Local Economic Development (LED) thereby investing in a wealthier future.

## Municipality of Prilep



**Municipal profile.** Prilep is a large urban municipality located in the central southern parts, the northern part of the Pelagonija region. The municipality covers an area of 1,195 km<sup>2</sup> and is the largest municipality in terms of territory. The municipality includes 59 settlements. The municipality has an exemplary practice of participatory budgeting and a very strong and effective bottom-up approach (10 out of 10). High budget reporting standards are observed by 27 financial officers both in terms of transparency and relatively high execution of budget revenue (83%) and expenditure (80%), by national standards. The rich municipal website strengthens the perception of a positive deviant in terms of transparency. The municipality is recording small budget surpluses, although it did apply in 2018 for a government bailout of 50% of the outstanding arrears in the amount of 10 million denars. The capacity to mobilize external funds is very modest, at best. Loans were not used as a form of borrowing in the 2017–2020 period. Municipal administration per 1,000 inhabitants appears to be below the country average. On average, Prilep was allocating 0.9% of its total budget expenditure as financial support for building partnerships with local CSOs.

**Always ready for participatory budgeting.** Both leadership configurations of the municipality were ready for public consultations, direct meetings with the citizens. The municipal council is also very transparent in its work and provides public broadcast of its sessions.

**Politics and financial management.** The period under investigation encompasses two mayors and two different compositions of the municipal council, coming from different political affiliations. Not surprisingly, newly elected municipal council members would insist that “we are not that good”, whereas previous council members would feel proud of the achievements. The political polarization sometimes produces opposing perspectives on what the municipality of Prilep achieved during 2017–2020. To the best possible extent, we refer to reliable and quantitative data to “locate” the truth.

**Finance department is adequately staffed.** Both the finance officer and the municipal council member believe that the financial department has the adequate size with the required expertise of the financial officers.

**High property tax revenue collection rate.** The municipality of Prilep is especially proud of its high property tax collection rate (between 93% and 102% of the planned amounts).

**The blessing of geography.** The municipality has a lot of natural resources on its territory, whose exploitation (through concession) brings substantial fees for the municipal budget.

**Lack of realistic inputs in financial planning.** Most of the difference between the planned and realized revenue comes from the unrealistic planning of taxes on specific services. The urbanism department ambitiously plans around 60 million denars, but the actual collection is exceptionally low. This friction between the finance and urbanism department is considered as one of the weaknesses in the financial planning process. When the forecasts are unrealistic, expenditure allocations are also suffering.

**Experienced financial officer.** The financial management largely owes to an experienced financial manager.

**No new arrears.** Given the large stock of inherited arrears, the policy of the present leadership is no new arrears. The only growth of arrears is due to inclusion of previously omitted arrears for kindergarten.

**Reliable electricity provider.** The municipality had the luck of having a reliable electricity provider. The electricity costs are 10 ten times less than those that would have been obtained on the liberalized electricity market.

**Social responsibility.** The municipality provides subsidies for procurement of bicycles and invests in photovoltaics for the elderly home. The construction of a kindergarten is one of the most important investment projects, expected to be realized in three years with an estimated value of 133 million denars.

### Box 3. The special case of the Municipality of Shuto Orizari



**Municipal profile.** Shuto Orizari is one of the lowest-income municipalities within the capital, City of Skopje. The participatory budgeting practice is weak (grade 2 out of 5), but there are highly appreciated local initiatives taken with great consideration through the bottom-up approach (grade 8 out of 10). There are only three - but highly competent - financial officers in charge of the local budget in the amount of 260-286 million denars. The average budget realization is in line with country averages. The municipality is relying on moderate local borrowings, practicing prudent financial management, and low reliance on government bailout in 2018. As of 2019, the municipality started to tap external funds by establishing cooperation with the international development partners. This should be further extended, as the municipal revenue per capita and fiscal potential are weak. The municipal administration of 17 civil servants is simply inadequate to serve the needs for local public services by 25,726 inhabitants.

**Why Shuto Orizari?** It seems somewhat unusual to include the municipality of Shuto Orizari among financially prudent municipalities. After all, even when one approaches the municipal building, she or he cannot ignore the uncollected street garbage and heavily destroyed streets. Despite the very limited fiscal capacity and poor communal infrastructure, municipal efforts and prudent financial approach are admirable.

**Highly qualified finance professional.** Large part of the success of Shuto Orizari in the financial management process is due to a highly experienced finance professional, working in the area of local finance since 2004. Unfortunately, he is also involved in other operations (legal issues, matters of education, child protection, health, preparation of council meetings, etc.).

**Conservative approach to revenue forecasting.** The finance department follows a very conservative approach (sometimes even worse-case scenario) in revenue planning to ensure unnecessary commitments on the expenditure side and/or build-up of municipal arrears.

**Excellent cooperation with the mayor and municipal council.** Despite the different backgrounds of council members (sometimes even with very low education), the cooperation with the finance department is professional. The opinion and proposals of the finance department are highly appreciated.

**Correct professional relations with other municipal departments.** The administrative capacity is being built gradually, by a step-by-step promotion of the employees. This ensures correct professional relations with other municipal departments.

**Policy of no arrears.** The municipal policy is to avoid build-up of municipal arrears and to meet all payment deadlines. Good liquidity management requires sufficient buffers and reserves.

**Prudent attitude to second-line budget users.** The municipality also gives its best to impose fiscal prudence on second-line budget users, such as the primary school. If there were costly proposals from the schools, the municipality would require a major revision.

**Poor background, rich neighbourhood.** The municipality of Shuto Orizari is within the City of Skopje and as such is not entitled to funds for more even regional economic development. This territorial solution - the two-tier system of local government in the City of Skopje - puts the municipality in a disadvantage. However, the key personnel are highly enthusiastic, devoted, and willing to deliver high-quality local governance.

### 3. CONCLUSIONS

The list of outperformers or positive deviants is dominated by medium-sized municipalities in terms of population size. They appear to have an economically vibrant local environment and sufficient local expenditure to cover own and delegated competences. For instance, Kavadarci is the municipality with the lowest unemployment rate in the country and a strong fiscal capacity. These municipalities are simultaneously able to exploit economies of scale and deliver administrative services to a medium-sized local community. While population size matters, still, there are numerous features that positive deviants have in common.

For presentational convenience, we organize the key findings along the SWOT (Strengths, Weaknesses, Opportunities, and Threats) framework.

#### 3.1. Strengths

##### People

**“Leadership is defined by results not attributes”** (Peter Drucker). As in every organization, leadership is crucial for its success. In some cases, a strong mayor manages to transform a municipality with a blocked account into a financially prudent one. The leader inspires and motivates. She or he recruits high-quality professionals and accelerates the preferred transformation. As John Maxwell puts it, “a leader is one who knows the way, goes the way, and shows the way.”

**Institutionalization of charisma.** We identify cases of strong municipal leadership and strong leadership in the finance area. Both a strong mayor and/or a strong head of the finance department are conducive to citizen-centered financial management at the local level. In Weberian terms, we qualify this as charismatic leadership. This type of leader possesses the power of charisma (incl. experience and reliability) to rally diverse and conflict-prone people behind her or him. Her/his power comes from the enormous trust and faith people put in her/him. We sincerely hope that this charismatic authority will transform into legal-rational authority, i.e., one that is grounded in clearly defined laws and a merit-based career.

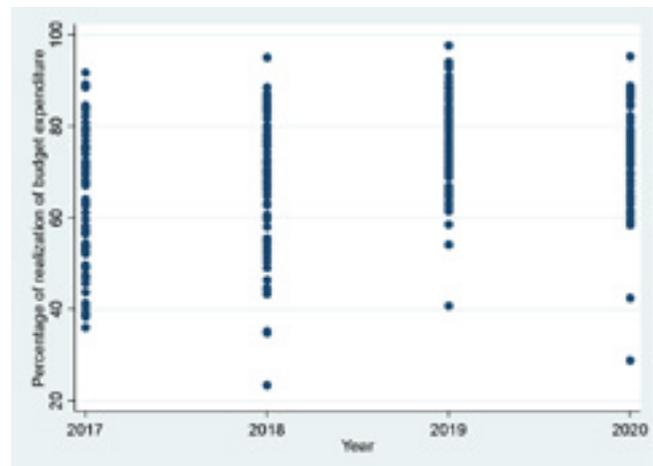
**High degree of integrity and professionalism.** The heads of finance departments (divisions) of successful municipalities are respected by mayors and municipal council members from different political affiliations. The key is to know when to say “no” to unfeasible initiatives, or at least to say, “not now”. This is important for designing a credible local budget, avoiding build-up of municipal arrears, and getting into unchartered financial territory.

**Integrity.** The finance departments are committed to integrity. They insist on observance of rules and procedures and defence of legality. If necessary to defend integrity, the finance departments enter into disputes with members of the municipal council or the mayor.

##### Tools and methods

**Real (not just formal) participatory budgeting.** Participatory budgeting in financially prudent municipalities (the positive deviants) is not only formal, or just for the sake of satisfying the legal requirements. Most successful municipalities organize frequent and in-person (formal and informal) meetings with all stakeholders and select important municipal projects by public consultations and even voting. The practice of organizing budget forums in different settlements is believed to be one of the most successful forms of participatory budgeting. The longer the experience with participatory budgeting, the higher the likelihood of citizens’ satisfaction.

**Realistic budget planning.** Realistic planning of local revenue and expenditure is the fundamental driver of sound citizen-centered public financial management. All finance departments praise the government cap of 20% and 30% on the planned own-source revenue increase for the next fiscal year, depending on the realization of planned revenue in the first three quarters. Putting a cap on next year’s increase of own-source revenue enables more realistic expenditure planning and prevents build-up of new municipal arrears. In some cases, knowing the electoral promises and municipal council ambitions, the finance departments followed a conservative approach to revenue planning. “It is easier to deal with cash surpluses, then with deficits”, underscored the heads of finance departments.



**Timely budget cycle.** Part of the success is due to the early start of the budget preparations in April for the next fiscal year. The employees in finance departments appreciate the practice of discussing a draft Budget with local stakeholders before a formal Budget Proposal is submitted for adoption. This provides sufficient time for more meaningful public consultations and in-depth analytical preparations of the local budget.

**Gender-sensitive budgeting practices.** The finance departments / divisions of positive deviants are proud to be involved in different initiatives to promote gender-sensitive budgeting, such as those provided by the country offices of UNDP and UN Women.

**The power of digital solutions.** Most cases of financially prudent municipalities (positive deviants) use a specialized financial management software. This software helps municipalities deliver major change, improve performance, drive financial efficiency by providing them several modules for financial operations.

**Mentorship of new employees.** Finance departments of the outperforming municipalities invest a lot of energy and time on mentoring new employees. They take a longer-term perspective and prepare them to ensure continuity of operations.

## Systems and procedures in place

**Building a more comprehensive tax records' database.** Finance departments made an outstanding effort to build a more comprehensive and reliable real estate database for tax purposes. This responsible long-term approach makes own-source revenue more stable and reliable and creates a room for realistic budget planning.

**Warnings and local revenue collection.** Most positive deviants invested a lot of effort in gentle reminders and warnings for the noncompliant taxpayers. One municipality frequently requested a bank freeze of the accounts of non-compliant taxpayers for tax arrears higher than 15,000 denars. This practice has been simultaneously combined with serious investment projects at the local level, aiming to raise taxpayers' awareness about the benefits of own-source revenue and high tax morale.

**Flexibility and adaptability.** Positive deviants immediately seize budget and donor-funded opportunities, or possibilities brought by legislative changes. They apply to various calls for capital transfers or external grants. They look for energy-efficient solutions and try to upgrade the out-of-date communal infrastructure.

**Relatively high realization of the local budget.** Positive deviants (success stories) have annual realization of LG revenue and expenditure that is above the national average for the 81 municipalities.

**Successful crisis management.** In an unfortunate event, a municipality lost all property and taxation records. Due to an exceptional effort in a short period, all electronic property records and tax obligations were recovered from the hard copy archives. The database of taxpayers has been restored in a short period.

**Beyond financial success.** Sound financial management is not a goal itself, but a means to provide reliable and sufficient funding for higher-quality local public services. Therefore, we highlight that **citizen-centered financial management at the local level** is what matters. Having no municipal arrears or building small buffers for unforeseen events are indeed features of good financial management. But the ultimate

goal is to secure funding for improving local governance. For example, the administration of the municipality of Centar works in sub-standard wooden barracks. Mayors and municipal council staff members could have decided to construct a new administrative building, but instead, they chose to finance numerous projects of local importance over the years. High-quality healthy meals and regular systematic health checks for pupils, financing a center for elderly care, subsidies for bicycles, construction of a kindergarten, etc. are some of the socially responsible activities that the municipality is proud of.

**Early warning systems in place.** Positive deviants also have early warning systems in place. This is not confined only to internal control or audit. Interested citizens or non-governmental organizations can spot a worrying development in the published datasets or reports and request corrective measures.

**Sound human resource management.** Positive deviants have a long-term strategic focus on employment. They recruit sufficient personnel in their finance department. In most cases, the number of employees in the finance department is considered as "appropriate". The positive deviants are very careful in the recruitment procedures, devote time and efforts on retaining quality personnel and invest in their education and training. Despite the financial constraints they do their best to improve the career perspectives of skilled and devoted financial officers.

## Environment

**Open datasets.** Sound financial management requires a high degree of transparency and accountability to all stakeholders (local citizens, the government, creditors, etc.). Positive deviants do have large and easily accessible datasets on their website. They also publish accompanying explanations to the numbers so that even a person without a technical background can grasp the main achievements and obstacles.

**Excellent public relations.** Communication of the municipal performance as well as of key challenges is also an important ingredient behind the financial success. Positive deviants have very good to excellent Public Relations which enables them to communicate with a larger audience.

**Satisfactory cooperation with the public procurement department (division).** Part of the success of positive deviants is due to the outstanding cooperation with the public procurement department or division. Well synchronized processes between the financial affairs division and the public procurement division lead to smooth implementation of municipal projects.

**Not popular, but respected.** The popularity of finance departments among other municipal departments is not on a high level. A finance department in a positive deviant often has the unpleasant duty to reject unrealistic expenditure programs or warn about unrealistic plans for revenue

collection (especially with regard to the fees for arrangement of construction land or sale of construction land). The relationship between the finance department and the urbanism department can be hostile.

**The power of good non-technical summaries.** One of the strong advantages of finance departments is their ability to provide and communicate non-technical summaries of the local budget (original or supplementary budget) and other financial documents. This ensures that municipal council members can contribute to the debate, besides their preference for particular local infrastructure projects.

### 3.2. Weaknesses

**Initial conditions (or the predecessor's curse).** Some municipalities had inherited poor financial management practices (high stock of municipal arrears, unregistered debts, etc.). The initial conditions matter a lot and determine the success of the next local leadership. In an environment of impunity for the weak financial discipline, it appears to be a pure luck to have a decent predecessor.

**No (certified) internal auditors.** The State Audit Office (SAO) frequently concludes in its financial and performance audits of local governments that in many municipalities there are no (certified) internal auditors. We also validated that point. In many cases, the municipalities do not have internal auditors, let alone certified ones. This situation increases the likelihood of (un)intentional mistakes in the financial management.

**Difficulties in intergovernmental coordination.** One of the most famous anecdotes is that the famous diplomat Henry Kissinger (presumably) has said: "Who do I call if I want to call Europe?" Similarly, municipalities do have problems in finding the appropriate contact and consulting the central government institutions. They often need urgent advice or clarification from the central government, but only strong informal channels of communication work.

**Revenue collection at any price?** We do not recommend additional municipal revenue generation at any price, especially not at the expense of sacrificing urban living standards, green spaces, air quality, acceptable noise levels, traffic safety, etc. We therefore do not consider revenue collection at any price as a municipal strength.

**Planned budget under-execution.** The lengthy and time-consuming public procurement procedures motivate some municipalities to plan their LG expenditure at an unrealistically high level. Even though the spending will not occur in the current fiscal year, they still want to budget a certain amount, finish the procurement procedure, select the most favourable economic operator, and prepare for the actual procurement (and spending) in the next fiscal year. This is a systemic weakness that affects many municipalities, including some of the positive deviants.

### 3.3. Opportunities

**Untapped donor opportunities.** Positive deviants are fully aware of the need to upgrade the human resource capacities for identification of grant opportunities and project applications.

**The blessings of geography.** Few municipalities have mineral and other natural resources on their territory, which are in strong demand. The municipalities could acquire more revenue from the allowances from exploitation of mineral and other natural resources. This could also be a significant own-source revenue, as long as the environmental concerns are being met.

**Human resource management.** Medium-sized and large municipalities have sufficient resources to invest in skilled personnel and ensure continuity in strategic decision-making and daily operations at the local level. Investing in human capital is a key for the long-term success of citizen-centered financial management.

### 3.4. Threats

**Employee turnover.** Highly skilled and experienced professionals in the finance departments are leaving the municipal administration to work for higher-paid positions in the state institutions or even in the private sector. Suddenly, a well-performing municipality in terms of sound financial management loses its key personnel and finds itself back to square one.

**Heavy dependence on a key employee.** Related to the previous observation, a heavy dependence on one person, who is experienced and a reliable professional, is a threat for the operations of the finance departments. Some municipalities do not see that losing a key employee would easily wipe out previous achievements.

**Significant generational change.** In more than half of the surveyed municipalities, key staff from the finance department either retired this year or will retire in the coming few years. The recruitment policy must ensure continuous and high-quality performance of the finance department. Employing young professionals that would work together and learn from the experienced ones is a key for long-term success.

**Diminishing revenue potential.** Large-scale emigration from many municipalities – both internal and abroad – erodes the fiscal capacity of the municipality. While this is a national demographic challenge, there are also numerous opportunities for local economic development to improve the liveability and sustainability of local communities.

**Lack of training opportunities.** One of the perceived threats for the financial affairs departments or divisions is the lack of training opportunities for financial management and career advancement. This could impede the success of the municipality in the medium and long term.

## 4. THE ROAD AHEAD

We organize the roadmap for building and/or maintaining a sound citizen-centered financial management along the key aspects of the process. Fragility of the municipalities remains persistent and even more accentuated in times of crises. The multidimensional crisis revealed that structural weaknesses can be exponential limitation factors for citizen-centered financial management at the local level. What we refer to in this study is the pre-crisis capacities for financial management with relatively low risks overall. This review covers only the initial stage of the Covid-19 pandemic in 2020, which resulted in a wave of budget revisions, budget reallocations as well as total expenditure overall. Still, we identified many vulnerabilities that were even more pronounced during the multidimensional crisis.

### Participatory Budgeting

- **All forms of participatory budgeting are beneficial.** Involving the citizens, local civil society sector, local businesses and other stakeholders in the decision-making process should be practiced in all possible forms. Even if participatory budgeting was not a legal requirement, the benefits for the local governance would outweigh the costs, time, and energy for organizing participatory events.
- **Early involvement.** Early involvement of these stakeholders in the budget planning cycle ensures sufficient time for inclusion of meaningful initiatives in the local budgets.
- **Gender-responsive budgeting.** Gender-responsive budgeting (GRB) deserves much more emphasis in the coming years. Gender inequality is often greater among the poor, both within and across municipalities. There are several reasons to promote GRB practices. First, the pandemic in 2020 and the multidimensional crisis in 2022 disproportionately hit women, especially single parents. Second, there is compelling evidence that the entry of women into economic and political activities (previously undertaken almost entirely by men) improves prosperity. Third, reduction of gender inequality not only leads to better observance of basic human rights, but also to more rapid economic development.<sup>3</sup>

<sup>3</sup> “Neither economic development nor women’s empowerment is the magic bullet it is sometimes made out to be. In order to bring about equity between men and women, in my view a very desirable goal in and of itself, it will be necessary to continue to take policy actions that favor women at the expense of men, and it may be necessary to continue doing so for a very long time” (Duflo, 2012). Duflo, Esther, 2012, “Women Empowerment and Economic Development,” *Journal of Economic Literature*, 50 (4): 1051-1079.

### Box 4. When is local democracy effective?

“Local democracy is effective when the following conditions are ensured:

- (1) inhabitants actively participate in local government elections
- (2) inhabitants supervise how the municipal council members keep their promises, this way, ensuring their accountability
- (3) inhabitants take an active stand while debating on important council solutions and provide constructive proposals
- (4) local government institutions make decisions taking the opinion of inhabitants into consideration
- (5) inhabitants have a right to participate directly in decision making through local referendums.”

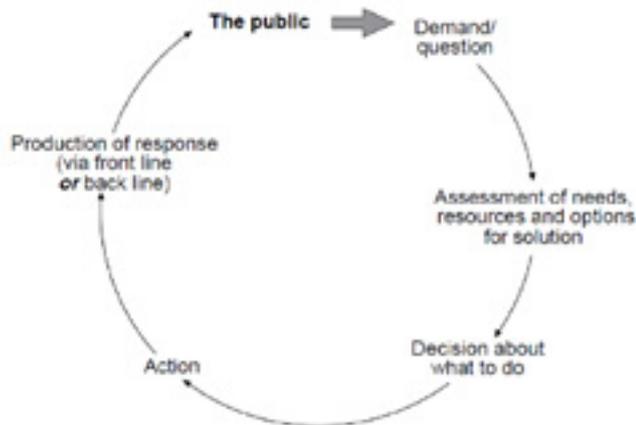
Source: Guogis, Arvydas & Gudelis, Dangis & Stasiukynas, Andrius. (2008). *The importance of the NGO-municipal relations in developing local democracy. A case study of two Lithuanian municipalities. International Review on Public and Nonprofit Marketing*, 5. 15-33.

- **Timely budget cycle.** The employees in finance departments should develop a practice of discussing the draft Budget with local stakeholders before a formal Budget Proposal is submitted for adoption.

### Bottom-up approach

- **Explaining the fiscal space.** Many initiatives by the local stakeholders may not be achievable, because they might be insufficiently informed about the available fiscal envelope. Communicating the approximate budgets for discretionary spending (the so-called fiscal space of the municipality) would facilitate the entry of more meaningful bottom-up initiatives.
- **The need for prioritization.** Competing proposals for local public investment should be ranked and if necessary, voted. Some investment projects serve a wider portion of the local communities, have higher priority, and have the potential to mobilize additional financial support by international development partners or the central government.
- **Balanced approach to local communities.** Increased sensitivity and responsiveness to local communities’ (e.g., villages or suburbs) preferences within the municipality ensures equity and equality and increases the chances for re-election.
- **Careful consideration.** Local stakeholders have a great capacity for pushing at the boundaries and evolving new ways of working for the municipality. Ensuring that all proposals receive the required attention is a key for building and strengthening the trust between the citizens and the municipality.

Figure 1. The service chain.



Source: Gaster (1996).

### Budget revisions per fiscal year

- ✎ **Poor planning undermines financial stability.** Frequent budget revisions generally indicate poor planning capacity. Poor planning of budget revenue has an impact on overly ambitious expenditure programmes. This also undermines the financial stability of the municipality.
- ✎ **Realistic budget planning.** Unrealistic planning of higher budget revenues always leads to poor expenditure management and built up of municipal arrears. Planning a rise of own-source revenue by maximum 10% or even 15% for the next fiscal year is a more prudent option, than expenditure cutting or accumulation of municipal arrears throughout the year. Even if the revenue is forecasted to stagnate (because of the worsened macroeconomic context), it is still better not to plan revenue increase, for the same reasons.
- ✎ **More realistic inputs in financial planning.** Most of the difference between the planned and realized revenue comes from the unrealistic planning of taxes on specific services. The urbanism department ambitiously plans higher revenue, but the actual collection is low. This friction between the finance and urbanism department is considered as one of the weaknesses in the financial planning process. When the forecasts are realistic, expenditure allocations will be more accurate.
- ✎ **Manipulative budget revisions.** Lengthy and time-consuming public procurement procedures motivate some municipalities to plan their LG expenditure at an unrealistically high level. Even though the spending will not occur in the current fiscal year, they still want to budget a certain amount, finalise the procurement procedure, select the most favourable economic operator, and prepare for the actual procurement (and spending) in the next fiscal year. This is a systemic weakness that affects many

municipalities, including some of the positive deviants. The Public Procurement Bureau should reconsider this systemic weakness in the practice and propose a remedy.

- ✎ **Budget revisions are sometimes unavoidable.** The budget revision itself is not necessarily bad if it is an outcome of a successful grant application or reasonable expenditure reprioritization.

### Publishing end-of-year financial reporting

- ✎ **The benefits of fiscal transparency.** Financial reports should be immediately published on the municipal website, at the moment they are approved or adopted. Financial transparency increases the likelihood that a concerned citizen, researcher, or NGO could notice unfavourable developments and suggest corrective measures. Representatives from many municipalities confirmed that prevention is better than the cure.
- ✎ **Comparability over time.** It is also good to present a historical average (three, four or five years) to see if the current developments substantially deviate from the past record.
- ✎ **Accrual-based reporting.** While most financial reports are cash based, including a section for the municipal arrears improves transparency and accountability of local public officials. Even if there is a rise in arrears, maybe some of the factors are beyond the municipal control. Even if they are within municipal control, the Ministry of Finance, international development partners (such as UNDP) or local NGOs can suggest ways to put a hold on debt accumulation.

### Searchable budget reporting

- ✎ **Comprehensiveness and clarity.** Financial reporting should be comprehensive, concise, and clear.
- ✎ **Readable, searchable, and accessible documents.** The documents should be in a readable and searchable format (.pdf, .doc, and .xls) for easier location and analysis of the parts of interest for the readers. Audio files for the summary of main financial reports will also expand the audience towards visually impaired citizens, but also other interested stakeholders.
- ✎ **Accompanying explanations.** Some limited explanation of the main changes is also necessary for citizens that do not have sufficient financial literacy but can understand key developments and key takeaways.
- ✎ **Useful summaries.** PowerPoint presentation with the key messages – along the financial management – will also be considered as a best practice in financial transparency and accountability.

## Overspendings

- **Arrears are also debt.** We differentiate between legal overspending (borrowing) and shadow overspending (accumulation of arrears). Both types of debt will be financed by future municipal revenues and should be equally dealt with caution.
- **Prudent attitude toward borrowing.** Loans should be taken with – as much as possible – wider support from the municipal council. They should be based on a thorough cost-benefit analysis of the investment project(s) being financed.
- **Debt reduction.** We strongly advise for allocation of part of the next year's budget (let us say 5%) for clearance of municipal arrears. The likelihood of court settlements of these municipal debts increases over time.
- **External audit.** Taking into consideration the latest State Audit Report for the municipality – or certain aspects of the system of local finance – is also a very important step in strengthening revenues and avoiding excessive overspending.
- **Internal audit.** Certified internal auditors are needed in the municipalities to strengthen local public financial discipline.
- **Increase revenue mobilization.** Overspending can be reduced over time by greater own-source revenue mobilization. For example, positive deviants collect property taxes with admirable devotion. They remind and warn tax payers of missed payment deadlines. After all, municipalities must know that part of the intergovernmental transfers (up to 0.75% of collected VAT (net) revenue in the previous year) from 2023 onwards will be allocated as performance-based grants. They will be directed to municipalities showing improvement in revenue collection compared to the average for the past three years.
  - **Building a comprehensive tax records' database.** Many municipalities desperately need a huge municipality-wide operation for building or updating property databases and tax records databases. Finance departments should build a more comprehensive and reliable real estate database for tax purposes. Some municipalities – such as Arachinovo – must exploit the inter-municipal cooperation for property tax collection (as it once was with the municipality of Butel). This responsible long-term approach makes own-source revenue more stable and reliable and creates a room for new projects of local importance.
  - Establishing a special commission for **market valuation of the property** also brings medium- and long-term net benefits in terms of local fiscal autonomy.

- **Reducing tax evasion and tax avoidance** of individuals improves tax morale and boosts local revenue collection.
- **Replacing out-of-date infrastructure and energy-intensive facilities.** Municipalities, second-line budget users and local public enterprises should embrace low-energy LED lighting and undertake building renovations to improve insulation and upgrade heating and cooling equipment. This process can be supported by a capital grants scheme from the central government.
- **Greater control on local public enterprises.** Loss-making local public enterprises not only deliver poor public services, but also drag many municipalities into arrears and debts. For example, the State Audit Office identified up to 85% leakage (losses) of drinking water in several local public enterprises for water supply. Poor management of local public enterprises seriously threatens financial stability of the municipalities. Establishing strong control on local public enterprises is a *must* in creating a financially prudent municipality.
- **Rebuilding buffers** for combatting future crises are important prerequisites for strategic citizen-centered management. Local budgets must ensure that they have reserves (buffers) for unforeseen events and circumstances. Time lags in central government decisions for possible financial support could lead the municipality into financial instability.

## Mobilizing external funds/resources

- **Successful and feasible grant applications.** Writing a grant application and implementing the project are two different successes. Municipalities should invest in training their personnel for designing grant applications and implementing donor-sponsored or co-financed projects. The benefits are visible even in the immediate term.
- **Outsourcing.** If the administrative capacities to prepare grant applications are low, the municipality could outsource NGOs or think tanks to help in drafting them. However, the ownership of the project financed by external funds must rest at the municipality.

## Partnerships with the Civil Society

- **Institutionalized cooperation matters.** Municipalities are linked with the civil society through: (a) financial links (grants, subsidies, shared premises) and (b) non-financial links (participatory bodies on voluntary basis at the local level (such as youth councils) and other forms of joint work (partnership agreements or memorandum of understanding (MoU)). Generally, if a degree of institutionalization is high, the relations between NGOs and municipalities are more stable.

- **Diversification is beneficial.** The existing evidence suggests that municipalities overwhelmingly support local sport clubs and local sport organizations as opposed to other types of ‘grass-roots’ non-governmental organizations. Supporting a wider range of local NGOs (diversification) can have a stronger footprint on the socio-economic and cultural development of the municipality. Also, it has the benefit of avoiding resource dependence of the NGOs and preventing potentially corrupt practices.
- **Competitive basis.** Best practices indicate that grants to the civil society should be allocated on a competitive basis, after a public call for proposals and careful ranking of the received grant applications.
- **Ex post evaluations.** Sponsoring ex post evaluations of the impact of grants is also beneficial in guiding future decisions for grant support in areas of high priority.

### Other non-financial factors

- **Use of a specialized financial management software.** There is a commercially developed financial management (accounting) software that could help municipalities deliver major change, monitor progress, improve performance, drive financial efficiency and effectiveness. However, its potential is limited. There is a need for a comprehensive financial management software tailor made for the needs of both local and central governments. Presently, the central government software (Integrated Financial Management Information System, IFMIS) is being designed for the Ministry of Finance in line with the newly enacted Organic Budget Law (OBL). A separate, but comprehensive, financial management software for the local governments should be designed and integrated with the IFMIS. ZELS-led initiative in this direction would be more than welcomed.
- **Finance and human resource management.** Positive deviants have a long-term strategic focus on employment. They recruit sufficient and quality personnel in their finance department. In most cases, the number of employees in the finance department is considered as “appropriate”. Maintaining an adequate number of financial officers and ensuring continuity in their operations (with overlapping work careers) is always a good investment. In this study, the positive deviants had strong leadership as financial officers. However, 50% of them just retired or are about to retire, which underscores the need for systematic building of the skills and human capital to ensure continuity of good practices.
- **Improving intermunicipal cooperation.** Whenever possible, the municipality should exploit the benefits of Intermunicipal Cooperation. Collection of property taxes and local fees, waste management, and firefighting services are few examples of potentially beneficial intermunicipal cooperation. Alternatively, a particular service (and

the corresponding institution) could become a central government responsibility, and the management and the funding of the institution should come from the central government (Ionescu and Belceva, 2019). Firefighting services are a good example for the second option, as they should be incorporated in the Disaster Response service of the national government.

# **Annex 1.**

## **Methodological Notes**

# 1. Participatory Budgeting

## 1.1. Estimated progress in participatory budgeting

Description: When citizens could make their needs known and hold public institutions to account, public resources are likely to be used more efficiently to deliver public goods and services that are better aligned with citizens' needs (Fölscher, 2007). Citizens have numerous benefits from the participatory budgeting process: involvement in financial planning, opportunity to express their needs and views, possibility to strengthen the responsiveness, transparency, and accountability of local governments, mechanism to improve local governance, and ultimately, their quality of life. The potential risks are that only interests of the most vocal and local lobby groups are taken into consideration (special interests as opposed to local community interests). If local stakeholders are not well informed about the available amounts for discretionary local government expenditure (the financial envelope for new proposals and initiatives), there is also a risk that participatory budgeting could turn into a collection of wish lists. If improvised, participatory budgeting could easily lead to disappointment and discouragement of local citizens and local civil society organizations (CSOs) for future participation as well as erosion of trust.

There is less consensus on what level of engagement is desirable and what form it should take. It can be in the form of: (a) public calls for consultations with interested citizens, civil society organizations, or local businesses regarding the next year's budget; (b) permanent budget forums or advisory groups (budgeting councils), (c) meetings with the local (urban/rural) communities (*mesni zaednici*), (d) online questionnaires, (e) informal conversations with citizens, etc. The activities with regard to participatory budgeting might not be entirely comparable during the 2017–2020 period, as participatory budgeting in the pandemic 2020 year was heavily constrained and mainly performed through online questionnaires. Participatory budgeting is prescribed by the law to ensure greater inclusion, involvement and contribution by the citizens and civil society organizations. Article 2 of the Law on Local Self-Government defines "direct citizen participation as an individual or collective involvement of local citizens in affairs of local importance at various levels of decision-making". Moreover, Chapter IV of the Law on Local Self-Government (Articles 25–30) outlines the expected forms of citizens' involvement. Article 21 (*Citizens' initiative*) of the new Law on Budgeting (in a second reading stage of the parliamentary procedure, to be adopted by end-December 2021 or early January 2022) requires from "the units of local self-government to establish mechanisms for participation of citizens in the process of proposing new initiatives, in the preparation of the strategic plans and the fiscal strategy". The Law on Financing Local Self-Government Units does not have provisions that regulate the participation of citizens in the procedures for conducting decisions of local importance. Moreover, there are no administrative sanctions for not involving citizens in the decision-making processes and for non-disclosure of information.

The desired situation (grade 5) encompasses activities, such as online questionnaires, meetings with representatives of local communities; meetings with local communities, citizens, and local civil society organizations, permanent budget forums and advisory groups (budgeting councils), etc. Most municipalities have only some of these forms of participatory budgeting.

The proposed grading scale is as follows:

**Table 1.** Estimated progress in participatory budgeting

Scale of progress	Grade
No activities related to participatory budgeting	1
Limited progress	2
Some progress	3
Moderate progress	4
Strong progress	5

**Data source:** Telephone survey of financial officers from all municipalities (conducted in November and December 2021, with reference to the 2017–2020 period).

## 2. Bottom-up approach

### 2.1. Perceived importance and helpfulness of local actors in provision of activities, suggestions, and initiatives

**Description:** Activist citizens, civil society organizations, and local businesses often propose activities and initiatives. However, only some of them will be incorporated in the budget at the respective municipality. According to the Law on Local Self-Government, there are numerous channels for advancing bottom-up initiatives: citizens' initiatives, gathering of citizens, referenda, proposals and/or complaints, public debates, surveys, and discussions of proposals. Other forms of civic engagement are: written proposals, emails, person-specific address, expression of initiatives on municipal profile on the social networks, requirements for meeting the mayor, requirements for attendance of municipal council's meetings, budget forums, etc. We measure this indicator by conducting a survey across all municipalities and ask municipal officers: "From your perspective, how important and helpful were the citizens, local civil society organizations, and local businesses in the process of budget preparation?" The collected responses are in the range between 1 and 10 (1=insignificant; 10=very significant).

**Table 2.** Perceived importance and helpfulness of local actors in the budget preparation process

#	Local actors	Insignificant									Very significant
A.	Citizens	1	2	3	4	5	6	7	8	9	10
B.	Civil society organizations	1	2	3	4	5	6	7	8	9	10
C.	Local businesses	1	2	3	4	5	6	7	8	9	10
	Bottom-up approach (A+B+C) / 3										

**Data source:** Telephone survey of financial officers from all municipalities (conducted in November and December 2021, with reference to the 2017–2020 period).

We also outline examples on municipalities where the citizens or civil sector had proposed activities / suggestions.

## 3. Budget revisions per fiscal year

### 3.1. Budget revisions per fiscal year

**Description:** Frequent budget revisions (supplementary budgets) throughout the fiscal year indicate difficulties / problems with the local public finance management and the budget process. Financial management problems might occur due to unrealistic revenue planning (usually before the beginning of the fiscal year, but also until the last quarter of the year) and/or the low administrative capacity to forecast local budget expenditure. The most common reasons for revisions of municipal budgets (enactment of supplementary budgets) throughout the year are the inadequate / unrealistic planning of the revenues (and subsequently, expenditures), the need to reallocate funds for other purposes, or new grants (donations) being allocated to the municipality.

The scale for assessment is designed to reflect progress, so that lower number of budget revisions per year lead to a higher grade. The grading scale is as follows:

**Table 3.** Frequency of budget revisions

Budget revisions per year	Grade
Six or more revisions in a year	1
Four or five revisions in a year	2
Two or three revisions in a year	3
One revision in a year	4
No revisions	5

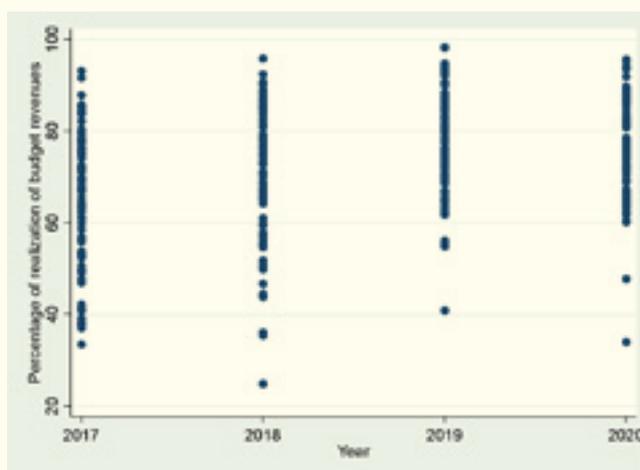
**Data source:** Municipal websites for fiscal years 2017, 2018, 2019 and 2020.

### 3.2. Supplementary indicator: Percentage of realization of the budget

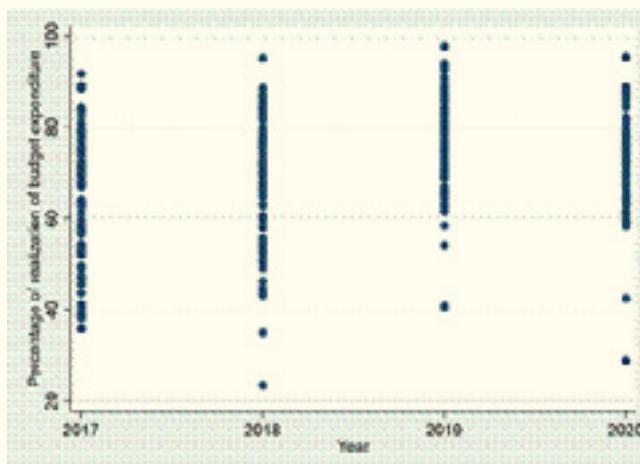
**Description:** Another indicator of the quality of the financial planning and of the budget process is the percentage of realization of the total budget revenues. The practice reveals that many municipalities unrealistically plan higher budget revenue for the forthcoming year, and subsequently increase their local budget expenditure. The budgets with unrealistically high planned budget revenues end up with significant municipal arrears (unpaid debts to private or public entities over 60 days). The percentage of realization of budget revenues varies a lot and is in the range between 24.9% and 98.2%. The average percentage of realization of planned budget revenues is 72.5% during the 2017–2020 period.

*Data source:* Ministry of Finance (2017, 2018, 2019, 2020).

Percentage of realization of budget revenues				
Percentiles	Smallest			
1%	35.5	24.9		
5%	44.5	33.5		
10%	52.8	34	Obs	324
25%	65	35.5	Sum of Mgt.	324
50%	74.75		Mean	72.51605
		Largest	Std. Dev.	13.98146
75%	82.9	95.6		
90%	88.1	95.8	Variance	195.4813
95%	91.9	98.2	Skewness	-.738435
99%	95.6	98.2	Kurtosis	3.243585



Percentage of realization of budget expenditure				
Percentiles	Smallest			
1%	35.2	23.5		
5%	44.3	28.8		
10%	51.6	34.9	Obs	324
25%	63.15	35.2	Sum of Mgt.	324
50%	72.25		Mean	70.69043
		Largest	Std. Dev.	13.51109
75%	80.3	94		
90%	86.2	95	Variance	182.5496
95%	88.5	95.3	Skewness	-.7248645
99%	94	97.6	Kurtosis	3.253382



## 4. Publishing end-of-year financial reporting

### 4.1. Published end-of-year financial reporting

**Description:** Publishing end-of-year financial reports (annual statements) on the municipal website is a key prerequisite for financial transparency and accountability. It is not a rare practice to find partial or even no financial documentation regarding the previous fiscal years. The scale for assessment is binary, as follows:

**Table 4.** Binary choice (published or not published)

Publication	Grade
No published end-year budget report	0
Published end-year budget report	1

*Data source:* Municipal websites for fiscal years 2017, 2018, 2019 and 2020.

## 5. Searchable budget reporting

### 5.1. Searchable budget reporting

**Description:** Published reports that are easily accessible in the websites of the institutions are important for location of key budget data. Sometimes the budget reports (annual statements, budgets, revised budgets, annual financial reports) can be located on the website with extreme difficulties. In other cases, the budget reports are easily found, but they are not published in a searchable format (for example, scanned photos or non-searchable .pdf format). In many cases, the budget reports are easily located, searchable and well elaborated.

**Table 5.** Searchable budget reporting practice

Searchable budget reporting practice	Grade
No end-of-year financial report	1
Published (but not searchable) end-of-year financial report	2
Searchable end-of-year financial report	3

*Data source:* Municipal websites for fiscal years 2017, 2018, 2019 and 2020.

## 6. Overspendings

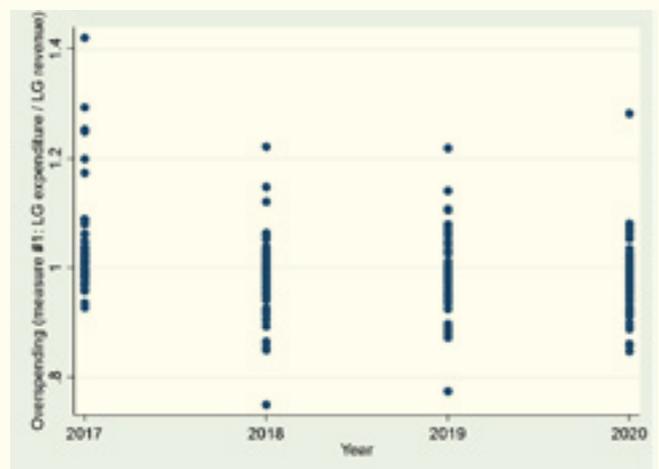
### 6.1. Excess expenditure over revenues

**Description:** Overspending by local self-government units can be calculated as a ratio between local government expenditure and local budget revenue. Municipalities with overspendings (higher LG expenditure) will have values for this ratio above 1, whereas municipalities with financial surplus will have ratios below 1. Municipalities with balanced local budgets will have the value of 1 for the ratio.

*Data source:* Ministry of Finance (2017, 2018, 2019, 2020).

$$\text{Excess expenditure} = \frac{\text{Local government expenditure}}{\text{Local government revenue}}$$

Overspending (measure #1: LG expenditure / LG revenue)				
Percentiles	Smallest			
1%	.850094	.7499549		
5%	.8931145	.7746726		
10%	.9274528	.847764	Obs	324
25%	.9709466	.850094	Sum of Wgt.	324
50%	.99355		Mean	.9945104
		Largest	Std. Dev.	.0671327
75%	1.010086	1.253535	Variance	.0045068
90%	1.05601	1.282248	Skewness	1.589778
95%	1.086828	1.293514	Kurtosis	11.87279
99%	1.253535	1.421031		



## 6.2. Local government budget balance as a share of total local budget expenditure

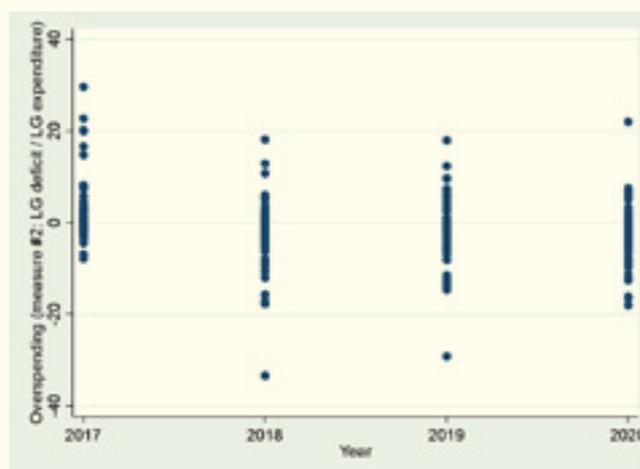
**Description:** Another way to capture overspendings is to calculate the ratio between local government budget balance (deficit or surplus) and the total local budget expenditure. Such an indicator would reveal to what extent municipalities rely on borrowings to finance a portion of their local government expenditure.

**Data source:** Ministry of Finance (2017, 2018, 2019, 2020).

*Share of local budget deficit/surplus*

$$= \frac{(\text{Local govmt revenue} - \text{local govmt expenditure})}{\text{Total local government expenditure}} * 100$$

Overspending (measure #2: LG deficit / LG expenditure)			
	Percentiles	Smallest	
1%	-17.63405	-33.34135	
5%	-11.96772	-29.08679	
10%	-7.822196	-17.95737	Obs. 324
25%	-2.991967	-17.63405	Sum of lgts. 324
50%	-.6491876		Mean -.9799123
75%	.9985635	Largest 20.2256	Std. Dev. 6.465312
90%	5.303891	22.012	Variance 41.80825
95%	7.989084	22.69119	Skewness .0545761
99%	20.2256	29.62855	Kurtosis 8.757306



## 6.3. Supplementary indicator: Outstanding municipal arrears

**Description:** Another strong indication of overspending is the amount of outstanding municipal arrears (unpaid obligations to private and/or public entities more than 60 days) at the end of the fiscal year. These municipal debts could climb up to 24 million euros, which is a significant amount given the size of their total local budgets.

**Data source:** Ministry of Finance (2017, 2018, 2019, 2020).

## 6.4. Central government bailout (in denars)

According to the analyses by the Ministry of Finance, national and foreign experts on decentralization, the main reason for rapid build-up of municipal arrears has been the possibility for planning unrealistically high local government revenues (even up to 50% more than the current fiscal year). Pursuant to the Law on Amending the Law on Financing of Local Self-Government Units ("Official Gazette of the Republic of Macedonia" no. 209/18 and "Official Gazette of the Republic of North Macedonia" no. 244/19), restrictions have been set in the planning of own revenues, that is, the own revenues of the basic budget of the municipality can be planned with an increase of up to 30% of the average revenues in the last three years, according to the data from the Treasury Department's records. Own revenues of the basic budget of the municipality are local tax revenues, non-tax revenues, capital revenues and transfers without the general-purpose VAT grant (Source: *Main Guidelines for Local Budget Preparation in 2021*, Ministry of Finance).

**Description:** In November 2018, the central government decided to provide a one-time financial support for payment of 51% of the total outstanding municipal arrears as of September 2018. The total amount was 3,032,383,086 Denars (equivalent to 49,307,042 Euros). The financial support was in accordance with the Law on Financial Support of the Local Self-Government Units and Unit Users established by the Local Self-Government Units for Financing the Outstanding Unpaid Obligations (Arrears), adopted on November 15th 2018 (Official Gazette 209/2018). As an exception, there was another round of government financial support only for Arachinovo on December 11th, 2020.

**Methodological remark:** This indicator can easily be normalized by dividing the government financial bailout with the municipal population, or with the total local government budget revenue in the particular year.

**Data source:** Law on financial support of Units of Local Self-Government and Local Budget Users established by Units of Local Self-Government for financing their arrears (Official Gazette 209/2018).

<https://vlada.mk/node/23516>

## 7. Mobilizing funds/resources

### 7.1. Mobilizing funds / resources

**Description:** The key indicator is the value of grants (donations) in denars registered on the municipal accounts during the 2017–2020 period. Since the size of grants could also be affected by the size of the municipality, we also normalize data. For instance, a grant of 50,000 Euros could make a lot of difference for a small municipality, but not much for a very large municipality. We calculate: (a) mobilized grants (in percent of total revenue of the municipality), and (b) mobilized grants per capita. The distribution of municipalities that mobilized funds/resources (in categories from 1=least successful, to 5=most successful) has been conducted by *K-means* clustering into five relatively distinct groups.

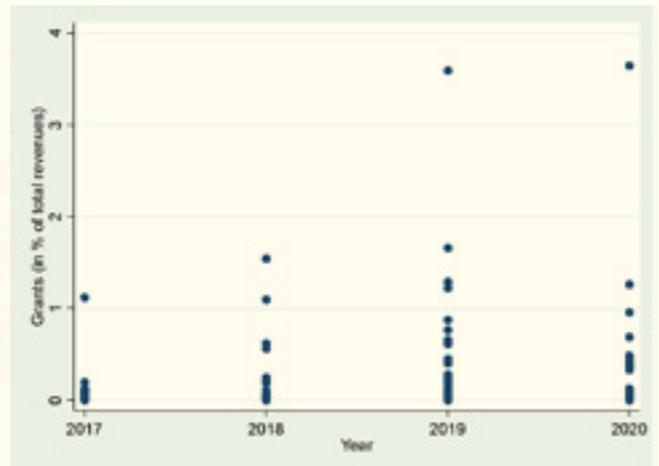
**Data Source:** Ministry of Finance of the Republic of North Macedonia (2017, 2018, 2019, 2020, December 2021).

$$\text{Revenue share of mobilized grants} = \frac{\text{Mobilized grants}}{\text{Total local government revenue}}$$

$$\text{Mobilized grants per capita} = \frac{\text{Mobilized grants}}{\text{Municipal population}}$$

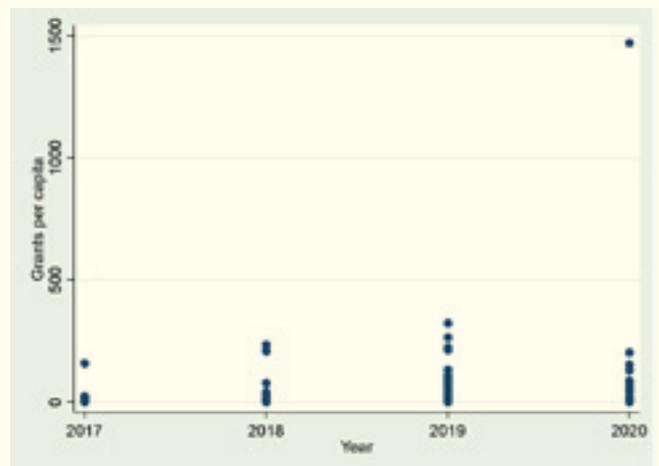
Grants (in % of total revenues)

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	324
25%	0	0	Sum of Mgt.	324
50%	0		Mean	.0997784
75%	.0267123	1.542763	Std. Dev.	.3617393
90%	.2213659	1.660294	Variance	.1308553
95%	.5627174	3.59178	Skewness	6.745938
99%	1.542763	3.64582	Kurtosis	59.16213
		Largest		



Grants per capita

Percentiles		Smallest		
1%	0	0		
5%	0	0		
10%	0	0	Obs	324
25%	0	0	Sum of Mgt.	324
50%	0		Mean	18.64376
75%	4.286517	234.0955	Std. Dev.	91.42941
90%	32.02189	264.274	Variance	8359.336
95%	87.23829	322.3943	Skewness	12.83547
99%	234.0955	1470.431	Kurtosis	198.7689
		Largest		



## 8. Municipality profile

Municipal profile encompasses a wide range of indicators: municipality size (number of inhabitants, total area, and number of settlements), total budget (LG revenue and LG expenditure in nominal terms and in per capita terms); number of administration employees (total number or per 1,000 inhabitants), number of employees in the finance department, municipal arrears per capita, municipal fiscal capacity, municipal fiscal effort, and many other indicators.

### 8.1. Municipality size (nr. of inhabitants)

**Description:** We provide data on the total number of inhabitants per municipality based on the Population Census conducted in 2002 and the most recent population estimates by the State Statistical Office for year 2019 (based on data from the Ministry of Internal Affairs).

**Data source:** State Statistical Office (2002 and 2021).

Population Census 2021				
Percentiles		Smallest		
1%	2086	2086		
5%	2725	2086		
10%	3420	2086	Obs	324
25%	5471	2086	Sum of Wgt.	324
50%	13585		Mean	29175.49
		Largest	Std. Dev.	60408.87
75%	37968	526502		
90%	62586	526502	Variance	3.65e+09
95%	77735	526502	Skewness	6.953082
99%	526502	526502	Kurtosis	57.13047

**Note:** Excluding the capital, City of Skopje.

### 8.2. Urban vs. rural municipalities

**Description:** Based on data from the State Statistical Office, municipalities are also categorized between urban and rural ones.

**Data source:** State Statistical Office (2017, 2018, 2019, 2020).

**Figure 1.** Absolute number of urban and rural municipalities (81 total)



### 8.3. Municipal area (in km<sup>2</sup>)

**Description:** Based on data from the State Statistical Office, we also provide data for the territory, i.e., municipal area expressed in square kilometers. There are significant territorial discrepancies in availability and quality of local services, particularly related to water and sanitation, waste management, road network, social services (education and social protection), central heating and gas supply, culture, and firefighting. An important discrepancy is between the urban and rural communities, as reflected by the larger number of populations satisfied with local services (only 33% in rural vs. 45% urban) (Adrian Ionescu, Policy paper on Decentralization in North Macedonia, UNDP, September 2018).

*Data source:* State Statistical Office (2017, 2018, 2019, 2020).

Area in km <sup>2</sup>				
	Percentiles	Smallest		
1%	4	4		
5%	25	4		
10%	49	4	Obs	324
25%	138	4	Sum of Wgt.	324
50%	242		Mean	326.6385
		Largest	Std. Dev.	264.684
75%	480	1194		
90%	682	1194	Variance	70057.64
95%	825	1194	Skewness	1.250349
99%	1194	1194	Kurtosis	4.393777

### 8.4. Number of settlements

**Description:** The number of settlements is also an important indicator for the design of the general-purpose VAT grant to the municipalities. Higher number of settlements creates a higher demand for local public services.

*Data source:* State Statistical Office (2017, 2018, 2019, 2020).

Number of settlements				
	Percentiles	Smallest		
1%	1	1		
5%	1	1		
10%	4	1	Obs	324
25%	12	1	Sum of Wgt.	324
50%	18		Mean	22.7284
		Largest	Std. Dev.	16.46237
75%	33	79		
90%	44	79	Variance	271.0096
95%	52	79	Skewness	.9777556
99%	79	79	Kurtosis	3.770428

## 8.5. Municipal Budgets

### Local budget expenditure in nominal and per capita terms

**Description:** Data on total local government budget expenditure is provided both in nominal terms (in denars) and in per capita amounts. To get a sense of the importance of local self-government, we underscore that local government expenditure in North Macedonia increased from 3.5% of GDP in 2006 to 5.3% of GDP in 2020. This is still very low by European standards, as the EU27 average is more than twice higher (11.7% of GDP). The upper tier of government (the central government) employs 51,072 civil or public servants, while the lower tier (local self-government units, LGUs) employs 35,208 employees (cut-off date: June 30th, 2021). If the employees from locally managed institutions in education, culture, child and social protection, are excluded, then the employees in the local self-government units reduces to 5,751 (source: MIOA, 2020).

Figure 2. Local government expenditure in North Macedonia and EU-27 (average), 2006–2020 (In percent of GDP)



Source: Eurostat and Ministry of Finance (October 2022).

Table 1. Number of employees at different tiers of government

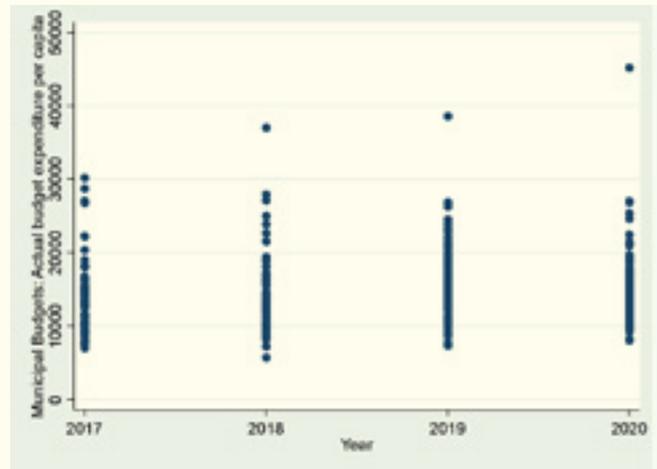
Year	Central level		Extra-budgetary funds		Local level		General government	
	Number of employees	Total Wage Bill	Number of employees	Total Wage Bill	Number of employees	Total Wage Bill	Number of employees	Total Wage Bill
2015	51,282	23,942,734,280	1,996	744,164,543	33,910	11,763,006,984	87,188	36,449,905,807
2016	51,347	25,178,849,049	2,088	777,979,022	34,191	12,018,106,602	87,626	37,974,934,673
2017	50,602	25,438,142,441	1,989	766,438,453	34,246	10,923,668,156	86,837	37,128,249,050
2018	50,722	25,610,020,222	2,036	745,372,562	34,842	12,563,760,680	87,600	38,919,153,464
2019	51,331	26,964,013,443	1,956	788,067,237	35,146	13,159,252,700	88,433	40,911,333,380
2020	51,406	28,927,448,605	1,963	846,909,137	35,198	15,145,933,696	88,567	44,920,291,438
2021	51,072	30,703,896,000	1,977	892,930,000	35,208	n/a	88,257	31,596,826,000

Source: Ministry of Finance (September 2021).

Data source: Ministry of Finance (2017, 2018, 2019 and 2020).

$$\text{Local government budget expenditure per capita} = \frac{\text{Local government budget expenditure}}{\text{Municipal population}}$$

Municipal Budgets: Actual budget expenditure per capita				
Percentiles		Smallest		
1%	7317.009	5744.019		
5%	8591.39	7024.643		
10%	9508.019	7211.882	Obs	324
25%	11469.46	7317.009	Sum of Mgt.	324
50%	14098.4		Mean	14760.3
		Largest	Std. Dev.	5078.781
75%	16760.76	30224.41		
90%	21030.04	37048.68	Variance	2.58e+07
95%	24559.29	38622.57	Skewness	1.768804
99%	30224.41	45224.55	Kurtosis	8.875641

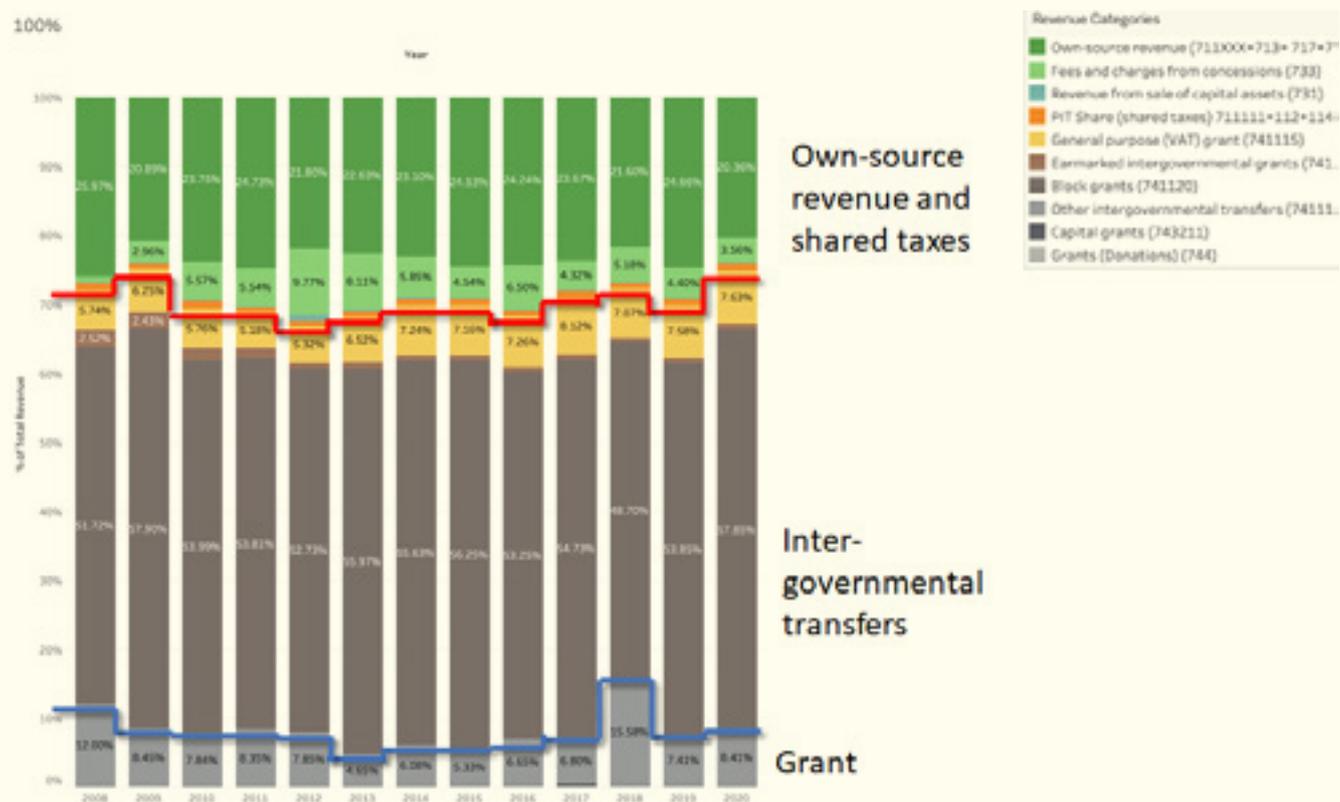


### Local budget revenue in nominal and per capita terms

**Description:** Data on total local government budget revenue is provided both in nominal terms (in denars) and in per capita amounts. It is important to note the limited autonomy in determining own revenues, with little incentives to improve tax collection. Own revenues of municipalities are made up of the property tax, local fees, and local charges, and they represent around 34% of total local government revenues, the rest being mostly state transfers (64%) and others (2%). The property tax, raising 0.5% of GDP, represents about 35% of the local tax revenues and has seen a slight decrease over the last 5 years. The property tax has the highest potential for growth, to at least double if compared with the international experience and neighboring countries (Ionescu, 2018). The low revenue autonomy is associated with lower budgetary discipline, less effort for local tax collection and the expectation of bailouts from the central government, all symptomatic in North Macedonia.

*High fiscal dependence on central government grants* is one of the key characteristics of the system of LG finance is the Intergovernmental fiscal transfers account for nearly two thirds (64%) of local government revenues, and they are critical to their ability to carry out most of their responsibilities (Figure 2). The system of financing assigned competences of the municipalities is not based on the principle of financing the functions, but on the principle of financing the institutions in education, child protection and social protection, and culture. Therefore, not all municipalities can enjoy the benefits of the decentralization processes.

Figure 3. Structure of LG revenue (2008–2020, In percent)



Source: Based on data from the Ministry of Finance (2021).

**Sizeable vertical and horizontal fiscal imbalances.** The intergovernmental transfer system uses different types of instruments through which the central government provides funds to local authorities: shared taxes (Personal Income Tax), general purpose transfers (grants), conditional (block or earmarked) grants, and capital transfers. The transfers pursue several objectives: to improve the vertical fiscal balance, allowing sufficient funds for managing local functions; to improve the horizontal fiscal balance between local governments by providing support to poorer communities through equalization; to fund national priorities (in delegated or shared services like education, social protection, health, emergency response, etc.) and/or to compensate for externalities between jurisdictions in provision of local public services (e.g., when firefighting services are provided in a neighboring municipality).

**General-purpose VAT grants.** The existing formula for distribution of 4.5% of average collection of VAT (net) revenue in the past three years is a type of equalization grant, albeit with a modest equalization effect. This pool of funds assigns first a fixed amount (MKD 3 million) to each municipality. The remaining variable amount is split in the following proportion: 88% to be allocated to municipalities outside Skopje and 12% to the City of Skopje and the municipalities within the City of Skopje. The 88% goes to the municipalities outside Skopje using an allocation formula based on weighted factors: 65% for population, 27% for (land) area, 8% for the number of settlements. The 12% is divided in a way that 40% is allocated to the City of Skopje and 60% to the 10 Skopje municipalities proportionately to their population. This formula achieves a certain degree of equalization, since it uses an acceptable measure of expenditure needs (population, land area, number of settlements) but it does not address the differences in economic conditions. Recent reforms include the introduction of a portion of net VAT revenue (0.25% in 2022, 0.5% in 2023 and 0.75% in 2024) for equalization grants based on fiscal capacity and the same percentages of VAT (net) revenue for performance-based grants. This new reform is a good example of successful coordination at the central level (Ministry of Finance) and the local level (ZELS and the municipalities).

**Block grants** are being used to finance institutions in education, culture, early childhood protection and protection of elderly people. The system of financing of assigned competences is not based on the principle of financing functions, but rather, institutions from education, child protection, social protection, and culture.

**Table 3.** Size of the intergovernmental transfers in the Supplementary Budget for 2021 (In denars and in percent of total transfers)

Type of intergovernmental transfers	In denars	Share (in %)
1. General-purpose VAT grant	2,238,000,000	10.5
2. Earmarked grants	406,700,000	1.9
Earmarked grants for primary education *	3,200,000	0.0
Earmarked grants for firefighters	403,500,000	1.9
3. Block grants	18,684,331,000	87.6
Block grants for primary education	11,220,800,000	52.6
Block grants for secondary education	5,026,000,000	23.6
Block grants for culture	352,330,000	1.7
Block grants for child protection	2,034,834,800	9.5
Block grants for elderly care (nursing homes)	50,366,200	0.2
<b>Total (1+2+3)</b>	<b>21,329,031,000</b>	<b>100</b>

**Note:** \* Refers only to the municipality of Plasnica. Source: Ministry of Finance (September 2021).

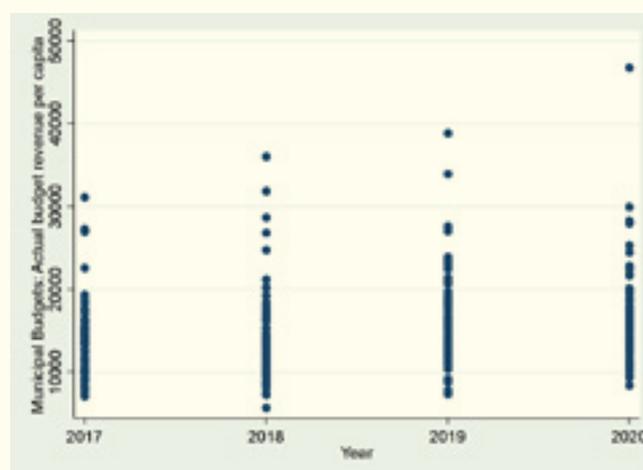
On average, during the 2017–20 period, around 1 billion denars (equivalent to 16.5 million Euros) were *capital transfers* from the central government to the municipalities. These government programs and development sub-programs were financed by the Government, the Ministry of Defence, the Ministry of Finance, Ministry of Environment of Physical Planning, Ministry of Transport and Communications, Ministry of Culture, Ministry of Local Self-Government, the Bureau for Balanced Regional Development, and the Agency for Financial Support of Agriculture and Rural Development (SAO, 2021).

In sum, even though municipalities and ZELS insist on the legal opportunity for municipal planning of LG budget revenue with maximum 50% annual increase in the next fiscal year, this would be an inappropriate solution. Many municipalities plan unrealistically high revenue, increase their budget expenditure accordingly, and generate new arrears (municipal debts). The newly introduced system of performance-based grants which rewards municipalities with increase in own-source revenue collection will partly mitigate the problem. The Ministry of Finance and ZELS together should even reconsider the threshold of 30% for higher planned revenues and revise it downwards to promote a culture of realistic budget planning and fiscal discipline.

**Data source:** Ministry of Finance (2017, 2018, 2019 and 2020).

$$\text{Local government budget revenue per capita} = \frac{\text{Local government budget revenue}}{\text{Municipal population}}$$

Municipal Budgets: Actual budget revenue per capita				
Percentiles		Smallest		
1%	7379.784	5727.119		
5%	8719.171	7885.361		
10%	9641.457	7289.634	Obs	324
25%	11835.72	7379.784	Sum of Ngt.	324
50%	14297.5		Mean	15164.8
			Std. Dev.	5325.568
75%	17152.91	33945.58		
90%	21433.52	36026.82	Variance	2.84e+07
95%	25337.93	38851.15	Skowness	1.763149
99%	33945.58	46758.32	Kurtosis	8.543854

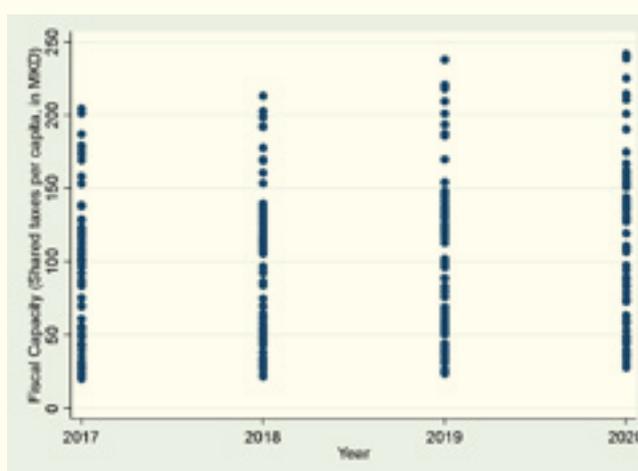


## 8.6. Fiscal Capacity of the Municipality

**Description:** Fiscal capacity is defined as the potential revenue that a municipality can collect from its revenue (tax) base, under standard tax rates, and using an average level of effort for revenue collection. In the model proposed by Ionescu and Stojkov (2021), fiscal capacity is calculated based on the share of Personal Income Tax (PIT) collected on the territory of the municipality. Shared PIT taxes refer to the revenue collected from 3% of the personal income tax from wages of individuals that are residents of the municipality (Art. 5 of the Law on Financing the Units of Local Self-Government). Ideally, the fiscal capacity would also consider the assessment of the housing stock to capture the wealth generated by both formal and informal sectors, but data is not available.

*Data Source:* Ministry of Finance, 2017, 2018, 2019, 2021.

Fiscal Capacity (Shared taxes per capita, in MKD)			
Percentiles		Smallest	
1%	22.1186	20.16428	
5%	28.61408	21.83083	
10%	34.39166	22.00153	Obs
25%	55.89829	22.1186	Sum of wgt.
			324
50%	112.609		Mean
			114.6178
		Largest	Std. Dev.
75%	153.4816	241.1185	63.5884
90%	213.2181	241.1185	Variance
95%	238.0417	241.1185	4043.485
99%	241.1185	241.7559	Skewness
			-.4145852
			Kurtosis
			2.176088



## 8.7. Number of administration employees

**Description:** The total number of administration employees in the Municipality is based on the annual reports of the Ministry of Information Society and Public Administration. Data on employees based on temporary work contracts (short-term agreements) is not publicly available neither on the websites of the municipalities nor in the official database of the Ministry of Information Society and Public Administration.

*Data source:* Ministry of Information Society and Public Administration (2017, 2018, 2019, 2020).

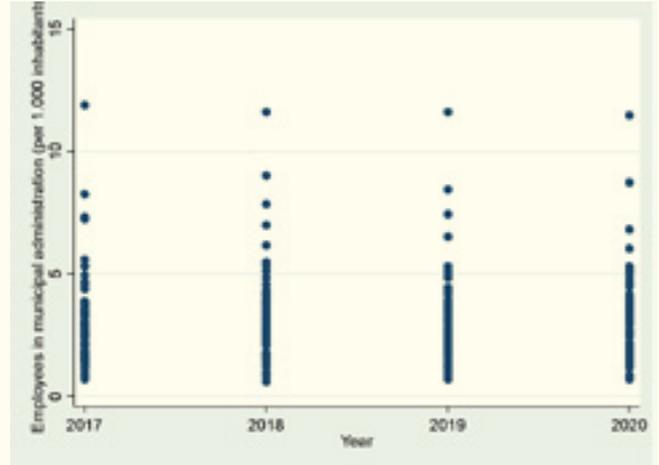
### Employees in municipal administration (per 1,000 inhabitants)

**Description:** Since municipalities vary in size, the total number of administration employees in the municipality can be adjusted by normalization with the size of population. For instance, the indicator employees in municipal administration (per 1,000 inhabitants) could provide a better overview of the administrative capacities.

*Data source:* Ministry of Information Society and Public Administration (2017, 2018, 2019, 2020).

$$\text{Employees in mun. admin. (per 000)} = \frac{\text{Employees in municipal administration}}{\text{Municipal population}} * 1000$$

Employees in municipal administration (per 1,000 inhabitants)			
Percentiles	Smallest		
1%	.69	.6	
5%	1.18	.6898396	
10%	1.34	.69	Obs 324
25%	1.838351	.69	Sum of Mgt. 324
50%	2.645		Mean 2.996816
75%	3.525604	Largest 11.48299	Std. Dev. 1.745156
90%	4.93	11.62	Variance 3.04557
95%	6.032818	11.62	Skewness 2.18553
99%	11.48299	11.9	Kurtosis 10.13692



### Employees in municipal administration and all institutions established by municipalities (per 1,000 inhabitants)

**Description:** In addition to the employees in municipal administration (per 1,000 inhabitants), the Ministry of Information Society and Public administration also publishes data for 2017, 2018 and 2019 only for all employees in local institutions. The total number of employees refers to full-time employees, excluding those with short-term contracts. Unfortunately, the Ministry of Information Society and Public Administration has discontinued publishing this data for 2020, so only data for the 2017–2019 period exist.

**Data source:** Ministry of Information Society and Public Administration (2017, 2018, 2019, 2020).

$$\text{Empl. in mun. admin. and all local institut. (per 000 )} = \frac{\text{Empl. in mun. admin. and all local institut.}}{\text{Population}} * 1000$$

### Employees in the municipal administration (per 1,000 inhabitants) compared to group average

**Description:** This is a derived indicator that compares the value with the group average for municipalities of similar population size.

**Data source:** Ministry of Information Society and Public Administration (2017, 2018, 2019, 2020).

**Ratio**

$$= \frac{\text{Employees in mun. admin. (per 000 )}}{\text{Group average for the employees in mun. admin. (per 000 ) in municipalities of similar size}}$$

## Employees in the municipal administration and all institutions established by municipalities (per 1,000 inhabitants) compared to group average

**Description:** This is a derived indicator that compares the value with the group average for municipalities of similar population size. Unfortunately, the Ministry of Information Society and Public Administration has discontinued publishing this data for 2020, so only data for the 2017–2019 period exist.

**Data source:** Ministry of Information Society and Public Administration (2017, 2018, 2019, 2020).

**Ratio**

$$= \frac{\text{Employees in mun. admin. and all local institutions (per 000)}}{\text{Group average for the employees in mun. admin. and all local inst. (per 000) in municipalities of similar size}}$$

## Number of employees in the financial sector of the municipality

**Description:** This indicator is closely associated with the administrative capacity for local public finance management. The financial affairs department commonly consists of Division for Financial Affairs and Division for Local Taxes and Fees, and often, an Internal Audit Division.

**Data source:** Interviews with heads (on very few occasions with civil servants) from the Financial Affairs Departments of each municipality regarding the 2017–2020 period.

## 9. Partnerships with Local Civil Society Organisations

### 9.1. Partnership with Local Civil Society Organizations

**Description:** Building local principle-driven and legitimate coalitions with other civil society organizations is a very important pillar of local governance. One proxy for this indicator is the total value of transfers to civil society organizations from the municipal budgets, expressed both in per capita terms and as a percentage of total local government budget expenditure. Not all municipalities have a registry of all memoranda and agreements of cooperation with local civil society organizations, which undermines comparability across municipalities.

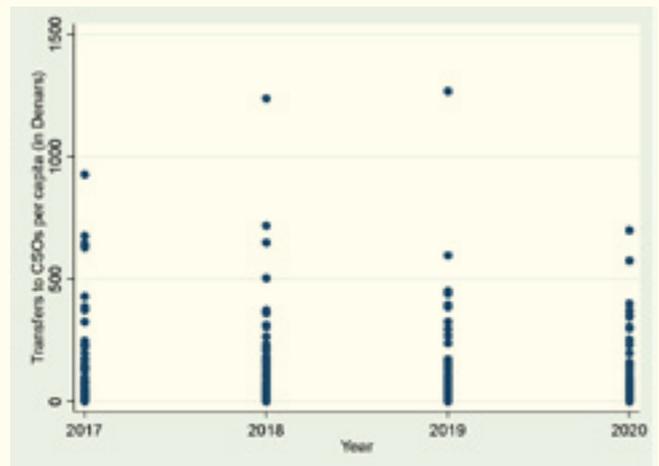
*Data source:* Ministry of Finance (2017, 2018, 2019 and 2020).

$$\text{Transfers to CSOs per capita} = \frac{\text{Transfers to CSOs}}{\text{Municipal population}}$$

$$\text{Share of transfers to CSOs} = \frac{\text{Transfers to CSOs}}{\text{Total Local Government Budget expenditure}}$$

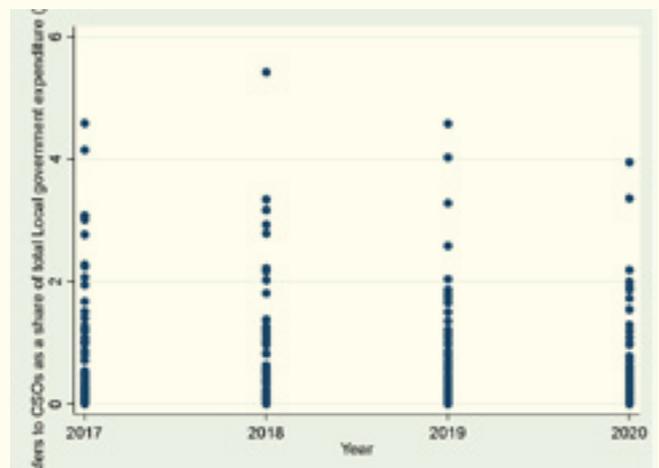
Transfers to CSOs per capita (in Denars)

Percentiles	Smallest		
1%	0	0	
5%	0	0	
10%	0	0	Obs. 324
25%	13.03448	0	Sum of Wgt. 324
50%	52.03252		Mean 106.7303
75%	122.3115	717.9529	Std. Dev. 166.9936
90%	295.9425	926.8977	Variance 27886.87
95%	395.6412	1238.029	Skewness 3.478169
99%	717.9529	1267.72	Kurtosis 19.07341



Transfers to CSOs as a share of total Local government expenditure (in percent)

Percentiles	Smallest		
1%	0	0	
5%	0	0	
10%	0	0	Obs. 324
25%	.1031997	0	Sum of Wgt. 324
50%	.3808855		Mean .6778084
75%	.9672832	4.150961	Std. Dev. .8859817
90%	1.795902	4.580264	Variance .7849635
95%	2.76755	4.588289	Skewness 2.338023
99%	4.150961	5.422782	Kurtosis 9.274959



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- Mr. Drage Zvezdakoski, Head of finance division, Municipality of Prilep
- Ms. Belmira, Head of Finance Department, Municipality of Centar
- Mr. Gordan Simonovski, Municipal Council Member, Municipality of Centar
- Ms. Aleksandra Lazarevska, Municipal Council Member, Municipality of Kumanovo
- Ms. Valentina Mladenovska, President of the Budget Commission, Municipal Council Member, Municipality of Kumanovo
- Ms. Irena Ilievska, Head of Finance Department, Municipality of Kumanovo
- Mr. Todor Efremov, Secretary of the Municipality of Kavadarci
- Ms. Canka Jovanovska, Head of finance department, Municipality of Kavadarci
- Mr. Stojanche Nikolov, Mayor of the Municipality of Rosoman
- Mr. Ratko Stamenov, Head of Finance Division, Municipality of Rosoman
- Mr. Dancho Arsov, Head of finance department, Municipality of Shuto Orizari
- Mr. Sadat Arifi, Head of finance department, Municipality of Gostivar
- Mr. Time Komarov, Head of Finance Division, Municipality of Strumica
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