



FISCAL Network:

Enhancing dialogue for higher municipal financial transparency, with focus on parafiscal charges

FINANCIAL TRANSPARENCY AND REPORTING AT THE LOCAL LEVEL



This project is funded
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July 2022, Skopje



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INTRODUCTION

The transparency and reporting of local government units (LGUs) and municipal public enterprises represent a significant segment in the overall transparency and reporting of the public sector in the Republic of North Macedonia. The concept of transparency in the broadest sense of the word implies an open way of informing citizens, enterprises, non-governmental organizations about the method and degree of implementation of specific measures and policies. The report, as a complementary principle with the principle of transparency, represents a framework of responsibility in explaining the decisions, measures, potential activities, as well as presenting and availability of detailed information related to the undertaken obligations and the degree of their realization.

The management of local finances is carried out by LGUs through various activities, which include the collection, distribution and realization of financial assets in order to achieve the previously foreseen activities, measures and policies, and therefore satisfy the needs of citizens and companies. The LGU budget is a basic instrument through which the previously planned activities, measures and tasks of the local self-government are realized. The realization of the LGU budget is based on specific rules and regulations, which should be respected during the management and implementation of municipal finances. In the collection of municipal revenues on various grounds (especially in the form of taxes), as well as in the distribution of municipal expenses for different purposes, LGU representatives must adhere to appropriate measures and rules, which will enable the realization of funds on a proper, ethical, economical, transparent and efficient way.

Given the fact that in this research the focus is on financial and budget transparency, its scope can be analyzed through the prism of the degree of openness and public availability of information of municipalities / public municipal enterprises to citizens, business entities and non-governmental organizations, related to realized fiscal activities, as well as future planned activities and budget revenues and expenditures. Hence, although the concept of budget and fiscal transparency is in a way identified, it must be emphasized that there are certain differences between the two concepts. Namely, budget transparency is a narrower part of financial transparency. Budget transparency covers budget reports and documents within the budget process of municipalities, while fiscal transparency also focuses on other fiscal activities, regulations and procedures of LGUs.

Considering the abovementioned, the analysis is further structured in a way that we first review the relevant legal framework and empirical literature in the area, as well as the methodology used in the analysis of transparency and reporting of municipalities. We further elaborate on our methodological approach designed to make an appropriate contribution to analysis and policy in this area without significantly duplicating existing research. The research is divided into two parts. First, the analysis of the budget and key financial indicators for municipalities and public enterprises is presented, which is the first attempt of its kind. Second, the

analysis of active transparency and accountability of municipalities and public enterprises is presented based on analysis from their websites. Finally, the key concluding observations and key recommendations are presented, especially for municipalities and public enterprises.

With this project, a unique database has been created which can be used in further analysis of the case for municipal public enterprises and can continuously be updated and improved. In addition to the database, another one containing all documents from municipal PEs used to fill in this database was created.

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1. OVERVIEW OF THE LEGAL FRAMEWORK AND RELEVANT LITERATURE

The legal framework in which fiscal/budgetary activities of municipalities and public enterprises are carried out, as well as the degree of transparency, openness and timeliness of all relevant fiscal information, consists of several legal solutions. The most relevant are, the Budget Act, Law on the execution of the budget of R. Macedonia, Law on Local Government Units, Law on financing Local Government Units, Law on Public Internal Financial Control, Law on Accounting for Budget and Budget Beneficiaries, The Legal Regulation on Good Governance, The Law on Free Access to Public Information, The Law on using data in the Public Sector.

The budgetary objectives and principles defined in Article 3 of the Budget Act are a guide to the good and transparent management of public finances in the Republic of Macedonia. In accordance with Article 3, paragraph 2 of the Law emphasises the basic principles on which the municipalities should be drafted, adopted and implemented. Among other principles, Article 3, paragraph 2 implies the principle of transparency. Transparency implies public access at all stages of preparing and executing the budget. Hence, the principle of transparency requires the budget of municipalities, its amendments and additions, execution and budgetary documentation to be published in the Official Gazette, i.e. in the official medium or on the website of the municipalities. Furthermore, a register of public entities is established for the first time under the new Budget Act, which will be publicly available. The purpose of this register is to record all legal entities established directly or indirectly by the state or municipalities and thus ensure comprehensiveness and transparency for all public entities, whether at central or local level. In terms of improving transparency with the latest amendments to this law, new deadlines for the budget process are also envisaged to move the timeframe for budget preparation, with the aim of greater predictability, public involvement and transparency.

Article 8 of the Local Government Act details the way the public is informed. Paragraph 1 of Article 8 emphasizes: «The bodies of the municipality, council commissions and public services established by the municipality are obliged, without compensation, to inform the citizens about their work, as well as about the plans and programs that are significant for the development of the municipality, in a manner determined by the statute». Paragraph 2 of this article emphasizes: «The municipality is obliged to provide citizens with access to basic information about the services it provides, in a manner and under conditions regulated by the statute.» This law contributes to the direct improvement of transparency and accountability in the operation of municipal authorities, public services and the commissions of the council of the municipality.

The law on the use of data from the public sector regulates the manner, rights and obligations of the bodies and institutions from the public sector for

publication of the data they received as a result of their operations, as well as their availability and enabling their use by citizens, companies and non-governmental organizations. Article 2 of the Law defines that the use and application of data from the public sector is aimed at increasing the accountability and transparency of the operations of the public sector, improving the quality of data from the public sector, creating additional services, jobs and improving the degree of social inclusion. Hence, it can be concluded that, in addition to other goals, Article 2 of this law directly affects the improvement of reporting and transparency in the operation of the public sector, as well as the improvement of the quality of data from the public sector. Furthermore, Article 5 of the Law emphasizes the need, but also the obligation, of public institutions, to publish their raw data in a computer-processing format in addition to a readable format, as well as making it available in an open format together with their database (metadata) to the lowest level of detail. Article 5 of the Law states in detail: «The format and metadata should be compliant with formal open standards for ensuring software interoperability.» Article 9 of this law emphasizes that the use of data from the public sector is free, and the use of published data from the public sector is free.

The existing legal framework largely regulates the transparency and accountability of municipalities. It refers to the budget transparency and reporting of the municipalities, but it also refers to the plans, activities and services of the municipalities. However, despite this way of legally regulating the transparency and reporting of municipalities, there are municipalities that do not comply with the legal provisions.

In 2021, the Metamorphosis Internet and Society Foundation calculated the LGU Openness Index, according to which the characteristics of local government are evaluated in four areas: transparency, awareness, accessibility and integrity, and one common element is present in all of them - open data. The average result of LGUs, according to the Openness Index, for 2021 is 25 percent, which is a low level of openness in the operation of local authorities. The municipalities have the highest average score for the indicators in the area of transparency, 32 percent, and the lowest average score in the area of awareness, 13 percent. The last low awareness score indicates that LGUs have poor quality of policy planning, programming, monitoring and evaluation.

On the other hand, since 2016, the Center for Civil Communications has been producing an Index for active transparency of ministries, the Government and municipalities. Whereby «active transparency» implies the publication of information on the own initiative of the institutions (municipalities), without anyone having submitted a request for access to that information. The methodology and structure of the questionnaires from this research is based on the legal obligations that institutions have for publishing information on their websites, which serves as an indicator of how much they comply with the legal provisions. According to this index, in 2021 the active transparency of municipalities is 60 percent (out of a maximum of 100 percent) and it is lower than the active transparency of ministries, which is 79 percent. The percentage of compliance with the obligations that most often arise from the Law on Free Access to Public Information in the municipalities is 73, while in the ministries

and the Government this percentage is higher, 91. Regarding the publishing of information on the issues that are in their competence, as well as for services, municipalities have an average fulfillment of obligations of 42 percent, while ministries twice as much, 86 percent. In the active publication of information in the area of budget and fiscal transparency, the municipalities fulfill 57 percent, and the ministries 60 percent of the obligations.

The Center for Economic Analyzes (CEA) in its 2021 survey stated that the fiscal transparency of municipalities in N. Macedonia, has improved in the 2020-2021 fiscal year compared to past fiscal years. The statute of the municipalities, the final account and the adopted budget continue to be the most accessible documents among the municipalities on their websites, an improvement has been noted in terms of availability of the annual report on the operation of the municipality. In the fiscal year 2020-2021, 51 percent of municipalities conducted a citizen engagement forum, compared to 35 percent in the previous fiscal year. However, only a small number of municipalities conduct forums for local economic development (LED) where citizens have the opportunity to express ideas and attitudes related to the economy at the local level have the practice of doing so, in addition to budget forums. In 2021, 47 percent of the municipalities reported to the citizens on the activities undertaken and implemented (38 percent in the previous year). Municipalities usually link that report with the annual report on the operation of the municipality, which is not a very practical way due to the volume and large amount of information in it. Furthermore, the crisis caused by covid-19, which required greater digitization, also changed the way municipalities communicate, thus, seven municipalities issued a report via video or online (on the pages of the mayors' followers) on social networks. Other municipalities usually issue a report on implemented projects and financial information by issuing a document - a report in an electronic copy, and less often in a printed version. Smaller municipalities have a practice of reporting by gathering citizens and presenting projects or informing them through local media. In 2020, in 30 percent of the municipalities, the sessions of the Council are open, but require a prior notice / application, while in other municipalities, citizens can attend the sessions without prior notice.

The latest research on ESM transparency comes from FinanceThink (March 2022). The research is revolutionary due to the fact it establishes the most significant factors that determine the transparency of municipalities. Hence, the factors in the research are divided into two groups: institutional factors and environmental factors. In the first group of factors, there are two subtypes: budgetary factors (dependence on the central budget, participation of parafiscal duties, effectiveness, i.e. the implementation of the budget in relation to the plan, capital investments and the size of the institution) and political factors (ideology, competition and responsibility). The second group of environmental factors refers to the size of the municipality (population), the impact of covid-19 and the gender of the mayor.

The model developed by FinanceThink showed that budget transparency is mainly determined by the institutional characteristics of LGUs, with a more pronounced influence of budgetary factors and a moderate influence of political factors. Environmental factors are equally important for overall transparency.

LGU, which are less dependent on the central budget, have a lower share of parafiscal duties in total revenues and a lower share of capital expenditures in total expenditures, are more likely to have greater budget transparency. Municipalities which are more numerous tend to be more transparent due to the greater pressure from the citizens that exists among them, although this is not the case with budget transparency. As for the political factors, the most significant factor affecting the budget and overall transparency of municipalities is political competition, whereby greater competition in the council reduces transparency.



2. METHODOLOGICAL APPROACH

2.1. METHODOLOGY APPLIED IN THE ANALYSIS OF THE FINANCIAL TRANSPARENCY AND REPORT OF THE MUNICIPALITIES

A) Methodology applied in the analysis of key financial municipal indicators

The analysis of key budget indicators of municipalities is based on data from 2017 to 2021, which are officially published on the website of the Ministry of Finance (MOF). Data on municipal finances are published quarterly, and the last quarter of each year contains the realization of the municipal budget for the entire year. The published data have some small differences compared to the data from the final accounts of the municipalities, but are a good consistent basis for the analysis of the public finances of the municipalities. The data published by the Ministry of Finance refer to total revenues and total expenditures in aggregate and by municipality, as well as the corresponding revenue and expenditure categories at the three-digit level. At the same time, the data refer to the plan and the realization of the basic budget, items of self-financing, grants, donations, lending and total.

For the needs of the analysis, a consolidation of the budget of the municipalities was made accordingly, which represents the first attempt to summarize the budget of the municipalities in the country. Total income and expenses are categorized into main categories at the two-digit level, but also include the corresponding subcategories of income and expenses at the three-digit level.

The municipalities are divided into rural and urban municipalities from within the country and, in particular, the municipalities of Skopje and the City of Skopje, because the economic characteristics of the municipalities are an important element that can influence the financial operations, and thus the conclusions at a municipal level. The analysis by municipalities refers to total revenues and total expenditures, as well as to the more significant subcategories including the efficiency of implementation. The average indicators for the period from 2017 to 2021 were obtained through annual calculation for each analyzed income and expenditure category, at both two-digit and three-digit level. The most significant budget indicators refer to the average ratio of transfers from the central budget and the municipalities' own funds, the share of transfers from the central budget in total revenues, transfers from the central budget per resident, the share of own revenues in total revenues, the share of property tax, of taxes on specific services, fees and charges, as well as capital expenditure in total revenues.

B) Methodology applied in the analysis of the financial transparency and reporting of the municipalities

In order to obtain a more comprehensive analysis of transparency and reporting at a local level, the analysis of the openness of the municipalities and the availability/access of their key documents and reports to the public is of exceptional importance. Hence, the analysis covers the official websites of all LGUs in the Republic of North Macedonia and the City of Skopje. Detailed review of the official websites of the municipalities was carried out in the period from January to March 2022.

The analysis of the availability of relevant reports and tools on their websites was based on a previously formed functional structure (translated into a questionnaire), which aims at providing a real picture of the degree of transparency and accountability of the municipalities, but also of the efficiency and participation of citizens in the creation and implementation of local measures and policy. The structure of the questionnaire was based on: 1. Questions related to key financial and budget documents / reports suitable for monitoring the transparency and reporting of the municipalities; 2. Questions regarding key financial information related to the services provided by the municipalities; 3. The degree of adaptation of the citizens to the published financial information; 4. Availability of time series data in processing format (See Annex 1).



2.2 METHODOLOGY APPLIED IN THE ANALYSIS OF FINANCIAL TRANSPARENCY AND REPORTING OF MUNICIPAL PUBLIC ENTERPRISES

The assessment of the degree of efficiency in the operation of the public enterprises under the authority of the LGU, as well as the level of transparency and reporting, are directly dependent on the availability of the appropriate documents and data on the operation of the public enterprises. One of the most appropriate indicators of the fiscal transparency of public enterprises is the availability of financial / budget documents on their official websites or on the official websites of the municipality. Hence, the financial transparency and reporting of public enterprises, as a significant segment of the total transparency, is the subject of analysis in this research.

The collection of financial data of public enterprises is based on a detailed review of their official websites or the official websites of the municipality if the public enterprise does not have its own official website. Data collection was carried out in the period March - April 2022.

For the needs of the analysis, a database was created for the first time through a structured questionnaire, which was filled in during the analysis of the web pages of the public company / municipality (See Annex 2). Subject of analysis were a total of 94 public enterprises that are under the direct authority of the LGU. The analysis referred to the financial documents of public enterprises, primarily income statement, balance sheet, final account, annual report, program / work plan. In the absence of data on the total due and unpaid liabilities, as well as on the total outstanding liabilities of public enterprises, they were provided by ESPEO at the Ministry of Finance.

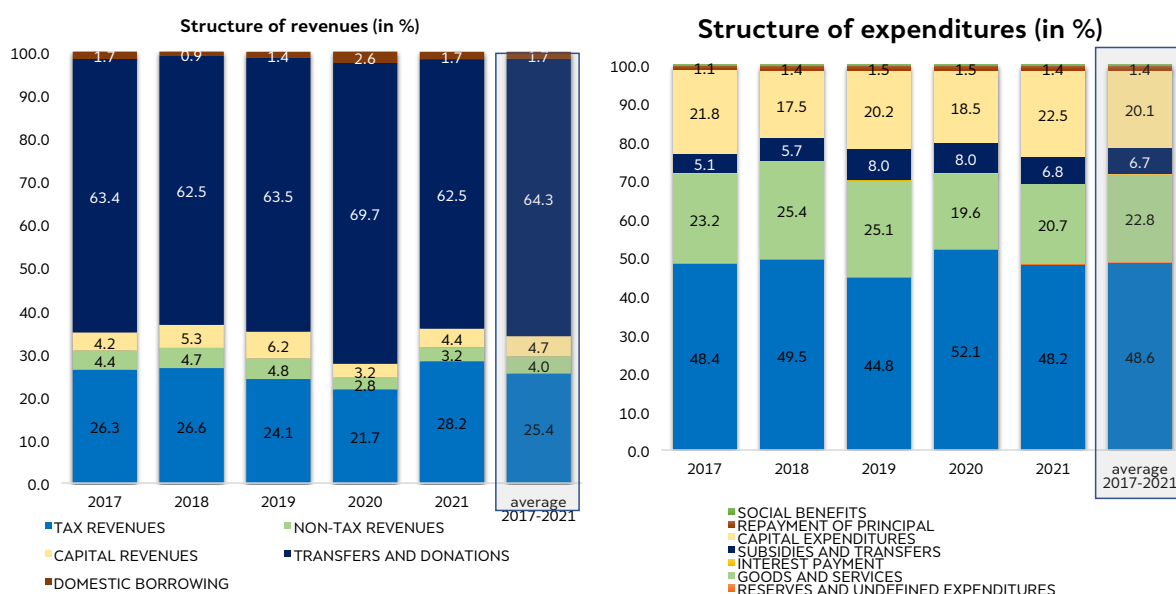
The creation of the financial database of municipal public enterprises was accompanied by a number of limitations. The initial intention was to ensure adequate representation of municipal public enterprises both in terms of the regional aspect and in relation to the characteristics of the municipality to which they belong (urban or rural), the level of economic development, the size of the municipality, etc. However, this goal could not be achieved given that a significant part of municipal public enterprises do not have a website, some have non-functional links to published documents, and those that do publish have a different structure and practice of the documents they publish (scanned documents, format that is difficult to read etc.).

3. ANALYSIS OF THE KEY FINANCIAL INDICATORS AND THE LEVEL OF FINANCIAL TRANSPARENCY AND REPORTING IN LGUs

3.1 ANALYSIS OF THE KEY FINANCIAL INDICATORS OF THE LGU

The consolidated budget of 81 municipalities in the Republic of North Macedonia gives a general picture of the structure of revenues and expenditures. In regards to total revenues, in the period from 2017 to 2021, transfers and donations have the largest share, which, on average, participate with 64.3 percent of total revenues, while tax revenues participate with 25.4 percent on average (Chart 1). The remainder relates to capital income and non-tax income, which, on average, account for 4.7 percent and 4.0 percent, respectively. During this period, the domestic borrowing of municipalities occupies, on average, 1.7 percent of total revenues, while foreign borrowing is low and, on average, amounts to only 0.01 percent. Borrowing through the issuance of government securities has not been used as an alternative by the municipalities. There are greater deviations from the average in 2020, when, under the influence of the crisis caused by covid-19, tax revenues were significantly reduced and constituted only 21.7 percent of total revenues, while the share of transfers and donations increased to 69.7 percent of total revenues. In 2020, capital income and non-tax income decreased significantly, with their share in total income reduced to 3.2 percent and 2.8 percent, respectively.

Chart 1. Structure of revenues and expenditures of the consolidated budget of all municipalities (participation in total revenues and expenditures in %)



Source: Ministry of Finance

If we analyze the structure of tax revenues, we can see that in the period from 2017 to 2021, the largest share belongs to revenues from taxes for specific services, which, on average, are 14.9 percent of the total revenues of the municipalities, while the revenues from the property tax, on average, are only 9.2 percent. In non-tax revenues, most revenues are collected from fees and compensation, which, amount to 2.6 percent of the total revenues of the municipalities, while other non-tax revenues account for 1.1 percent. In terms of capital income, the largest part of income is collected from the sale of land and intangible investments, that is, 4.1 percent of the total income of the municipalities, while a smaller part, or only 0.5 percent, comes from the sale of capital assets. Regarding transfers and donations, the largest part or 62.1 percent are transfers from other levels of government, while donations from abroad, on average, are two percent of total budget revenues.

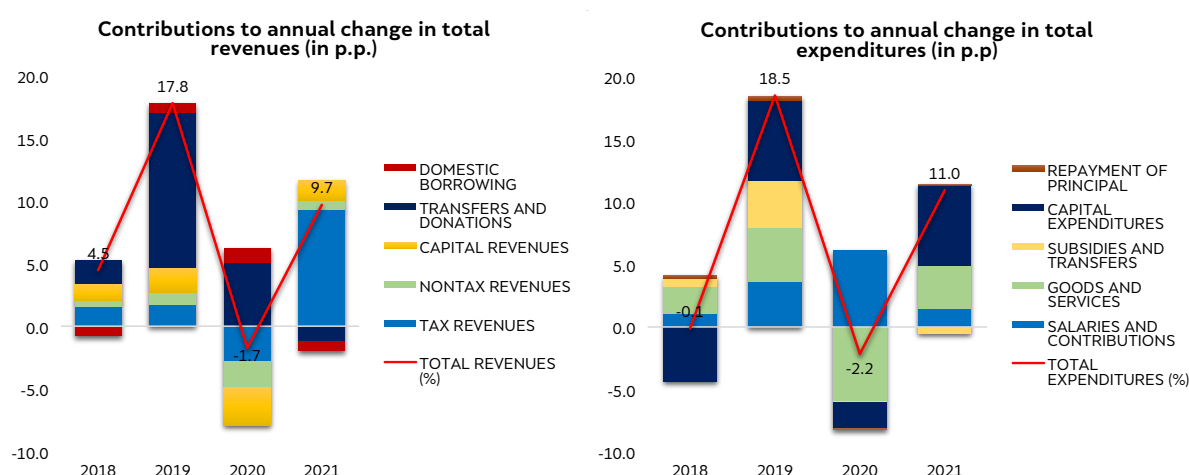
As for the expenditures, the largest share of 48.6 percent is the cost of wages and compensation, as opposed to capital expenditures, which participate, on average, with 20.1 percent in total expenditures. Costs for goods and services in this period, on average, are 22.8 percent of total expenditures, while subsidies and transfers constitute, on average, 6.7 percent. Reserves and undefined expenses, social benefits and interest payments have a small share (separately 0.1 percent each), while loan principal repayments, on average, amount to 1.4 percent of total expenditures. There is a greater deviation from the average in 2019 in the category of subsidies and transfers (various transfers) due to the funds transferred from the central budget to cover the due and unpaid liabilities of the municipalities. In 2020, despite the impact of covid-19, the share of wages and compensation costs increased in the expenditure structure, at the expense of the reduced share of goods and services costs and capital expenditures.

In the structure of the subcategories of expenditures, a large part or, on average, 34.7 percent of the total expenditures are for basic salaries, and 13.2 percent for compensation. As for the costs of goods and services, the highest share belong to utilities, heating, communication and transport, which, on average, participate with 6.6 percent, followed by cost of repairs and ongoing maintenance, which average 5.9 percent, last but not least costs of contractual services, averaging 5.1 percent of the total expenditures. In the category of subsidies and transfers, various transfers, on average, amount to 3.6 percent of the total expenditures, while subsidies for PEs have an average share of 1.9 percent. Regarding capital expenditures, the largest share goes to other construction works, which constitute, on average, 16.4 percent of the total expenditures, followed by expenditures for construction with an average share of 1.3 percent and expenditures for the purchase of machinery and equipment with an average share of one percent.

There are more significant changes in the realization of the consolidated budget of the municipalities in 2019 and during 2020. The annual increase in total revenues of 17.8 percent in 2019 is due to the high amount of transfers from the central government, which recorded an annual increase of 21 percent and reached a level of 3.3 percent of GDP (against 2.9 percent of GDP in 2018). In 2018, the Law on Financial Support of Local Government Units (LGUs) and individual beneficiaries established by LGUs for financing due and unpaid liabilities was passed. The total amount of funds provided amounted to three billion denars,

or 51 percent of the total amount reported to municipalities and individual users. In 2019, these funds from the expenditure side were mostly reflected in an annual increase in the category of various transfers (increase by 2.1 times) and other construction work (by 30.8 percent). A more significant contribution to the increase in the total revenues of the municipalities in 2019 were revenues from the sale of capital assets, which recorded an annual increase of 43 times, as well as the revenues from taxes for specific services, which were annually higher by 7.7 percent. Additionally, a more significant contribution to the annual increase was by costs of wages and compensation, which increased by 7.3 percent, as well as the costs of goods and services, which recorded an annual increase of 17.1 percent (graph 2).

Chart 2. Annual changes in total revenues and expenditures (in %) and contributions to the changes (in percentage points) of the consolidated budget of all municipalities



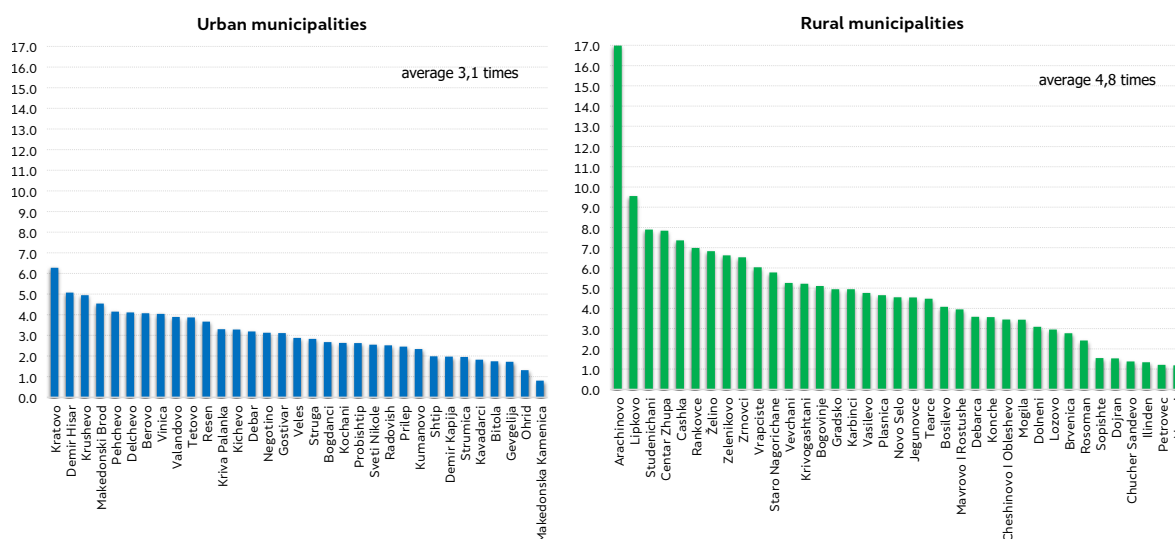
Source: Ministry of Finance.

In 2020, the impact of the crisis caused by the covid-19 pandemic was reflected in an annual reduction of tax, non-tax and capital revenues by 11.6 percent, 43.6 percent and 48.8 percent, respectively. The exceptions were transfers from other levels of government, which recorded an annual increase of 8.3 percent, and domestic borrowing, which recorded an increase of 86.3 percent. Regarding the expenditures, an annual decrease was observed in all categories, with the exception of salary and compensation expenses, which increased by 13.6 percent. In 2021, with the recovery of the economy, there was an increase in the municipalities' own revenues, especially the revenues from taxes for specific services and the property tax, which recorded an annual increase of 60.7 percent and 27.2 percent, respectively. A more significant contribution to the total increase in income came from income from the sale of land and intangible investments, which were 50.9 percent higher on annual basis. Within the expenditures, capital expenditures had a more significant increase, especially in the section of other construction works, which had an increase of 33.7 percent after the stagnation in the previous year. However, at the end of 2021, the municipalities had high accumulated due and unpaid liabilities of 3.7 billion denars (according to data from the Ministry of Finance), while the public enterprises founded by the municipalities of about three billion denars, which will represent a burden on the municipal budget in the coming years.

3.1.1 Analysis of LGUs' revenues

The municipalities in the Republic of North Macedonia are significantly dependent on funds from the central budget. The average ratio of transfers from the central budget and the municipalities' own funds (tax, non-tax and capital revenues) for all municipalities is 3.7. However, this ratio is largely conditioned by the ratio in rural municipalities, where transfers are 4.8 times higher than their own income, as for the urban municipalities from the interior of the state, this ratio is lower and amounts to 3.1 times than their own income (Chart 3). The municipalities of Skopje and the City of Skopje have the lowest ratio of transfers from the central budget and own revenues that are 2 times higher (Annex 1, graph 1). Regarding rural municipalities and, in general, the biggest exception is the municipality of Arachinovo, where transfers from the central budget from 2017 to 2021, on average, exceed own revenues 17 times more. Lipkovo, Studenichani, Centar Župa, Čaška and Rankovce are well above the average for rural municipalities, while Kratovo, Demir Hisar, Kruševo and Makedonski Brod have the highest ratio among urban municipalities. Among the municipalities of Skopje, Saraj, Šuto Orizari, Chair and Butel have the highest ratio of transfers and own income.

Chart 3. Ratio of transfers and own income (2017-2021, average number of times transfers exceed own income)

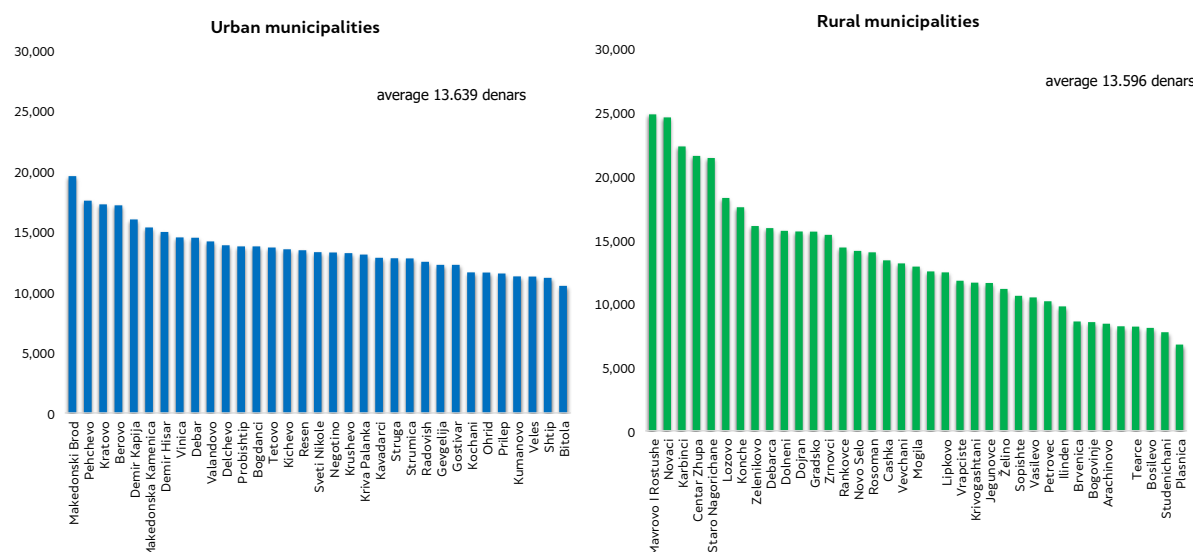


Source: Ministry of Finance.

A significant indicator that measures the distribution of funds from the central budget in relation to the number of residents in the municipality, are transfers per resident. The average of transfers per resident is almost identical for rural and urban municipalities from within the country and amounts to MKD 13,600, with a more even distribution among urban municipalities (Graph 4). The analysis of transfers per resident, in accordance with the latest data on the state of residents by municipalities from the 2021 census, clearly shows that a revision of the system of distribution of transfers from the central budget by individual municipalities is necessary. Five rural municipalities: Mavrovo and Rostuse, Novaci, Karbinci, Centra Župa and Staro Nagoricane have more than 20,000 denars in transfers per resident, which is much higher than the average of rural and urban municipalities from the interior of the country. These municipalities are at the top of the list according to the percentage of population decrease

according to the data from the last census. In contrast, transfers per resident to the Skopje municipalities and the City of Skopje amount to 6,662 denars, while the City of Skopje and the municipalities of Gjorce Petrov, Aerodrom and Kisela Voda are below this average (Annex 1, chart 1).

Graph 4 . Transfers from the central budget per resident (2017-2021, average in denars)



Source: Ministry of Finance.

As an additional indicator of the municipalities' dependence on transfers from the central budget, is their participation in the total revenues. In rural municipalities, transfers have the highest average participation in total revenues of 73.6 percent, and in urban municipalities from the interior of the state, the average participation is slightly lower and amounts to 70 percent. In the case of the City of Skopje and its municipalities, the average share of transfers in total revenues are the lowest and amount to 57.7 percent. The municipal budget of Arachinovo, Lipkovo, Studenichani, Čaška and Center Župa is financed with more than 82 percent of the central budget. In urban municipalities such as Kratovo and Krushevo, more than 80 percent of the income comes from the central budget. On the other hand, the municipalities of Centar, Karposh and Aerodrom, as well as the City of Skopje and Makedonska Kamenica (from the urban municipalities) and Novaci (from the rural municipalities), have the lowest funding through the central budget, where transfers are lower than 50 percent of total revenues.

The high dependence on funding from the central budget of rural municipalities, but also, in general, in most municipalities, indicates a low participation of own revenues in total revenues. The same municipalities that have the highest share of transfers in total revenues have the lowest share of own revenues in total revenues. This participation in rural municipalities, on average is 19.5 percent, while for urban municipalities it is 25.6 percent (graph 5), and in the City of Skopje and its municipalities it is significantly higher, averaging 39.4 percent. Accordingly, the municipalities of Skopje and the City of Skopje are financed in a significant part from their own funds, thereby reducing the burden on the central budget. However, Saraj, Shuto Orizari, Chair and Butel are below the average of their own income in total income (Annex 1, Chart 1).

The low share of own revenues in total revenues of rural municipalities may be due to the overall sectoral arrangement and the conditions for economic development. Thus, rural municipalities have a less developed business sector and are less attractive for new investments, including the opening of new enterprises and construction activities. It affects the level of own income compared to urban municipalities. However, in addition to the economic characteristics of municipalities, the management of municipal finances is also a significant factor. Thus, for example, within the framework of rural municipalities, Novaci, Petrovec, Ilinden, Čučer Sandevo, Dojran and Sopište are municipalities with significantly higher own income, and thus lower dependence on transfers from the central budget. At the same time, in the urban municipalities from the interior of the country, Makedonska Kamenica, Ohrid, Gevgelija, Bitola and Kavadarci stand out as municipalities that have a more significant share of their own revenues in the total revenues, and thus a lower dependence on transfers from the central budget than the average in the group. Among the municipalities of Skopje, the City of Skopje and the Municipality of Centar are the least dependent on transfers from the central budget, that is, they have the largest share of their own revenues in total revenues (Annex 1, graph 1).

In regards to own revenues, tax revenues have the largest share in most municipalities. Exception are a few municipalities where, in the period from 2017 to 2021, capital revenues have a greater share in total own revenues. Even though tax revenues as a percentage of total revenues are the lowest among rural municipalities (average 12 percent), the situation is not better even among urban municipalities from the interior of the state (average 16.8 percent). The largest share of tax revenues in total revenues is in the City of Skopje and in the municipalities of Skopje (average 31.7 percent).

The realization of tax revenues from the annual plan shows the efficiency of tax collection, but it can also initiate how correct is the planning of the tax inflow by municipalities. In the period from 2017 to 2021, the average realization of the tax revenue plan for rural municipalities is 79 percent, 83.6 percent for urban municipalities, and 79.4 percent for the City of Skopje and its municipalities. Within all municipalities, the realization of tax revenues is higher than planned in Pehchevo, Petrovec, Rosoman, Kratovo, Dojran and Butel. On the other hand, in terms of the realization of tax revenues from the plan, Chucher Sandevo, Karbinci, Arachinovo, Karposh and Chair are at the bottom.

Chart 5. Share of own revenues in total revenues (2017-2021, average in %)

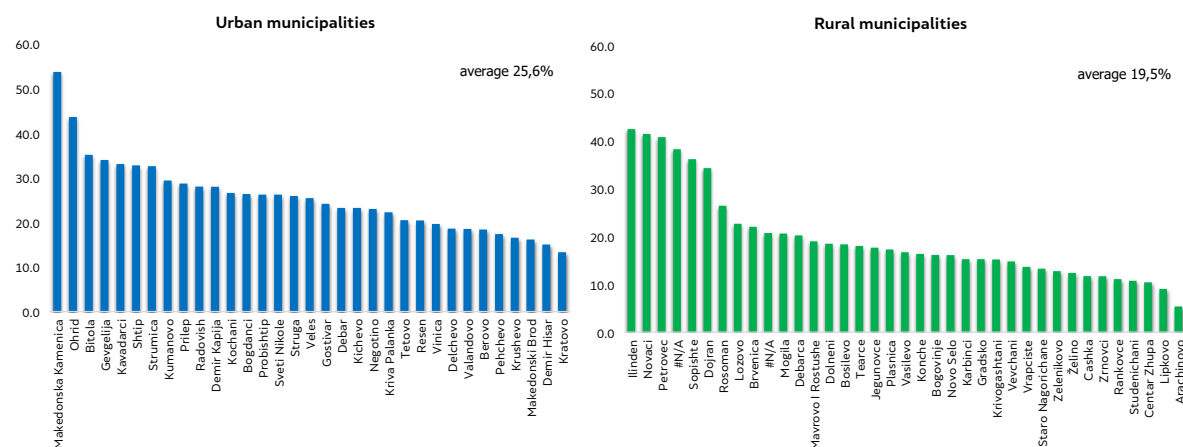


Chart 6. Share of tax revenues in total revenues (2017-2021, average in %)

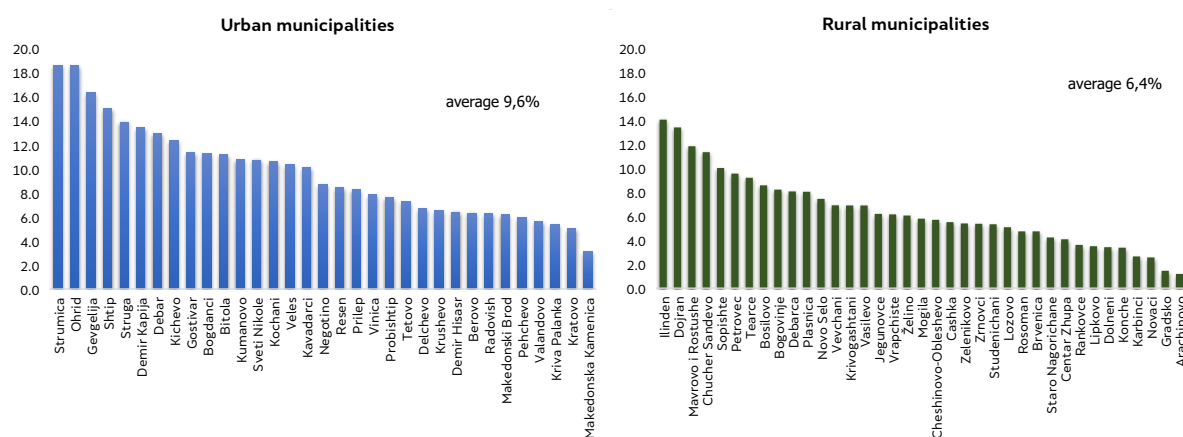
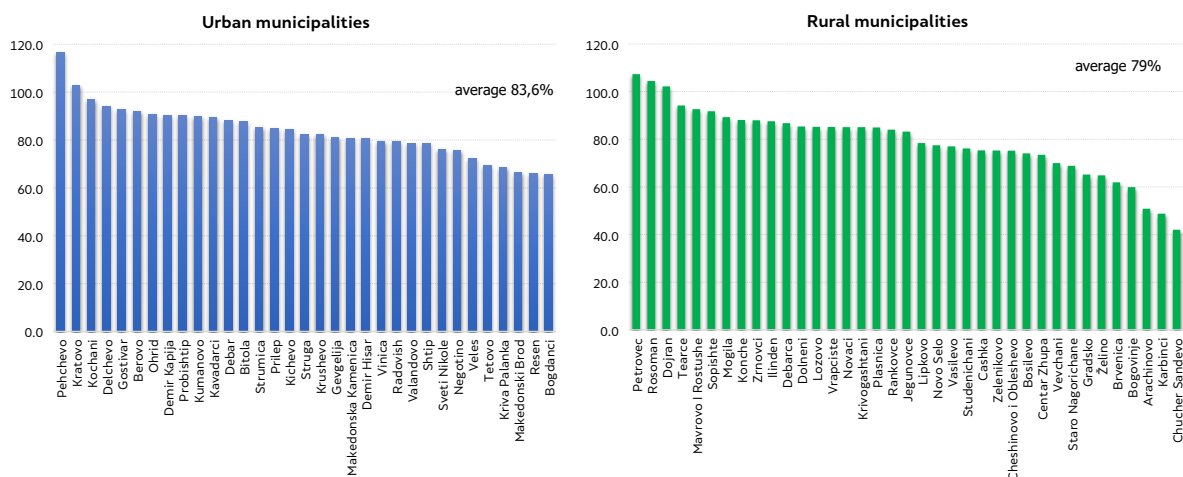


Chart 7. Percentage of realization of tax revenues from the plan (2017-2021, average in %)



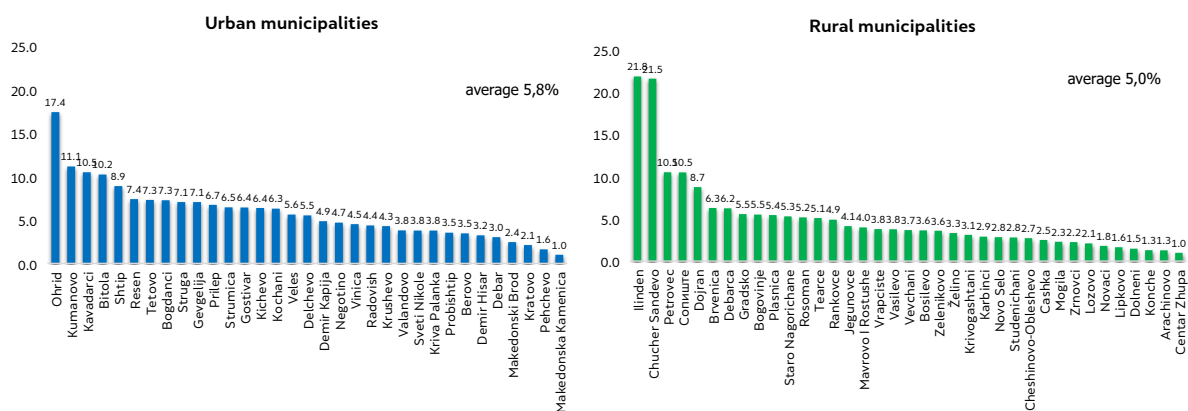
Source: Ministry of Finance.

Within the scope of tax revenues, the property tax, on average, participates with 36 percent, while its average participation in the total revenues in the period from 2017 to 2021 is only 6.2 percent. In urban municipalities from the interior of the state, the inflow from property tax, on average, is 5.8 percent, while in rural municipalities it is five percent (Graph 8). Among the urban municipalities, the highest income from property tax is in Ohrid, followed by Kumanovo, Kavadarci and Bitola, while Makedonska Kamenica, Pehchevo and Kratovo are the municipalities with the lowest income from property tax. Within the rural municipalities, Ilinden and Čučer Sandevo have the highest inflow from property tax in total revenue, followed by Petrovec and Sopište, and the lowest are Centar Župa, Aračinovo, Konče, Dolneni, Lipkovo and Novaci (less than two percent). The highest inflow from property tax is recorded in the City of Skopje and in the municipalities of Skopje, where the property tax comprises, on average, 11.2 percent of total revenues. Among the municipalities of Skopje, Karposh and Centar have the highest inflow from property tax in total revenues (more than 19 percent), while Saraj, Šuto Orizari and Chair have significantly low inflow from property tax (Annex 1, graph 1).

The average amount of property tax per resident for the period 2017-2021 at the state level is MKD 1,063. In rural municipalities, this average is lower and amounts to 907 denars, and in urban municipalities from the interior of the country it is higher and amounts to 1,101 denars (graph 9). In the city of Skopje and the municipalities of Skopje, the average is the highest and reaches 1,473 denars. Among the urban municipalities, the highest income from property tax per resident is in Ohrid (3,552 denars), Kavadarci (2,244 denars), Kumanovo (1,828 denars), Bitola (1,745 denars) and Shtip (1,541 denars), while the lowest is in Makedonska Kamenica (350 denars), Pehchevo (400 denars), Kratovo (440 denars) and Debar (578 denars). Within the rural municipalities, the highest inflow per resident from the property tax is in Ilinden (3,825 denars), Čučer Sandevo (3,334 denars), Dojran (2,574 denars), Sopište (1,973 denars) and Petrovec (1,912 denars). On the other hand, the lowest income from property tax is in Arachinovo (114 denars), Lipkovo (240 denars), Studenichani (249 denars) and Centar Zupa (251 denars). Among the municipalities of Skopje, the highest income from property tax per resident is in Centar (4,017 denars) and Karposh (2,805 denars), while the lowest is in Saraj (328 denars) and Shuto Orizari (350 denars) (Annex 1, graph 1). The low collection of property tax in some municipalities indicates an urgent need to improve collection and to tie the system of distribution of transfers from the central budget to the amount of collection and collection of own revenues, especially the revenues from property tax.

The inflow from the property tax is not the most significant within the framework of tax revenues, but the revenues from taxes on specific services and services have the largest share. On average, for all municipalities, revenues from these taxes share 9.2 percent of total revenues (in rural municipalities, 6.4 percent, while in urban municipalities from the interior of the state, 9.6 percent, chart 10). Among the municipalities of Skopje, revenues from taxes on specific services and services constitute 18.4 percent of total revenues, with the City of Skopje having the highest share at the level of the entire country (30 percent) together with the Municipality of Aerodrom (27 percent), while Saraj, Šuto Orizari and Chair have the lowest share of inflow from these taxes in relation to all Skopje municipalities.

Chart 8. Share of property tax inflows in total revenues (2017-2021, average in %)



Graph 9. Income from property tax per inhabitant by municipality (2017-2021, average in Denars)

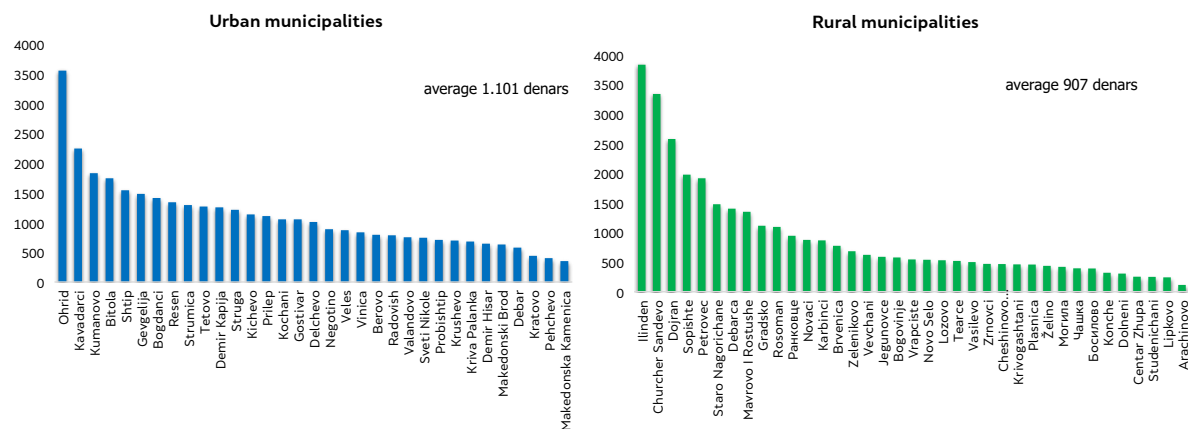
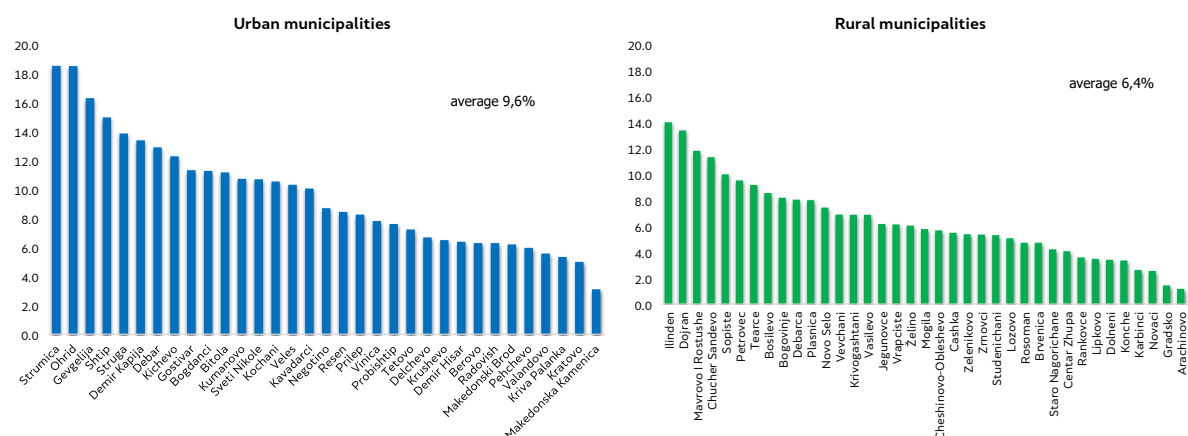


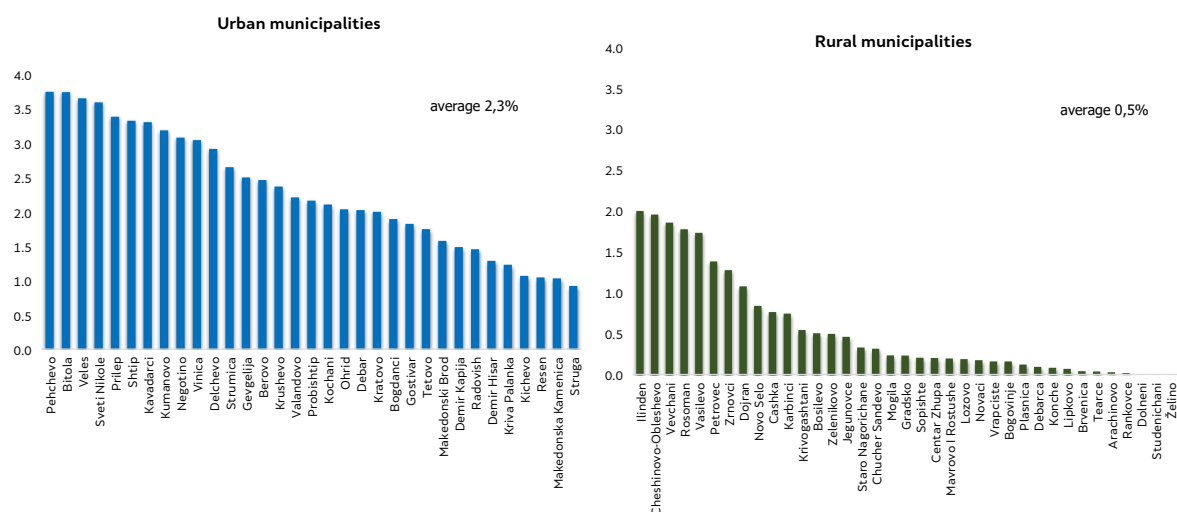
Chart 10. Share of revenues from taxes on specific services in total revenues (2017-2021, average in %)



Source: Ministry of Finance.

Within the scope of non-tax revenues, the largest share comes from revenue from fees and compensation (on average 53 percent), which participate, on average, with 1.6 percent in total revenues. However, there is a big difference in relation to groups of municipalities, i.e. the least revenues from fees and compensation are collected in rural municipalities or only 0.5 percent of total revenues, while in urban municipalities the average is 2.3 percent, as for the municipalities in Skopje where the average is the highest it constitutes 3.4 percent. Within all the municipalities, the largest share of these revenues in the total revenues are recorded in Aerodrom (6.1 percent), Kisela Voda (5.4 percent), Gjorche Petrov (4.6 percent) and Centar (4.2 percent). In the urban municipalities, Pehchevo, Bitola, Veles and Sveti Nikole (3.7 percent) are significantly higher than the average, and in the rural municipalities, Ilinden, Zelino and Obleshevo, Vevcani, Rosoman and Vasilevo are higher than the average (two percent).

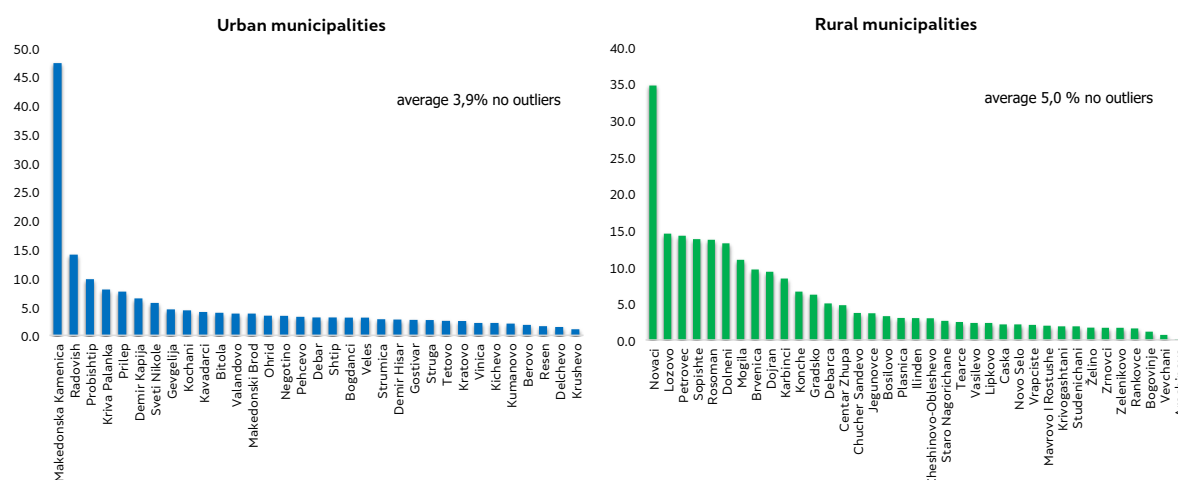
Chart 11. Share of income from fees and compensation in total income (2017-2021, average in %)



Source: Ministry of Finance.

The average share of capital income in total income at the level of all municipalities is 5.2 percent. However, for the period of analysis from 2017 to 2021, there are extremes within this category, i.e. municipalities that realized a high inflow from the sale of land and from intangible investments. Such a municipality among the urban municipalities from the interior of the country is Makedonska Kamenica, where the inflow on this basis is, on average, 47.3 percent of the total revenues, and Radovish with 14 percent. Among the rural municipalities, i.e. Novaci, the inflow from the sale of land and intangible investments for the period of analysis, on average, is 34.7 percent of the total income, while in several rural municipalities, Lozovo, Petrovec, Sopište, Rosoman and Dolneni, the share is 14 percent. Among the municipalities of Skopje, significantly higher than the average (of 3.1 percent) is recorded in the Municipality of Chair and the City of Skopje, which, on average, have 8.5 percent and 6.5 percent of the total income based on the sale of land.

Chart 12. Share of capital income in total income by municipalities (2017-2021, average in %)



Source: Ministry of Finance.

3.1.2 Analysis of the expenditures of LGUs

The total expenditures per resident for the period of 2017 to 2021 average, 18,000 denars. Significant differences exist by groups of municipalities, i.e. urban and rural municipalities from the interior of the country, which are higher than the average at the state level with 19,346 denars, i.e. 18,565 denars per resident, while the City of Skopje and the municipalities of Skopje, average 11,889 denars per resident. This largely reflects the demographic structure of the country, in which the largest part of the population lives in the capital Skopje, while in the interior of the country, according to the latest data from the 2021 census, a large part of the resident population has decreased. Thus, within the urban municipalities, the highest expenditures per resident are in Makedonska Kamenica, Makedonski Brod, Demir Kapija, Pehchevo and Berovo, and among the rural municipalities, the highest expenditures per resident are in Novaci, Mavrovo and Rostushe, Karbintsi, Dojran, Staro Nagoricane, Centar Župa, Konche and Lozovo (chart 13). Most of these municipalities have experienced intensive decrease in the resident population since 2002. All these municipalities have the highest transfers from the central budget per resident, and some have poor collection of their own revenues. This distribution of funds should be reconsidered because these municipalities significantly deviate from the average at the state level. Among the municipalities of Skopje, the highest expenditures per resident are in Centar, Karposh and Gazi Baba, and the lowest in Shuto Orizari, Gjorce Petrov and Saraj (Annex 1, graph 2).

In the period from 2017 to 2021, several urban municipalities have more than 80 percent realization of the plan of total expenditures, among which Kočani and Gostivar are at the top of the list, while Bogdanci and Radovish are at the bottom. Among the rural municipalities, Studenichani, Arachinovo, Lipkovo and Centar Župa have a high realization of the expenditures, while Dojran has a low realization of the total expenditures from the plan (graph 14). Among the municipalities of Skopje, Saraj, Butel and Centar have the highest realization, while Karposh and Kisela Voda have the lowest. However, if the structure of spending

of the municipal budget is analyzed, it can be concluded that more than half of the expenses of the municipalities refer to salaries and compensation of the public administration. The share of costs for wages and compensation in urban municipalities from the interior of the state is the highest and, averaging 54.1 percent in the period from 2017 to 2021, while in rural municipalities it is slightly lower, 51.4 percent, as for the municipalities of Skopje and the City of Skopje cost for wages and compensation average 48.6 percent. Costs for basic salaries alone account for more than 45 percent of total expenditures in the following urban municipalities: Gostivar, Tetovo, Vinica, and Debar (chart 16). Among the rural municipalities, in Želino, Tearce, Aračinovo, Bogovinje, Studeničani and Vrapcishte costs for basic salaries participate with 45 percent in the total budget. The costs for basic salaries grow annually for the entire period of analysis, but the highest double-digit increase in basic salaries is observed in all municipalities in 2020, which is mainly due to by covid-19 crisis. The cumulative increase from 2017 to 2021 in the table of basic salaries for all municipalities is 26 percent, but there are municipalities where the increase is close to or more than 40 percent (such as Demir Kapija, Zrnovci, Dojran and Čaška). The uneven increase in basic salaries is an indicator of the different trend of employment by municipalities.

At the same time, the costs of basic salaries per resident are the highest in urban municipalities from the interior of the country and, on average, amount to 7,281 denars, while in rural municipalities they amount to 6,331 denars, and in the municipalities of Skopje and the City of Skopje the average is lowest and amounts to 3,954 denars. This structure by group of municipalities may indicate higher employment in public administration in urban municipalities than in the private sector, while in municipalities of Skopje there is higher employment in the private sector. At the same time, the redistribution of salary costs per resident, on the other hand, may indicate a greater number of residents in the municipalities of Skopje, than in the interior of the country.

Graph 13. Total expenditures per resident (2017-2021, average in Denars)

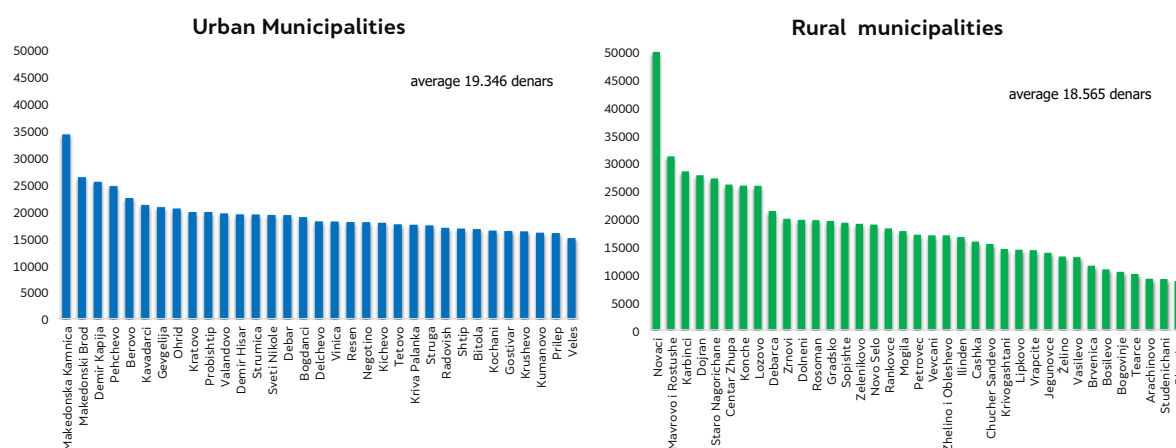


Chart 14. Percentage of realization of total expenditures in relation to the planned (2017-2021, average in %)

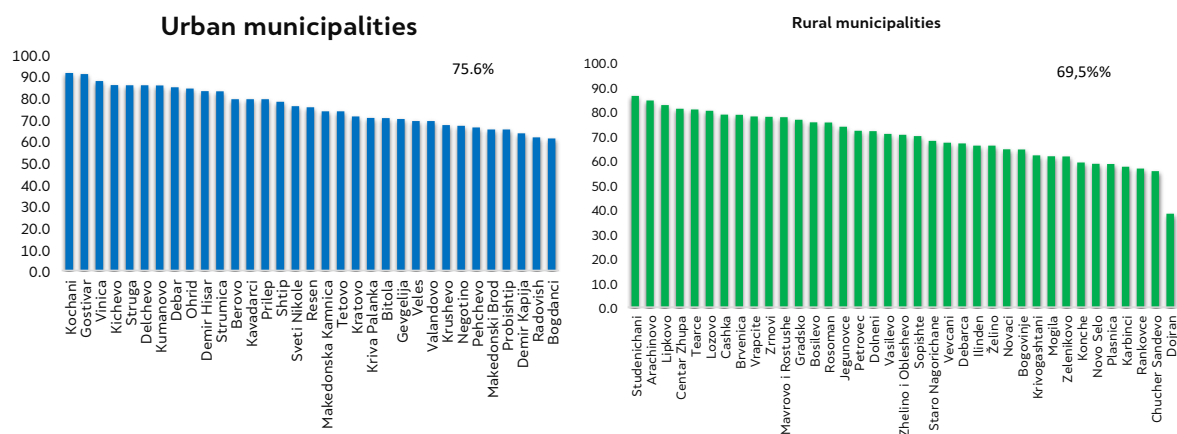


Chart 15. Share of salary and compensation expenses in total expenses (2017-2021, average in %)

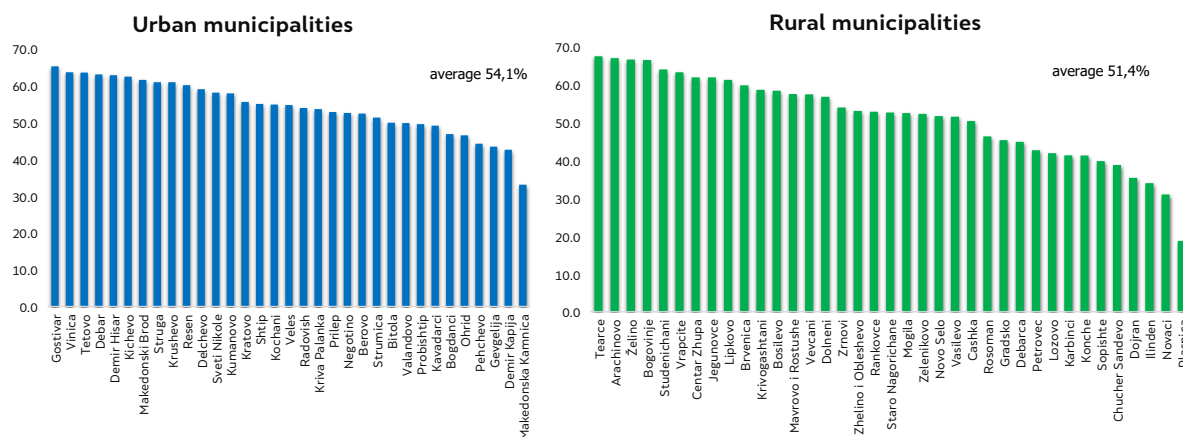
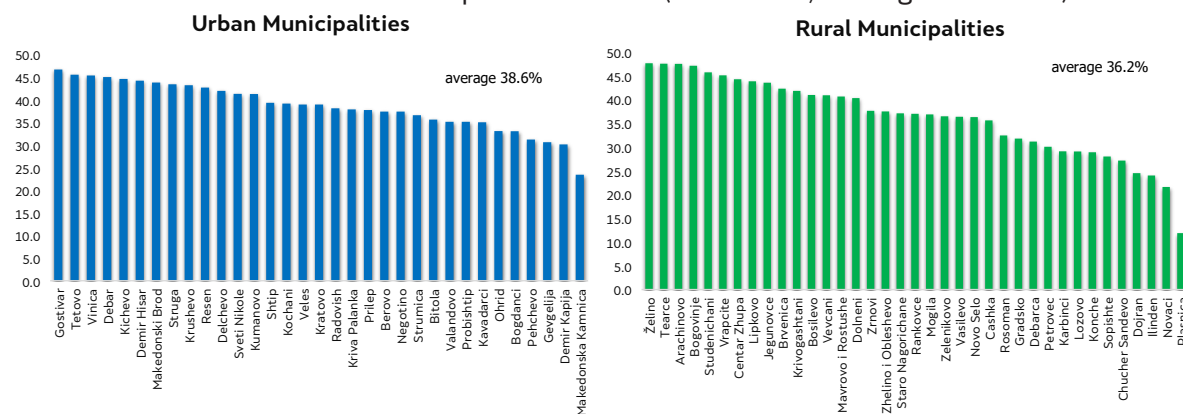


Chart 16. Costs for basic salaries per inhabitant (2017-2021, average in denars)



Source: Ministry of Finance.

Costs for goods and services also have a high share in the budget of municipalities, in urban municipalities, they average 21.4 percent of total expenses, while in rural they are 18.5 percent, as for the municipalities of Skopje and the City of Skopje the average is the highest and it is 25.1 percent. Within the cost of goods and services, the analysis includes the costs of utilities, heating, communication and transportation, the costs of contracted services, the costs of repairs and maintenance, and the costs of temporary employment.

The expenses for communal services, heating, communication and transport have a significant share in the total expenses of the municipalities. On average, these expenses have an almost equal share in the total expenses in rural and urban municipalities (6.5 percent), while in the City of Skopje and the municipalities of Skopje the average is higher and amounts to 7.3 percent. The share of costs for contractual services in total expenditures, average 4.8 percent in urban municipalities and 3.8 percent in rural municipalities. In the case of the City of Skopje and the municipalities of Skopje, the average share of these expenses in the total expenses is 4.5 percent. Repair and maintenance costs are also a significant part of municipal budget expenditures. On average, in urban municipalities these expenses are 4.4 percent of total expenditures, in rural municipalities they are lower and amount to 3.4 percent, and in the municipalities of Skopje and the City of Skopje they amount to 6.8 percent of total expenditures. The costs for temporary employment, despite the fact that they do not occupy a large part of the municipal budget, are a significant item, which shows that municipalities do focus towards securing jobs on this basis. On average, these current expenditures are 1.1 percent, 1.4 percent and 2.3 percent of total expenditures in urban, rural municipalities and in the City of Skopje and its municipalities respectively. Among the urban municipalities in the period from 2017 to 2021, more than two percent of the total expenses, expenses for temporary employment have been recorded in Pehchevo, Demir Kapija, Valandovo and Makedonska Kamenica, Kavadarci and Strumica, and among the rural municipalities Čaška, Tearce, Konče, Mogila and Bogovinje. Among the municipalities of Skopje, the highest costs for temporary employment are in Karpoš (7.1 percent), Butel (4.1 percent) and Kisela Voda (3.8 percent).

Chart 17: Share of costs for contractual services in total expenditures (2017-2021, average in %)

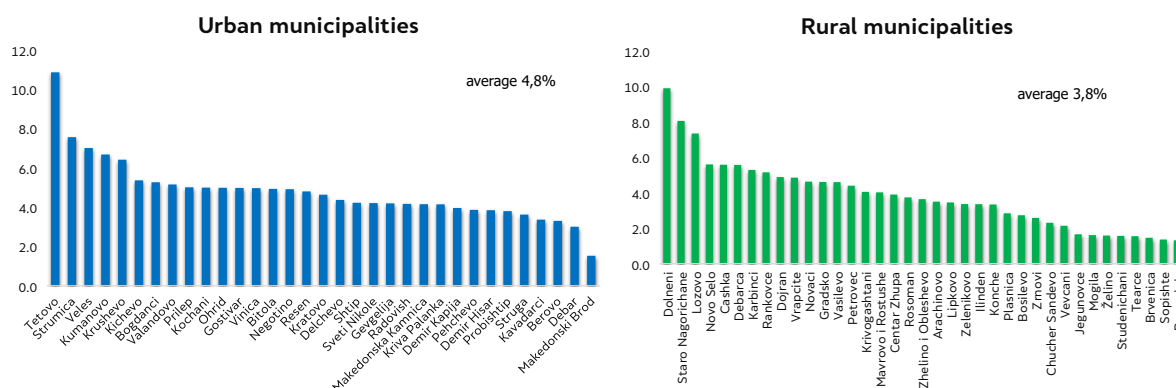
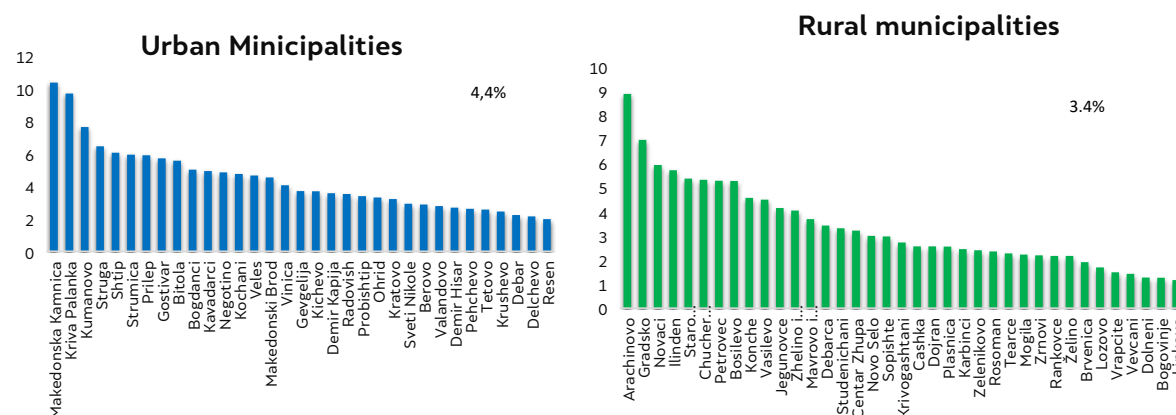
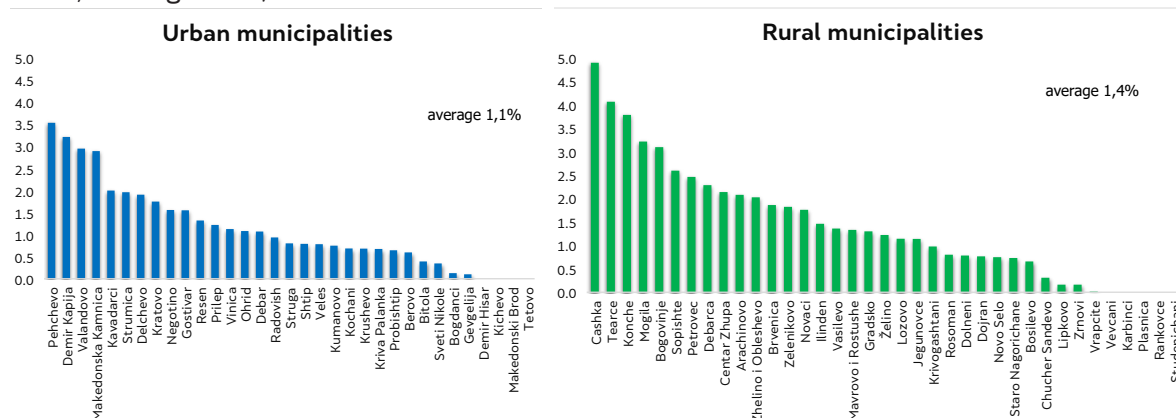


Chart 18. Share of repair and maintenance costs in total expenditures (2017-2021, average in %)



Source: Ministry of Finance.

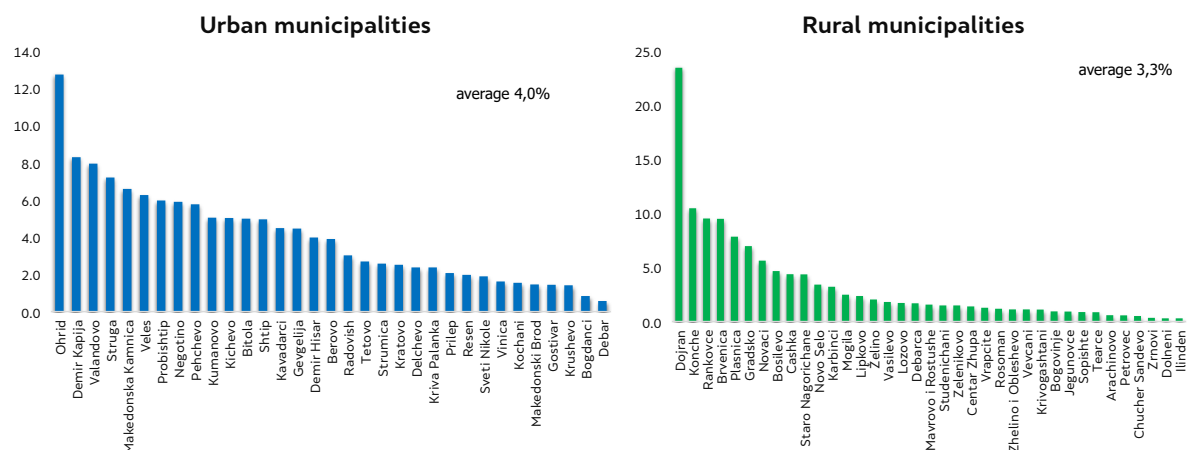
Chart 19. Participation of expenses for temporary employment in total expenses (2017-2021, average in %)



Source: Ministry of Finance.

Within the category of subsidies and transfers, the most significant is the category of miscellaneous transfers. The average share of various transfers in the total expenditures for 2017-2021 is four percent, 3.3 and 1.9 percent for the urban, rural, municipalities of Skopje and the City of Skopje respectively. Among urban municipalities, significantly higher than the average in this category are Ohrid, Demir Kapija, Valandovo and Struga, and within the rural municipalities, the municipality of Dojran is a significant exception, with an average share of various transfers in total expenditures of 23.4 percent. Regarding the municipalities of Skopje, the highest share of these transfers is recorded in Karposh (3.9 percent), followed by the City of Skopje (3.2 percent). These transfers mostly refer to the payment of due and unpaid liabilities that the municipalities had in the previous period.

Chart 20. Share of expenses for various transfers in total expenses (2017-2021, average in %)

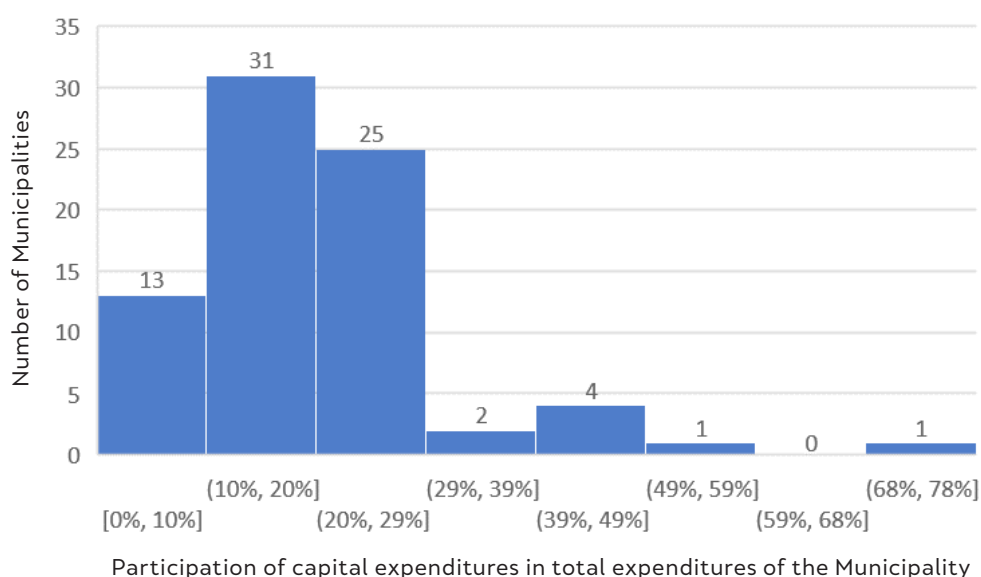


Source: Ministry of Finance.

The economic development of municipalities is closely related to the realization of capital expenditures. The most significant capital expenditures are those for buildings, other construction works, as well as for the purchase of equipment and machinery, followed by strategic goods and other reserves, expenditures for investments and non-financial assets, and for capital subsidies for enterprises and non-governmental organizations. However, within the share of capital expenditures, there are several items that do not contribute to regional development, expenditures for the purchase of furniture and for the purchase of vehicles.

On average, 19 out of 100 denars spent by municipalities go to capital expenditures (streets, roads, water supply, equipment, furniture, vehicles and others). Two out of three municipalities invest between 10 percent and 30 percent in capital projects, 13 less than 10 percent and only 8 more than 30 percent (chart 21).

Chart 21. Share of capital expenditures in total expenditures (2021)



Source: Ministry of Finance.

Regarding capital expenditures, the most significant and largest category are expenditures for other construction facilities. In the urban municipalities, municipalities of Skopje and the City of Skopje, the share of these capital expenditures in the total expenditures, on average, is 15.0 percent, while in the rural municipalities the average is higher and amounts to 22.3 percent. As for the urban municipalities from the interior of the country, more or close to 20 percent of capital expenditures for other construction facilities as a share of the total expenditures in the period from 2017 to 2021 are recorded in the following municipalities: Makedonska Kamenica, Bogdanci, Demir Kapija, Gevgelija and Kavadarci, while Vinica, Gostivar, Tetovo and Kumanovo have only 10 percent. As for the rural municipalities, the majority are on the higher end (above average) with 22.3 percent but at the top of the list are Plasnica, Čučer Sandevo, Ilinden and Karbinci. On the other hand, the municipalities of Arachinovo, Želino, Čaška and Tearce are at the bottom in terms of investments. Among the municipalities of Skopje, Gazi Baba (23 percent) and the city of Skopje (19.4 percent) have the highest investments in other construction works for the period from 2017 to 2021, while Shuto Orizari (5.8 percent) has the lowest.

The realization of capital expenditures for other construction works as a percentage of the annual plans of the municipalities is 51 percent. Out of 81 municipalities, 40 municipalities have higher than average implementation of the plan. Regarding the dynamics of the realization of these expenditures by year, no trend can be observed. In some years, the municipalities realize up to 90 percent of the plan, while in other years the realization is reduced and is lower than the average for the municipality. However, for the period of analysis, the urban municipalities have the highest average realization of 54.2 percent, followed by rural municipalities of 49.5 percent, while the municipalities of Skopje and the City of Skopje have the lowest average realization, which is 48.8 percent of the plan. This is due to the extremely low realization in some of the municipalities in Skopje such as Šuto Orizari and Kisela Voda. In regards to the urban municipalities, significantly higher than the average realization of these capital expenditures is noted in Kočani (81.3 percent), Debar (77.1 percent), Ohrid (75.0 percent), Gostivar and Delčevo (71 percent), while Krusevo (30.8 percent), Makedonski Brod (33.7 percent), Radovich (35.2 percent) and Tetovo (36.2 percent) have low efficiency in implementation. Among the rural municipalities, Studeničani (76.1 percent), Zrnovci (75.5 percent) and Lozovo (74.4 percent) have an above-average realization, while Dojran (31.1 percent), Rankovce (32.4 percent) and Krivogashtani are at the bottom (34.1 percent). Among the municipalities of Skopje and the City of Skopje, the City of Skopje (70.1 percent), Centar (69.8 percent) and Butel (68.0 percent) have the highest realization of these capital expenditures, while the lowest is Shuto Orizari (25.2 percent), Kisela Voda (31.4 percent) and Chair (37.2 percent).

Chart 22. Share of capital expenditures for other construction works (facilities) in total expenditures (2017-2021, average in %)

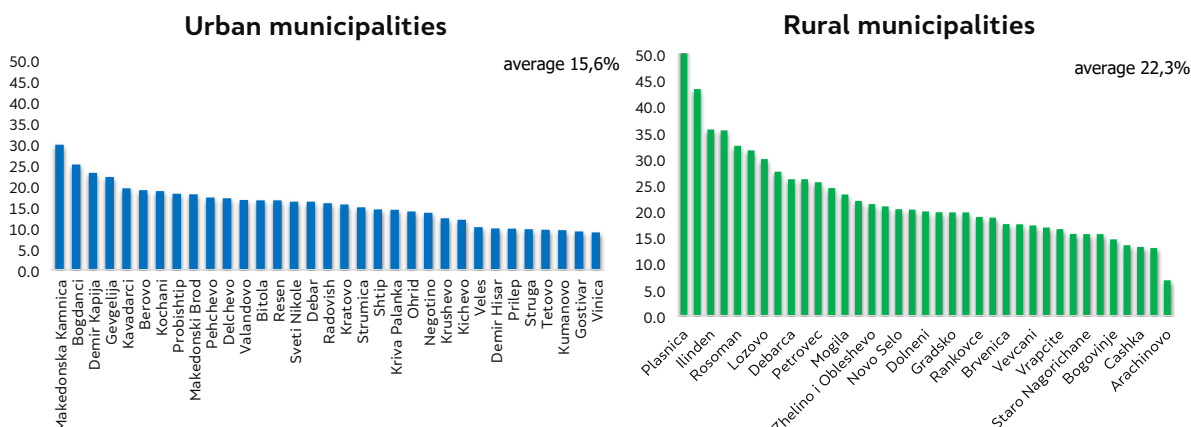
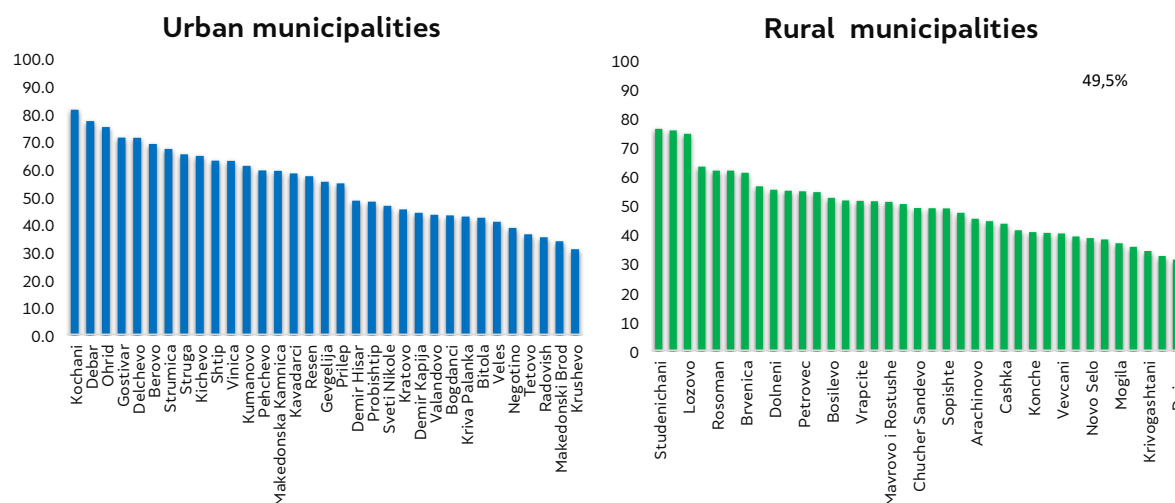


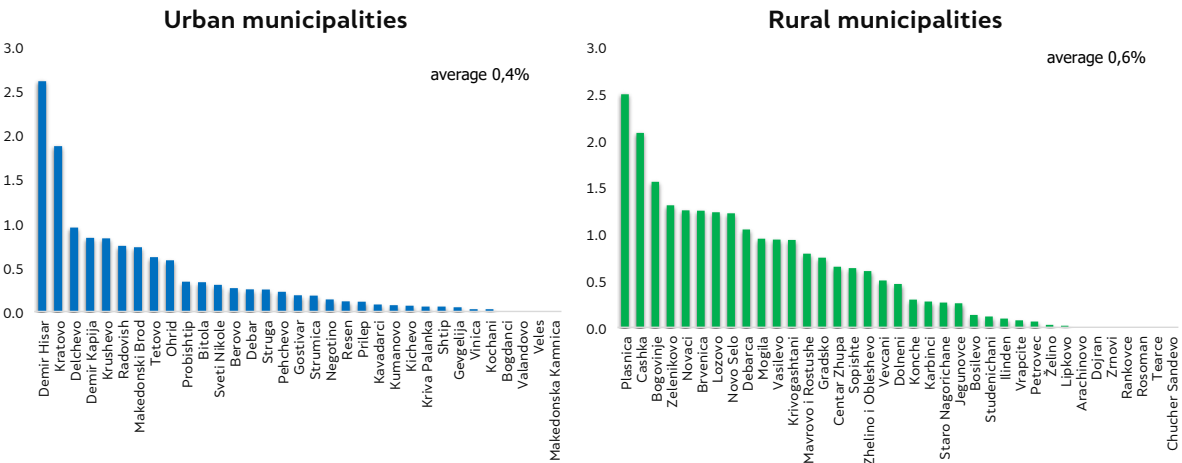
Chart 23. Percentage of realization of capital expenditures for other construction works (facilities) from the plan (2017-2021, average in %)



Source: Ministry of Finance.

The costs of buying vehicles are insignificant within the total expenses, but they are significant from the aspect of good management of the public finances of the municipalities. Thus, for the period from 2017 to 2021, there are municipalities that have no procurement of these basic assets at all, while some municipalities have spent a significant part of their own budget for this purpose. Demir Hisar and Kratovo have a high share of vehicle purchase costs in the total expenditures within the urban municipalities, Plasnica, Čaška and Bogovinje within the rural region. In regards to the municipalities of Skopje, Saraj, City of Skopje and Butel have a more significant share of these expenses in the total expenses.

Chart 24. Share of vehicle purchase expenses in total expenses (2017-2021, average in %)



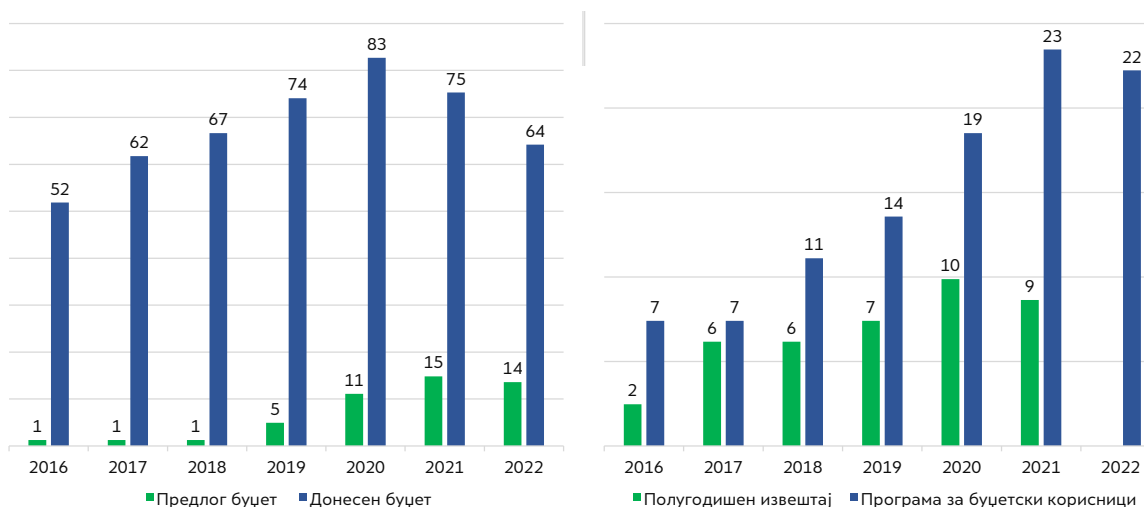
Source: Ministry of Finance.



3.2 ANALYSIS OF THE LEVEL OF FINANCIAL TRANSPARENCY AND REPORTING OF LGUS

Analysis of the official LGU websites shows that only 20 percent of the municipalities have published a draft budget on their websites. Other municipalities do not publish this key budget document. Hence, the unavailability of the draft budget on the official websites of the municipalities represents a significant limitation of the opportunity for citizens to point out / give remarks and give their contribution in the preparation of the final version of the budget for the following year. Unlike the draft budget, in 90 percent of the municipalities the adopted budget is available on their websites. Regarding the format of the published budget, the analysis shows that, on average, the budget is published in PDF or scanned format, while a budget published in Excel is a rarity, that is, there is lack of available data for further processing. Given the fact that the analysis of the availability of financial statements refers to the period 2016-2021/22, it can be noted that there is a significant improvement in the publication of the draft budget and the adopted budget on the official websites of the municipalities.

Chart 25. The availability of the budget proposal and the adopted budget on the official websites of the municipalities (in %) and the availability of the semi-annual report, by individual years (in %)

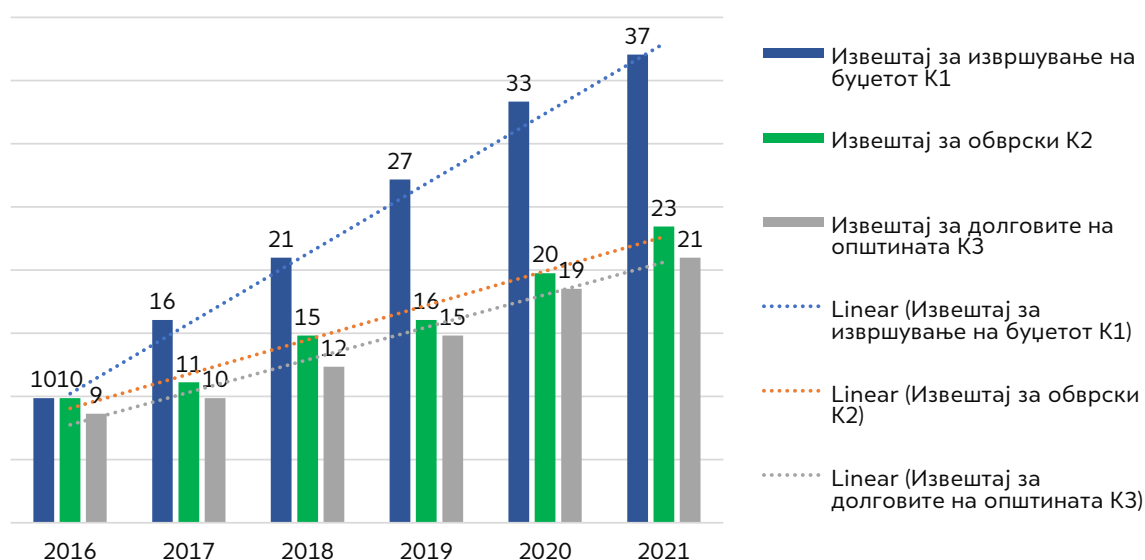


Source: Processed data from the websites of the municipalities.

Regarding the publication and availability of the semi-annual reports and programs for budget users of the municipalities on their websites, the results show that only 10 percent of the municipalities published semi-annual reports in the period 2016-2021, while 42 percent have published programs for budget users in the period 2016-2022. Although a modest number of municipalities publish semi-annual reports on their websites, from year to year this number is continuously increasing and in 2020/2021, 10 percent i.e. (nine percent) of municipalities published a semi-annual. As evident from Chart 25, the analysis of active transparency by year indicates an increasing trend of published programs for budget users in the period 2016-2022. In 2022, compared to 2016, the proportion of municipalities that announced programs for budget users increased by 15 percentage points.

Analysis of the availability of financial reports (budget execution report K1, liability report K2 and municipal debt report K3) shows that more than half of municipalities do not publish these key financial reports on their websites. The municipal budget execution report K1 is available on the municipal website only in 47 percent of municipalities, the liability report, K2, is published in 68 percent of municipalities, while the report on the municipal debt is publicly available in only 36 percent of the municipalities. If we compare the availability / transparency of each of these reports, it can be concluded that within the entire analyzed period, most of the municipalities publish reports on the implementation of the budget (K1). The trend of increasing availability of this report in the period 2016-2021 is significant. In 2016, this report was available only in 10 percent of municipalities on their websites, while in 2021, it is publicly available in 37 percent of municipalities. With a more modest intensity, both the K2 and K3 reports show an increasing trend in the level of transparency in the period 2016-2021 (chart 26).

Chart 26. Availability of financial statements (K1, K2, K3) in the period 2016-2021

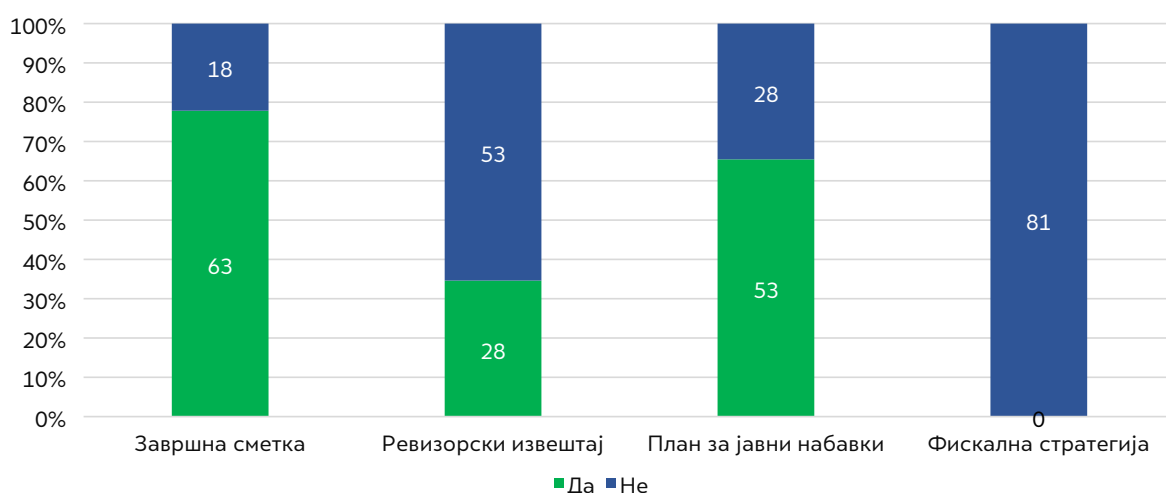


Source: Processed data from the websites of the municipalities.

Regarding the publication of final accounts on the website of the municipalities, the analysis shows that a significant part of the municipalities have published final accounts on their official website. More specifically, the results of the analysis show that only one fifth of the municipalities have not published a final account on their official website. A particularly important element in the final account is the explanation section, which significantly contributes to understanding / interpretation by the stakeholders and is also a significant element of transparency and reporting. Regarding this section of the final account, we determined that only 20 percent of the published final accounts have an adequate explanation of the basic indicators, while 80 percent of the published final accounts do not have any appropriate explanation (see chart 29).

The availability / publication of the public procurement plan, the audit report, as well as the fiscal strategy are additional indicators for the transparency and reporting of the municipalities. The results show that as many as 28 municipalities do not publish the public procurement plan on their official website, while 53 municipalities have done so. It should be mentioned that some of the municipalities have provided their citizens with direct access to the public procurement platform / system, which presents all the public procurements made by the respective municipality over a longer period. In terms of transparency on audit reports – only 28 municipalities have published an audit report on their own website, while 58 municipalities have not published such document. Regarding the creation and publication of a fiscal strategy of the municipality (which is a good practice in many developed countries), the results show that no municipality has created or published a fiscal strategy (chart 27).

Chart 27. The publication of the final account, fiscal strategy, public procurement plan and audit report on the official website (by number of municipalities and in %)

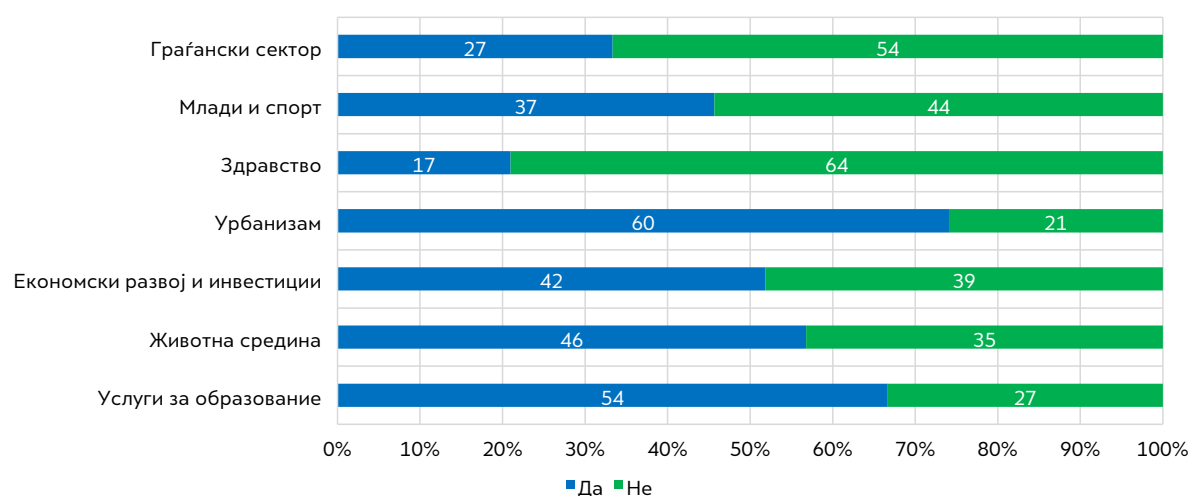


Source: Processed data from the websites of the municipalities.

Regarding the transparency / published information and data about services provided by the local government units, we determined that the municipalities mostly inform their citizens on urbanism, education, environment and local economic development as well as investments. As many as 60 municipalities (74 percent) publish information on urban planning on their websites. More than half of the municipalities actively inform their residents about education (67 percent), environment (57 percent), local economic development and investment (52 percent), while the remainder do not publish information on their websites. 37 municipalities (46 percent) publish information on youth and sports, while as many as 44 municipalities (54 percent) do not publish such information. In regards to data on the civil sector, 27 municipalities (33 percent) publish such data, and the other 54 (67 percent) do not publish any information related to it. Municipalities inform their citizens the least about health services (79 percent of municipalities do not publish information about health services on their websites) (chart 28).

A clearer picture of the level of transparency and accountability is provided by the analysis on additional information / specific financial data published on their websites related to investments, expenditures, costs for the services they provide. The analysis showed that most municipalities do not publish additional information about the services they provide, as many as 99 percent of municipalities do not publish additional information about health services, 93 percent of municipalities do not publish additional information on education and the civil sector, 85 percent of municipalities do not publish additional information about youth and sports, while 81 percent do not publish additional information about local economic development and investments. The situation is slightly better in the domain of urban planning and environment, where 36 percent of municipalities (on their websites) have additional information on urban planning, and 22 percent have additional information on the environment.

Chart 28. Distribution of municipalities in accordance with the published information on the website related to the services they offer (according to the number of municipalities and in %)



Source: Processed data from the websites of the municipalities.

The civil budget is a very important document for informing citizens about the collection and spending of municipal funds. As seen from the graph above, we can determine that only 14 municipalities (17 percent) publish a civil budget on their websites. As many as 67 municipalities (83 percent) do not prepare and do not share with the public such document, which significantly affects the increase of citizens' awareness of their role in the budget process at the local level, and also encourages citizens to participate in the processes of planning and implementation of the municipal budget (see chart 31).

In order to improve the processes of transparency and accountability, above all in relation to the financial information provided by the municipalities, it is necessary for the local authorities, in addition to publishing the civil budget, to have a designated person for contact with the citizens, to have set a channel / tool through which citizens will be able to submit a complaint or request and have some kind of electronic tool for citizen participation in the process of policymaking. Additionally, the published data should also be displayed in a way

that will be easier to understand for citizens. From our research, we determined that 75 municipalities (93 percent) have a designated citizen contact person on their websites; in 75 municipalities (93 percent) the data are to a certain extent adjusted / understandable for the citizens; 71 municipalities (88 percent) have set up some kind of channel / tool on their websites through which citizens can complain or submit a complaint or request. However, a significant part of the municipalities (59 percent) do not have such electronic tool through which citizens could take an active part in the policymaking. This is especially important considering the significance of citizens' participation in the planning of the community's needs, decisions on how to allocate and spend the municipal budget, participation in the supervision/monitoring of the implementation of the budget, etc. Hence, it is of crucial importance that local authorities take the initiative to set up electronic tools through which citizens will be able to get involved in the decision-making process while monitoring their implementation in a very simple way (chart 29).

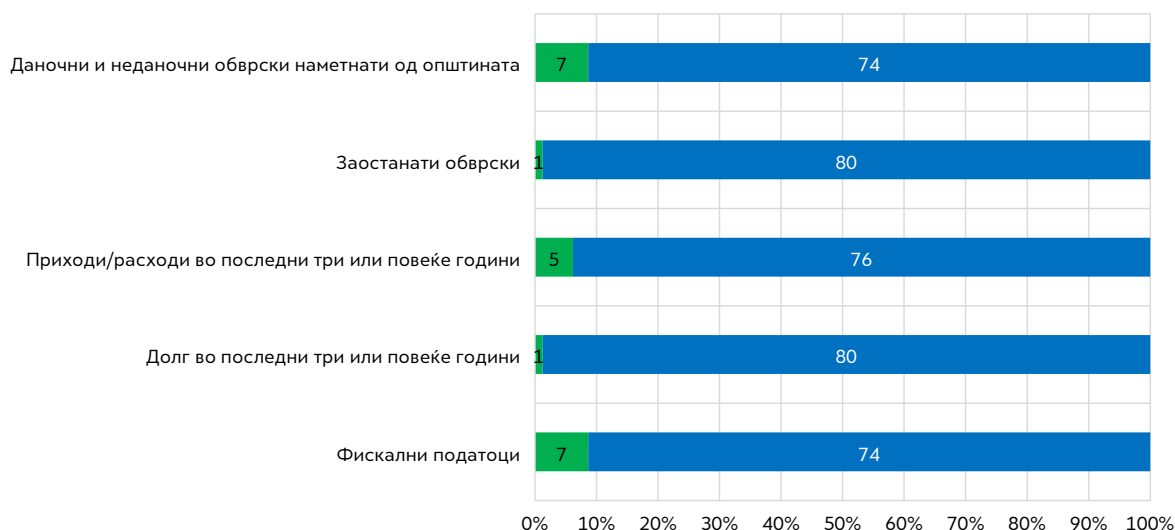
Chart 29. Distribution of municipalities in accordance with the adequacy of information and the publication of the civil budget on the official website (according to the number of municipalities and in %)



Source: Processed data from the websites of the municipalities.

It can be concluded that one of the biggest problems with which we dealt in the research was the non-disclosure of data in a time-series format available for processing and further research. The publication of this type of data and its analysis is one of the basic contents that should be indicated to the stakeholders for examining and drawing conclusions about possible problems, which can further serve as a basis for creating policies and measures. Only seven municipalities publish fiscal data in the form of time series (nine percent), even 74 municipalities (91 percent) do not publish such data (chart 30).

Chart 30. The publication and availability of time series data in a format available for processing, by individual indicators (by number of municipalities and in %)



Source: Processed data from the websites of the municipalities.

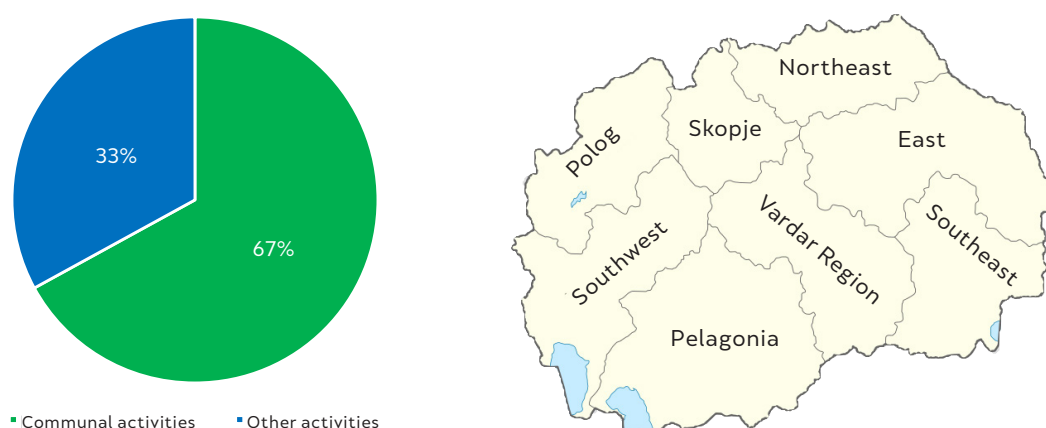
Published data are mostly in .xls format (83 percent), and the remainder as csv files (17 percent). Only one municipality (one percent) has published debt data for the last three or more years in a time-series format in .xls format, and the other 80 (99 percent) do not publish data on debt. Only five municipalities (six percent) have published revenue/expenditure time series data for the last three or more years, and the other 76 municipalities (94 percent) do not publish any time series related to revenue/expenditure. All published time series data are available in .xls format. Time series on arrears are available only on the web portal of one municipality (one percent) in .xls format, and the other 80 municipalities (99 percent) do not publish time series on arrears. Only seven municipalities (nine percent) have published information on tax and non-tax obligations imposed by the municipality on their websites, three municipalities on their websites, one municipality in .doc format and the other three municipalities in .pdf format.

Publishing information about the participation of civil society organizations in the processes of policymaking, decision-making and implementing local economic development is a very important process for the development of the principles of accountability, transparency and participation of citizens and respect for democratic values in general. This means constant monitoring of the work of local authorities. The analysis showed that only 13 municipalities (16 percent) publish a list (on their websites) of organizations that have received funding by the municipality. Most often these lists are available in xls. format, followed by pdf. format and less often as doc. format. The other 68 municipalities (84 percent) do not publish a list of civil society organizations that they finance. Considering that almost half of the municipal budget is spent on salaries and compensation for employees, information on the number of employees and their position is particularly important for the transparency and reporting of the municipalities. The analysis showed that only 35 municipalities (43 percent) publish a list of the number of employees and positions.

4. ANALYSIS OF FINANCIAL INDICATORS AND THE LEVEL OF FINANCIAL TRANSPARENCY AND REPORTING OF PUBLIC ENTERPRISES

Public municipal enterprises represent a bridge between local government units and the local population. The importance of these public enterprises for the municipalities and the local population is evident in the fact that they represent the basic link between the LGU and the local population through the services they offer and implement within the municipality. Hence, a detailed review of the official websites of all public enterprises under the jurisdiction of the LGU was conducted, in the case of public enterprises which did not have their own website, we conducted a detailed review of the official website of the respective municipality. During the analysis of the official websites, we recorded the most appropriate indicators for fiscal transparency of public enterprises, namely, the availability of individual budget documents, as well as individual reports suitable for the analysis. In addition to having a positive effect on the improvement of the level of transparency and accountability of public enterprises, in accordance with the new Budget Law, publicly available financial reports will also represent a legal obligation.

Figure 1. Schedule of PEs under the jurisdiction of LGUs by separate planning regions and distribution of PEs in accordance with their basic activity (in %)



Source: Database created for the purposes of the research

Out of a total of 94 detected public enterprises within the LGUs, 67 percent (63 public enterprises) are in the domain of communal works, while the other 33 percent (31 public enterprises) operate in the domain of urban planning and arrangement of construction land, maintenance and use of public space for parking and providing appropriate services, organizing and managing wholesale and retail markets, green markets building communal facilities, managing sports facilities, supplying drinking water and removing urban wastewater, etc. The

distribution of public enterprises by separate planning regions shows that the largest number of public enterprises under the jurisdiction of the municipalities is in the Patagonia planning region (17 public enterprises), while in the Polog planning region there are only nine public enterprises under LGU authority (Figure 1).

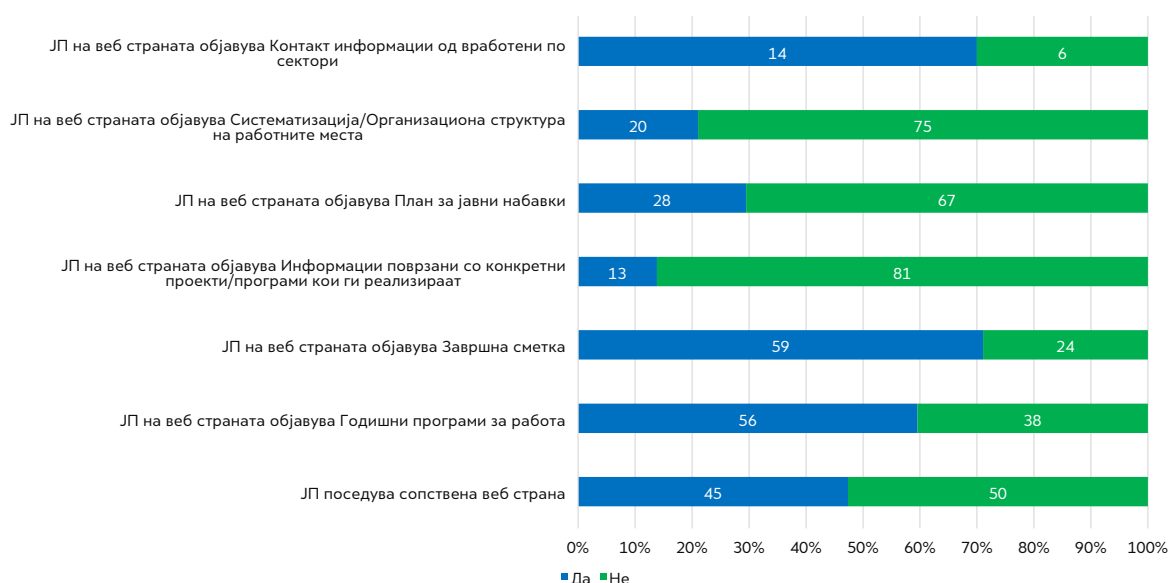
In addition to the analysis of the budget and strategic documents of public enterprises, the focus of this analysis is also aimed at the efficiency of the channels for informing citizens, i.e. the extent to which the public enterprise has established a tool on its official website through which citizens and business entities can give their opinion, propose activities, evaluate the previous operation of the company, but also report a problem and express dissatisfaction with some segment of the company's operation. It is also necessary for the public enterprise to present and explain in detail the next investment plans and activities on its website in order to acquaint the citizens with the planned activities. Such a segment allows citizens to actively monitor and observe the activities carried out by the public enterprise in order to assess whether they are in line with their needs and interests.



4.1 THE LEVEL OF TRANSPARENCY AND REPORTING OF KEY FINANCIAL DOCUMENTS OF PUBLIC ENTERPRISES

The level of transparency of public enterprises at LGUs was initially reflected in having their own website. Nowadays, when the information related to the price of public services, the activities to be undertaken in the next period, as well as the need to inspect the financial statements are increasingly important, it is necessary for the public company to have its own website. Hence, the website represents one of the main bases for improvement of the transparency process of public enterprises. However, the data shows that more than half of public companies (53 percent) do not have their own website, while only 47 percent of public companies have their own website. Public enterprises that do not yet have their own website publish part of their information and financial reports on the municipal website (see chart 31).

Chart 31. Distribution of municipal public enterprises according to the possession of their own website and key financial documents (according to the number of public enterprises and in %)

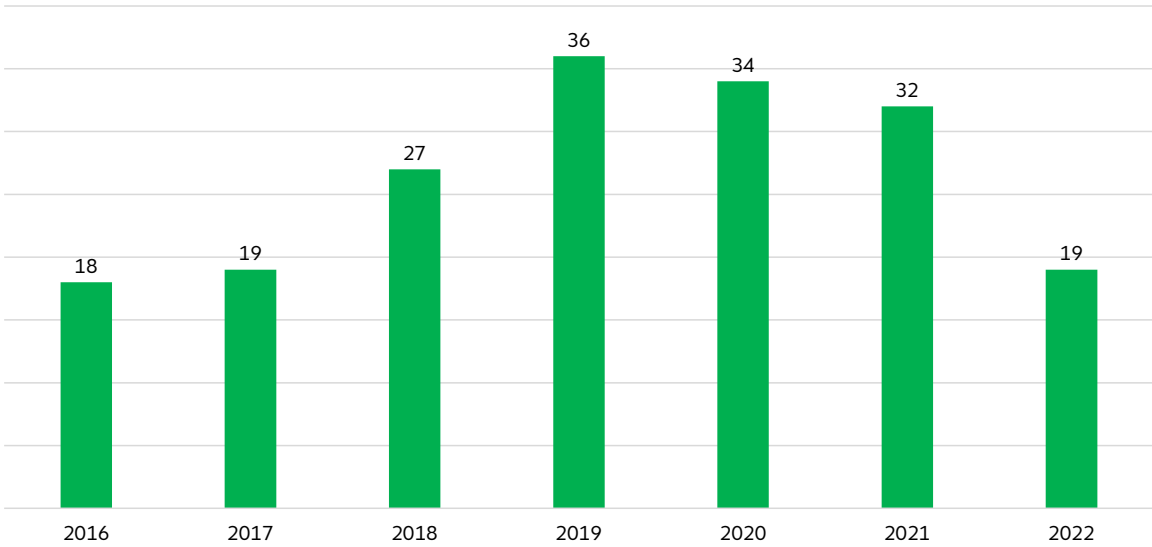


Source: Processed data from the websites of public enterprises and municipalities.

Regarding the annual work programs of the public enterprises, their planned activities for the calendar year, PEs, must present their planned activities to the local population. However, the analysis of the annual work programs, as well as their availability on the website of public enterprises, and the municipal website, shows that a significant part of public enterprises does not publish their annual work programs. To be specific, about 40 percent of public enterprises have not published annual work programs. On the other hand, 60 percent of public enterprises, on average, publish annual work programs on their (municipal) website (see chart 35). In terms of the time-period for which annual work programs are available, the data show that they can be divided into three time frames. The first time frame covers the period 2016-2017; the second time frame is in the period 2018-2021; the third timeframe consists of the annual work programs published in 2022. Namely, it can be noted that of the total published annual work programs, the lowest number is observed in the period 2016-2017.

Furthermore, a significant improvement in the degree of published annual work programs of public enterprises is observed in the period 2018-2021, when the largest number of annual programs were published. In comparison, almost twice as many annual work programs have been published in the period 2019-2021, compared to the published annual work programs in 2016 (see chart 32).

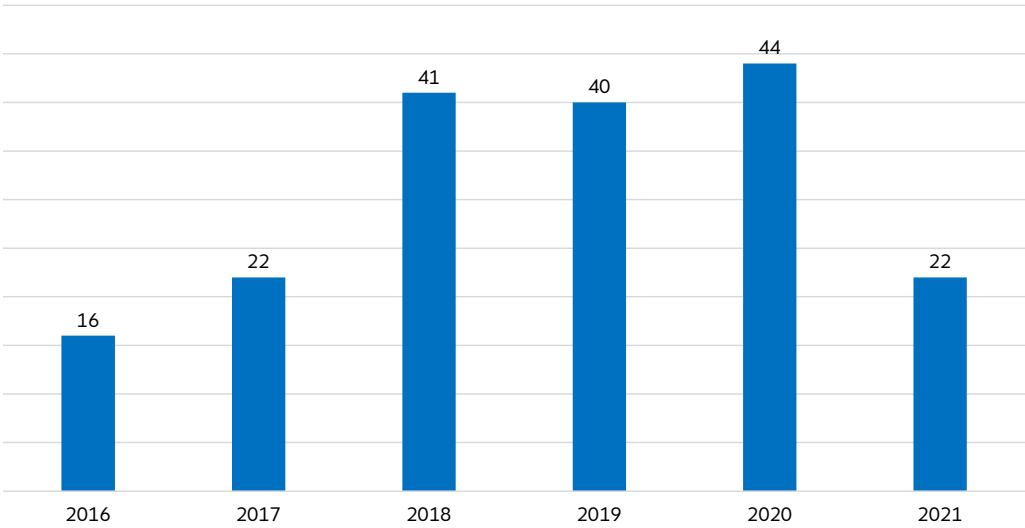
Chart 32. Distribution of annual work programs by year for the period 2016-2022 (number of annual programs)



Source: Processed data from the websites of public enterprises and municipalities.

Regarding the final account of public enterprises, it has a significant role in determining the degree of transparency and accountability of public enterprises. Additionally, the final account allows for observing the financial situation of the public enterprise, as well as the degree of efficiency and effectiveness of its management. The data show that 29 percent of public enterprises have not published a final account on their websites (on the official website of the municipality), while 71 percent of public enterprises have done so (see chart 35). From the point of view of the time period for which they were published, it can be noted that in 2016 and 2017, twice as many final accounts were publicly available as compared to 2018, 2019 and 2020 (see chart 33).

Chart 33. Published final accounts of public enterprises by years 2016-2021 (number of final accounts)



Source: Processed data from the websites of public enterprises and municipalities.

In addition to whether the public enterprises have their own website or not, Chart 31 also shows how many of the municipal public enterprises publish annual work programs, final accounts, information related to specific projects / programs that they implement public procurement plan, systematization / organizational structure of workplaces and contact information from employees by sector.

Regarding the grouping of public enterprises in accordance with the publication of information related to specific projects / programs that they implement, it can be noted that 86 percent of public enterprises do not publish information related to specific projects and programs that they implement. Only 14 percent of public enterprises publish some kind of report that presents information about such project/programs. However, it should be mentioned that financial indicators (variables) do not accompany such reports, that is, they do not contain information about the financial costs and benefits that the citizens would receive from the respective activity.

As an additional indicator in the analysis of the transparency and reporting of municipal public enterprises, the analysis also includes their publication of the public procurement plan on their website (the official website of the municipality if they do not have their own website). The results of the analysis show that 71 percent of public enterprises do not publish a public procurement plan on the website, while 29 percent of public enterprises have published a public procurement plan. It should be mentioned that for the majority of public enterprises that have published such document, have done so for the period of 2020-2022 while some of them have provided a link to access the public procurement platform containing data in arrears.

Regarding the publication of a plan for systematization / organizational structure of workplaces in public enterprises, the data show that 79 percent of public enterprises do not publish data related to the organizational structure of workplaces, that is, they do not publish a plan for systematization. On the other

hand, only in 21 percent of the public enterprises, publish such plan on the on the website of the public enterprises (the official website of the municipality).

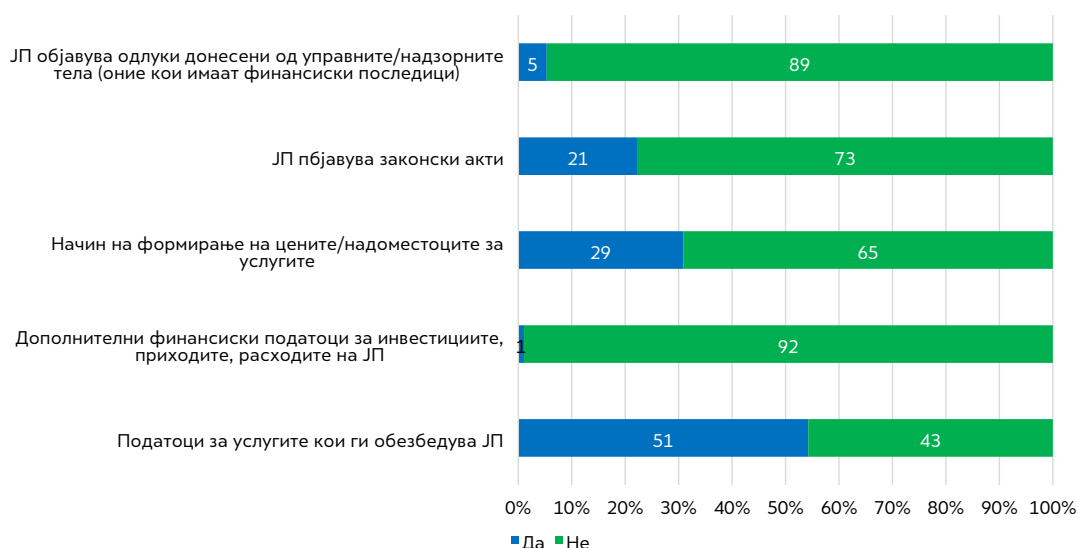
The analysis of public enterprises also focuses on available contacts - employees of public enterprises. The availability of direct contacts of employees in public enterprises enables immediate communication with the authorities in order to solve citizens' problems. Direct communication enables increased efficiency in solving individual and specific problems of citizens, who would otherwise have to go through bureaucratic procedures. The results show that a significant part of the public enterprises have published contact information (mostly phone number) of individual employees on their official website (or on the official website of the municipality). Most often, PEs have published a telephone number only of the heads of individual departments. Hence we've concluded that publicly available data from heads of departments in public enterprises have been published by about 70 percent of PEs, while 30 percent have not provided any contact information of employees by individual departments.



4.2 INFORMATION ON THE LEVEL OF FINANCIAL TRANSPARENCY AND REPORTING ON SERVICES PROVIDED BY PUBLIC ENTERPRISES

The publicly available financial information resulting from the operation of the public enterprise allows for obtaining an objective image of the reporting and of the transparency, as well as the analysis of the efficiency in the implementation of the measures and the policies. In order to analyze the key financial indicators related to the operation of public enterprises, the research is based on published data for the following indicators: published public decisions made by the management / supervisory bodies of the public enterprise; published legal acts by the public enterprise; a document related to the method of formation of prices / compensation for the services of the public enterprise; additional financial data on the investments, income, expenses of the PE and data on the services provided by the PE. The distribution of public enterprises in accordance with the availability of data from the previously mentioned variables is presented in graph 34.

Chart 34. Distribution of PEs according to the availability of information on their website² (according to the number of public enterprises and in %)



Source: Processed data from the websites of public enterprises and municipalities.

In terms of published information related to additional financial data on investments, revenues and expenditures of PE, it can be stated that, on average, public enterprises do not publish this type of data, which directly affects the level of awareness of citizens. The results show that only five public enterprises have publicly available information/documents about the decisions made by the management/supervisory boards, while 95 of them do not have publicly available documents of this type. Regarding the publication of legal acts, the majority of enterprises do not publish this type of document. However, in contrast to the decisions taken by the supervisory / management boards, the number of public enterprises that do publish legal acts on official websites is higher. Hence, 21

² If the PE does not have its own website, part of the information is usually published on the municipal website

public companies have published legal acts, while 73 public companies did not. In terms of published documents related to the method of price formation / compensation for services, two thirds of public enterprises do not publish this type of data. On the other hand, one third or 29 public enterprises have published a document on the official website related to the method of price formation / compensation for services (see graph 34).

4.3 THE LEVEL OF OPENNESS, ADAPTABILITY, AND AVAILABILITY OF INFORMATION AND DATA FROM PUBLIC ENTERPRISES

The degree of adaptability of the data, as well as the tools created by public enterprises that have the task of increasing the participation of citizens in decision-making, are the subject of analysis in this section. The reporting and transparency of public enterprises depend on the way in which the channels for communication with citizens are established. Regarding the degree of citizen participation in the creation of measures and the policy of public enterprises, only eight public enterprises have created an electronic tool on their official websites through which citizens will be able to participate in the creation of future measures, i.e. giving their proposals and suggestions for the future activities of the public enterprise. Regarding the notifications of the PE to the general public related to the financial effects of the realized projects, it can be concluded that, on average, the PEs do not practice this type of notification. In terms of the efficiency in the collection of services offered by PE, one-third (31 public enterprises) enable citizens to pay their obligations to the public enterprise electronically, which is why they have created and established a tool on the official website. On the other hand, still a significant part of public enterprises (69 public enterprises) have not established this type of opportunity for citizens. In terms of the possibility of establishing indirect and direct communication between citizens and the public enterprise, it can be noted that 55 public enterprises have appointed a contact person, while 37 public enterprises have created and placed a tool on the official website through which citizens can report a problem, make a complaint or criticize the operation of the public enterprise. On the other hand, 63 public enterprises have not provided such tool for their citizens, which complicates the process through which citizens can express dissatisfaction with the operation of the public enterprise. Regarding citizens' awareness of activities, 36 public enterprises publish information on the activities carried out in the previous period, as well as information on future planned activities, on their official website. One of the indicators of the degree of accountability and transparency of the public enterprise is the civil budget, from the analysis it can be concluded that no public enterprise has published a civil budget on the official website. In terms of availability of time series data (in a format suitable for processing), which can be used to analyze the degree of efficiency, accountability and transparency, including the debt and liabilities of public enterprises, it can be concluded that no public enterprise publishes time series data in such format (see chart 35).

Chart 35. Established tools on official websites and suitability of time series data (by number of public enterprises and in %)



Source: Processed data from the websites of public enterprises and municipalities.



4.4 ANALYSIS OF FINANCIAL INDICATORS OF PUBLIC ENTERPRISES

The low level of transparency and accountability of PE poses a limitation for detailed quantitative analysis of financial data that reflect the characteristics of their operations. Out of 94 public companies that are the subject of detailed analysis in this research, only 50 public companies have published basic financial data consistently. Hence, further analysis of selected financial data for public companies will be done on this sample of 50 public companies for which a database was created. Table 1 and graph 36 show the distribution of these public enterprises according to the activity, by individual planning regions.

Table 1. Distribution of public enterprises under the jurisdiction of LGUs in accordance with their core activity, by separate planning regions

Occupation	Planning region
Communal works	All planning regions
Urban planning and development of construction land	Northeast region Pelagonia region
Management of sports facilities	Vardar region
Collection, purification and distribution of drinking water	Pelagonia region
Maintenance and use of public parking space	Vardar region Northeast region
Energy services	Southeast region
Drinking water supply and waste water disposal	Northeast region
Construction of infrastructure facilities, distribution and supply of natural gas	Northeast region
Construction of utility facilities	Southwest region
Organizing and managing markets (green, wholesale and retail)	Northeast region Pelagonia region

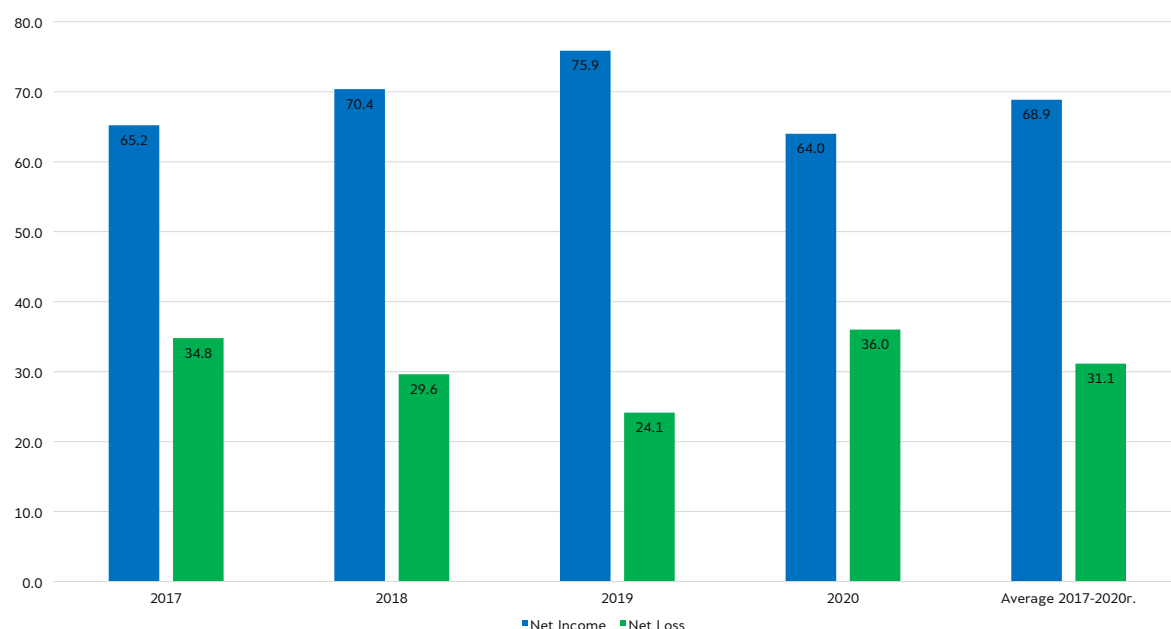
Chart 36. Number of public companies with basic financial data



Source: Own database

Considering that the database of public enterprises established by municipalities is incomplete, the further analysis will focus on one segment of them. Public enterprises that belong to the area of communal activities have the greatest representation, that is, the greatest number of basic financial indicators. Representation refers to the number of entities covered (on average 26 for the period from 2017 to 2020) and representation by region. Total revenues and total expenses were analyzed, specifically, the gross profit / loss for the period of analysis.

Chart 37. Gross profit / loss of municipal public enterprises from communal activity



Source: Own database

In the period from 2017 to 2020, on average, 31 percent of municipal public enterprises in the field of communal services operate at a loss. From the data it can be concluded that certain municipal PEs generate high profits every year (e.g. JP Komunalec Prilep, JP Vodovod i Kanalizacija, JP Plavaja, etc.), while others generate losses every year (e.g. JP Derven Veles, JP Komunalec Struga, JP Komunalec Kichevo and others). According to this, it can be concluded that a pattern exists in the behavior of PEs, that is, those that have bad financial performance appear more often, as opposed to those that have good financial performance. However, in the absence of most necessary indicators for the analysis of the reasons that lead to losses in certain PEs, correct conclusions cannot be drawn from the data. For example, there is a lack of data on the realization of revenues in relation to the plan, in order to conclude whether the failure of revenues is the main cause of the occurrence of the loss. At the same time, other data that refer to a smaller number of enterprises from other activities (such as management of parking lots, markets, from the field of urbanism, etc.) are not sufficient for the analysis of the operation of municipal public enterprises. For example, it can be concluded that most PEs are not efficient in the management of their finances due to the fact that they record losses on a yearly basis. This loss, in addition to indicating inefficient management of the budget by the PE, may also be it can also be the result of insufficient collection of public duties by citizens,

i.e. the low awareness among citizens of fulfilling their obligations. Additionally, it may be the result of low price of some services offered by PE. This means that there is a systemic problem in the management of PE finances. However, a complete analysis of the operations requires a significant improvement in the transparency of PE and publication of financial statements. At the same time, it is necessary for the state to have a centralized database for financial data for all public enterprises, at the central and local level.



5. CONCLUSIONS AND RECOMMENDATIONS

5.1. CONCLUSIONS FROM THE ANALYSIS OF REVENUES AND EXPENDITURES OF LGUS

The structure of the consolidated budget of municipalities shows a high dependence on transfers from the central budget. The municipalities' own revenues from taxes, non-tax revenues, capital revenues and donations represent one third of the budget funds. The remainder are transfers from the central government, which indicates a high degree of dependence of local authorities on transfers from the central budget.

Transfers from the central budget in the period from 2017 to 2021, on average, are 3.7 times higher than the municipalities' own revenues. In rural municipalities, the transfers are 4.8 times higher than their own revenues, while in urban municipalities from the interior of the country, this ratio is lower and amounts to 3.1 times. In the municipalities of Skopje and the City of Skopje, the ratio is the lowest and is, on average, 2 times of own revenues. The analysis of transfers per resident, in accordance with the latest data on the residents by municipalities, shows that five rural municipalities: Mavrovo and Rostuse, Novaci, Karbinci, Centra Župa and Staro Nagoricane have more than 20,000 denars in transfers per resident, which is much higher than the average of rural and urban municipalities (13,600 denars). These municipalities are at the top of the list in regards to the percentage of population decrease according to the data from the last census. In contrast to them, transfers per resident to the municipalities of Skopje and the city of Skopje, average 6,662 denars, or are twice lower than the average of rural and urban municipalities from the interior of the country.

In regards to own revenues, tax revenues have the largest share in most municipalities. Tax revenues as a percentage of total revenues are the lowest in rural municipalities and amount to 12 percent, while in urban municipalities, on average, they are 16.8 percent, with the highest share of tax revenues in the City of Skopje and the municipalities of Skopje, averaging 31.7 percent. The collected revenues from the property tax in rural municipalities, on average, are only five percent of total income, 5.8 percent in urban municipalities, while in the City of Skopje and the municipalities of Skopje, the property tax comprises an average 11.2 percent of the total income. The average amount of property tax per resident in rural municipalities is 907 denars, in urban municipalities 1,101 denars, and in the City of Skopje and municipalities of Skopje, the average reaches 1,473 denars. The total expenditures of municipalities from 2017 to 2021, on average, are MKD 18,000 per resident at the state level. Significant differences exist by groups of municipalities, namely, urban and rural municipalities from the interior of the country are above the average with 19,346 denars and 18,565 denars per resident respectively, while the city of Skopje and the municipalities of Skopje, on average, have 11,889 denars per resident.

Within the expenditures, almost one half of the municipalities' expenditures are for salaries and compensation of the public administration, about one quarter are expenditures for goods and services, while 20 percent, and in some years even less, are capital expenditures. Costs for basic salaries alone account for 45 percent of total expenditures in Gostivar, Tetovo, Vinica and Debar from the urban municipalities, and Želino, Tearce, Aračinovo, Bogovinje, Studeničani and Vrapcishte, from the rural municipalities. As for the Skopje region, 40 percent of the municipal budget goes to basic salaries in: Shuto Orizari, Saraj, Chair and Butel while the smallest portion belongs to the City of Skopje and municipality of Centar. The costs for basic salaries per resident are the highest in urban municipalities from the interior of the country and amount to 7,281 denars, in rural municipalities they amount to 6,331 denars, and in the municipalities of Skopje and the City of Skopje the average is lower and equals 3,954 denars. A large part of the budget of the municipalities also refers to the costs of goods and services, whose participation in the total expenses in the urban and rural municipalities is 21.4 percent and 18.5 percent respectively, while in the municipalities of Skopje and City of Skopje it is the highest with 25.1 percent of total expenses. Among capital expenditures, the largest and most significant category are expenditures for other construction facilities. In the urban municipalities and in the municipalities of Skopje and the City of Skopje, the share of these capital expenditures in the total expenditures, average 15.0 percent, while in the rural municipalities the average is higher and amounts to 22.3 percent.

The structure of the spending of municipal money is different by municipality, but, in general, a large part of the funds of the municipalities are spent on salaries, compensation and current expenses, which limits funding of capital investments. In 2020, in the context of the crisis caused by covid-19, the municipalities' own revenues recorded a significant decrease, while transfers from the central budget were increased. However, these transfers were reflected by an increase in public administration wages, while capital expenditure and expenditure on goods and services recorded a decrease.

5.2. CONCLUDING OBSERVATIONS ON THE TRANSPARENCY AND REPORTING OF LGUS

Majority or 90 percent of municipalities publish the adopted budget on their website, while the intensity of publication has marked an increasing trend starting from 2016. However, only 20 percent of municipalities publish budget proposals on their official websites. An even smaller percentage or only 10 percent of the municipalities have published a semi-annual report on their official website.

The programs of the budget beneficiaries are available on the websites of 34 municipalities, while 47 municipalities have not published programs for their budget beneficiaries. A budget execution report (K1) is published in 47 percent of municipalities, while 53 percent have not published such document (K1) in the period 2016-2021 on the municipal website. A report on the status of municipal liabilities (K2) is published only in 32 percent of the municipalities, while 68 percent of the municipalities have not published any document of such format. Lastly, the report on municipal debt (K3) is available only for 36 percent of

municipalities. However, in the analyzed period from 2016 to 2021, on average, there is an increase in the number of publicly available reports for all three (K1, K2, K3).

A significant part or 22 percent of the municipalities do not publish a final account on their own websites. However, even among the municipalities that have published a final account, only in 20 percent of the municipalities it contains an appropriate explanation, especially important for understanding by the citizens. In regards to the public procurement plan and the audit report, both are available only in 53 and 28 municipalities respectively. As for the fiscal strategy report, no municipality has published it such report on the website.

Municipalities mostly inform their citizens on urbanism, education, environment and local economic development and investments. Most of the municipalities do not practice publishing additional information about the services they provide. As many as 99 percent of municipalities do not publish additional information on health services, 93 percent of municipalities do not publish additional information on education and civil society, 85 percent of municipalities do not publish additional information on youth and sports, 81 percent do not publish additional information on local economic development and investments. The situation is slightly better in the domain of urban planning and environment, where 36 percent of municipalities (on their websites) have additional information on urban planning, and 22 percent have additional information on the environment.

Only 14 municipalities (17 percent) publish a civil budget on their websites. As many as 67 municipalities (83 percent) do not prepare and do not share with the public such a document, which significantly affects the increase of citizens' awareness of their role in the budget process at the local level, and encourages citizens to participate in the processes of planning and implementation of the municipal budget. Regarding the availability of communication with the municipality, 75 municipalities (93 percent) have a designated person for contact with citizens on their website, and 71 municipalities (88 percent) have set up some kind of channel / tool on their website through which citizens can make a request or complaint. Dominant parts of the municipalities (59 percent) do not have such electronic tool through which citizens could take an active part in the policymaking process.

Only even municipalities (nine percent) publish fiscal data in a time series format, while as many as 74 municipalities (91 percent) do not publish such data. Published data are mostly in .xls format (83 percent), and others are csv files (17 percent). Debt data for the last three or more years in the form of a time series is published only by one municipality (one percent) in .xls format, and the other 80 (99 percent) do not publish such data. Only five municipalities (six percent) publish data on income/expenditure for the last three years or more in .xls format. Time series on arrears are available on the website of only one municipality (one percent) in .xls format, and the other 80 municipalities (99 percent) do not publish time series on arrears.

Only seven municipalities (nine percent) have published information on tax and non-tax obligations imposed by the municipality on their websites. The analysis showed that only 13 municipalities (16 percent) publish a list (on their websites) of

organization that have been allocated funds. Most often, these lists are available in xls. format, followed by pdf. format and less often as doc. format. The other 68 municipalities (84 percent) do not publish a list of civil society organizations that they finance

The analysis showed that only 35 municipalities (43 percent) publish a list of the number of employees and positions.



5.3. RECOMMENDATIONS FOR IMPROVING THE TRANSPARENCY, REPORTING AND MANAGEMENT OF FINANCES IN LGUS

In order to have a more dynamic local development, careful management of municipal finances is crucial and necessary in order to ensure a high degree of transparency and accountability of municipalities. In addition to the high need for auditing transfers from the central budget and building a system for collecting own revenues, a transparent audit of the spending of municipal money is needed. At the same time, despite the fact that there is an improvement in the transparency of municipalities in the publication of key budget documents and financial reports, there is still considerable room for improvement in this domain. Attached are several recommendations, which may have an effect on more efficient management of the municipal budget as well as increased transparency and accountability of municipalities:

1. It is necessary to make a revision of the system of distribution of transfers from the central budget to individual municipalities. The analysis of transfers per resident, in accordance with the latest data on the situation of residents by municipality, clearly shows that a revision of the distribution of transfers should be implemented.
2. It is necessary to systematically link the transfers from the central budget with the efficiency in tax collection or specifically with the collection of property tax. The property tax can represent one of the main sources of funds for financing the municipal budget. The analysis of LGU revenues shows a cause for worry, namely, uneven collection of funds based on taxes, especially the property tax, is evident. On the other hand, certain municipalities have a high transfer from the central government despite a significantly low level of property tax collection. Additionally, the inflow from the property tax is not the most significant within the framework of tax revenues, but the revenues from taxes on specific services and services, which are essentially in the parafiscal duties section, have the largest share.
3. In addition to strengthening the capacity of municipalities to collect their own revenues, greater fiscal autonomy of municipalities is needed. This can be achieved by systematically increasing the transfers they receive from the central budget from VAT and from income tax in order to have more funds for capital projects and lower accumulated due and unpaid obligations.
4. It is necessary to reassess the property of the municipalities and improve the property tax collection system (especially the forced collection).
5. It is necessary to realistically determine the standard i.e. the real costs for local services (education, culture, social services) for which the municipalities receive block subsidies in order to eliminate the potential effects on the financial stability of the municipalities.
6. There is a significant need to strengthen the budgeting capacities of the municipalities, taking into account the low realization of the municipalities' own budget.

7. It is necessary to create a methodology that will determine the number of employees by types of municipalities, hence, enabling rationalization in the number of employees (especially in certain municipalities), considering that the salary costs dominate the expenditure side.
8. It is necessary to establish enhanced monitoring of LGUs by the Ministry of Finance, especially in the domain of fiscal discipline and sustainability.
9. The availability of data and information about the financial results, the execution of the budget, as well as the planned activities are directly correlation with the level of transparency and reporting of the LGU. The analysis of the active transparency through the municipal websites points to the conclusion that there is a significant room for improving the level of financial transparency and reporting of LGUs, especially in the time of digitalization when a large part of the activities that should be undertaken in that direction are not accompanied by significant financial costs / fiscal effects.
10. Transparent publication of the municipal budget proposal is necessary for four fifths of the municipalities.
11. It is necessary to publish a semi-annual report in 90 percent of the municipalities, which represents a good practice and a legal obligation according to the new Budget Law.
12. It is necessary to publish programs in an understandable manner for budget users in almost two thirds of the municipalities.
13. It is necessary to publish public procurement plans with all associated changes, annexes to the contracts, as well as appropriate notification of the implementation process.
14. There is considerable room for improving active transparency in the publication of key reports K1, and especially in the transparent publication of reports K2 and K3. An additional recommendation is that each of these reports is be accompanied by an appropriate descriptive explanation, which is currently lacking in the majority of municipalities.
15. The final account, as one of the key financial documents, must be accompanied by an adequate descriptive explanation, which will make it understandable and accessible to the stakeholders.
16. Considerable room for transparent sharing of information on urbanism, education, environment and local economic development and investments is needed, and especially in the areas of youth and sports, civil sector, health services.
17. It is particularly important to transparently state the financial costs for each of the services provided by the municipalities, the expected benefit, the price, the procedure for provision, etc.

18. In one third of the municipalities, there is still a need to announce an appointed contact person; channel / tool through which citizens can submit a complaint, request; some kind of electronic tool through which citizens could take an active part in the creation of policy, etc.
19. In almost all municipalities, it is necessary to publish series of financial / fiscal data for several years in arrears in a format suitable for processing, especially for income, expenses, and debt.
20. In the majority of municipalities, transparent publication of information on tax and non-tax obligations (parafiscal duties) imposed by the municipality is necessary.
21. It is necessary for municipalities to publish (on their website) a list of civil organization recipients of municipal funds.
22. Transparent publication of the systematization of employees by special positions / title and tasks is a good practice, which increases transparency.
23. Implementing a positive practice that influences the efficiency in the management of local finances, financial transparency and reporting as well as preparation and publication of the fiscal strategy of the municipality (which currently is not the case in any municipality).
24. Publication and public presentation of the civil budget is required. The results of the work of the municipal administration, as well as the projects and activities that are significant for the citizens must be presented to the stakeholders through various channels.
25. Improvement of the process of consultation and participation of citizens in the creation of future project activities, programs and measures of the municipality. It is advisable to base the process and channels through which the consultations will be carried out on the type, size and level of development of the municipality.
26. Establishing and active administration of official websites structured with contents understandable for citizens. Although only in small part of the municipalities show that some of them are characterized by complexity, lack of content and inconsistency in the publication of thematic content.
27. Establishing and actively maintaining official profiles on social networks, with a goal of improving and increasing citizens' awareness of the current activities of the municipality.

5.4. CONCLUSIONS FROM THE ANALYSIS OF PUBLIC ENTERPRISES

Public enterprises are characterized by a low level of transparency and accountability, especially financial transparency that emerges as a challenge that should be the focus of almost all public enterprises in the coming period. The absence of consistency in the publication and public presentation of financial reports / documents is one of the basic indicators through which the degree of efficiency of the operation of public enterprises can be analyzed, but at the same time indicating of the low level of transparency.

Out of 94 public companies subject to detailed analysis in this research, only 50 public companies were found to have publicly available and consistent basic financial data. The greatest representation, that is, the greatest number of basic financial indicators, is provided by public enterprises that offer communal works. Representation refers to the number of subjects covered (on average, 26 for the period from 2017 to 2020) and representation by region. In the period from 2017 to 2020, on average, 31 percent of municipal public enterprises in the field of communal services operate at a loss. From the data, it can be concluded that there is a pattern in the behavior of PEs, that is, those with bad financial performance appear in more often than those with good financial performance. However, in the absence of most of the necessary indicators for the analysis of the reasons that lead to losses in certain PEs, correct conclusions cannot be drawn from the data.

Regarding the planned activities of the public enterprises, it can be concluded that there is a modest level of awareness by citizens through publication on the official websites (own or of the municipalities) about the activities, the realization of which is planned for the future period. A significant part of public enterprises have modest channels of communication and established tools through which citizens will be able to submit proposals for measures / directions for future activities or participate in the creation of the measures / policy of the public enterprise. A key note in this direction is the absence of electronic communication channels for this purpose. Majority of the PEs have an objective need to increase the level of reporting and transparency especially when it comes to publishing the final account and the adopted budget.

The analysis shows that only 53 percent of public enterprises do not have their own website. Municipal public enterprises that have not yet created their own website use the official municipal website as a platform through which they inform citizens about their activities. Only 60 percent of public enterprises publish annual work programs on their (municipal) official website. The remainder, that is, the other 40 percent of public enterprises have no publicly available annual work programs. As many as 29 percent of public companies do not publish final accounts, while the other 71 percent have published final accounts, the dominant part of which is in the period from 2018 to 2020.

Most of the public enterprises do not publish information related to the specific projects that are implemented - only 14 percent of the public enterprises publish some form of report that contains information related to the specific projects / programs that they implement, but do not contain information about the financial aspect of such projects. Only 29 percent of public enterprises have

published a public procurement plan on their (municipal) website. Additionally, only 21 percent of public enterprises have published a plan for systematization, as well as an organizational structure of jobs. 70 percent of public companies have posted contact information for department heads. 69 percent of public enterprises do not publish the method of formation / compensation for the services they offer, while 31 percent do not record data on the prices they charge citizens.

Only 22 percent of public enterprises have published legal acts that regulate their functioning on their own (municipal) websites. Only five percent of public enterprises publish decisions taken by management / supervisory boards (especially those with financial consequences), while for the 95 percent of enterprises we did not observe this type of information / reports. Almost no information / data about the investments, income, expenses and financial results of the realized activities (or the activities and projects that are planned for realization) have been noted.

Only eight percent of public municipal enterprises have created a tool with their own website through which citizens can submit their proposals, suggestions, and opinions on the measures, policy and overall activities of the public enterprise. Only three percent of public enterprises have established a practice for transparent sharing of information about the financial benefits for citizens because of the implemented activities/projects. Only one third of public enterprises offer an online payment tool, while a significant part still do not offer this possibility. One half of public companies do not have a contact person set up on their official website, while 7 percent of public enterprises have established a tool/channel through which citizens can make a complaint, complain or report a problem as a consequence of the company's operation, while this is not the case in 63 percent.

The analysis of the availability of the civil budget, as one of the tools for informing citizens about the success of the work of the public enterprise, shows that no municipal public enterprise has created and published such document. The analysis also focuses on the availability of data on debt and liabilities of public enterprises in the period 2019-2021, however, no PE has published data on debt and liabilities in the last three years. No PE publishes on its (municipal) website time series of financial / fiscal data in a format suitable for processing, which can be used for analyzing the degree of efficiency, reporting and transparency.

5.4.1 Recommendations for improving transparency, accountability and financial management in public enterprises

A complete analysis of the financial operations of PEs established by municipalities requires a significant improvement in their transparency and publication of financial reports. At the same time, it is necessary for the state to have a centralized database for financial data for all public enterprises, at both central and local level.

The analysis of the availability of reports / information / data from the operation of public enterprises and channels for communication with stakeholders indicate significant bottlenecks in this direction and point to the need for significant improvement in:

28. Maintenance of functional websites of public enterprises.
29. Transparency in publishing of the final account, the proposal / adopted budget and the legal acts according to which the public enterprises function.
30. Transparent publication of the annual work programs and the decisions made by the management / supervisory boards (especially those with financial effects).
31. Information related to specific projects / programs implemented by public enterprises, as well as information / data on income, expenses and financial results of the implemented activities / projects.
32. Available information on the plan for public procurement, the plan for systematization (organizational structure of jobs) and contact information of responsible persons by sector.
33. Transparency in the publication of information on the method of formation / compensation / prices for the services provided by public enterprises is particularly important.
34. Creation of digital / electronic tools and communication channels through which citizens will be able to submit their proposals, suggestions, opinions on measures, policy and overall activities of the public enterprise.
35. Creation of electronic tools through which information would be provided on the services offered by public enterprises and their monitoring would be ensured.
36. Transparent provision of data and information on the debt and liabilities of public enterprises for the last three years.
37. Publishing (on their website) financial / fiscal data in a time series format suitable for processing.

