
PRELIMINARY REPORT

Fiscal Transparency and Accountability in Local Self-Government Units: Evidence from North Macedonia

Angela Zafirova^{1*} | Biljana Angelova¹

¹ "Ss.Cyril and Methodius" University, Institute of economics, Skopje, Republic of North Macedonia

ABSTRACT

The debate on the openness of governments and local self-government authorities toward improving transparency has become a fundamental postulate of democratic governance—not only in the Republic of North Macedonia but more broadly. Creating an efficient and transparent control system over public spending should prevent misuse of public funds and help combat the high incidence of corruption. Therefore, the aim of this research is to analyze the fiscal transparency and accountability of local self-government units in the Republic of North Macedonia. A key novel contribution of this study is the integrated application of the PEFA framework and the Index of Open Municipalities (IOM), two complementary yet rarely jointly employed methodologies, to assess municipal fiscal transparency. By combining a performance-based expenditure assessment (PEFA) with an institutional openness index (IOM), the study offers a multidimensional evaluation of transparency. The research relies on publicly available data for a representative sample of 16 municipalities over a three-year period (2021–2023), supplemented by primary data obtained through interviews and structured survey questionnaires. Another innovative aspect of the study is the comparative perspective across municipalities, particularly the systematic differentiation between urban and rural local governments. This approach draws attention to structural disparities in transparency practices that remain largely unexplored in the domestic literature. The findings confirm that fiscal transparency is not merely a normative obligation but a key mechanism for strengthening accountability, inclusiveness, and responsible governance at the local level. Although positive trends have been observed, the analysis shows that the average level of transparency in Macedonian municipalities remains unsatisfactory. Significant differences were noted between urban and rural municipalities, with the former demonstrating higher levels of transparency across all dimensions. By integrating PEFA and IOM and by introducing a comparative assessment between different types of municipalities, this study provides new empirical evidence and a more comprehensive analytical framework for evaluating fiscal transparency at the local level in North Macedonia.

Keywords: *fiscal transparency, accountability, local self-government, PEFA, index of open municipalities*

JEL Classification: H72, H83, M48, D73

INTRODUCTION

The debate on the openness of governments and local self-government units (LGUs) aimed at improving their transparency has become one of the fundamental postulates of democratic governance, not only in the Republic of North Macedonia but more broadly. The transparency of public institutions is at the core of democratic processes and represents one of the basic principles

* Corresponding author, e-mail: angelova@ek-inst.ukim.edu.mk

and values of the European Union, which the Republic of North Macedonia strives to join. Creating a sound system of financial responsibility is one of the key elements for further progress in implementing economic and social reforms in a country. Establishing an efficient system of control over the spending of public money should prevent misuse of public funds and help in the fight against the high incidence of corruption, which has become increasingly evident in the Macedonian public administration. The fiscal transparency and responsibility of local self-government units is also a precondition for establishing closer relations and starting negotiations with the European Union, one of the main goals of the Government of the Republic of North Macedonia. Therefore, reforming the system of fiscal transparency and accountability of LGUs will constitute a key part of the reform agenda in the years ahead, as demanded by the World Bank (2021).

Such a transparent presentation of how LGU funds are used enables greater participation of budget users in shaping local policies, encouraging the possibility for them to influence the formulation and improvement of decisions that have a direct impact on the quality of life in the municipality.

Budget transparency implies access to complete, accurate, and timely financial and other information that is publicly disclosed and available to all citizens. Budget transparency shows how prepared local authorities are to democratize the budget process by providing clear, timely information and enabling citizens to participate in every stage.

Access to information allows citizens to monitor, verify, and control the planning and allocation of municipal funds, thereby preventing inefficient and unfair public financial management and reducing the possibility of corrupt activities. Transparency is also viewed as a tool through which central and local governments are held responsible for delivering on their commitments, while at the same time being subject to scrutiny—and even criticism—by the public for their performance and results. Such pressures and public oversight are even greater in a period of economic and energy crises the world faces today, as well as the crisis caused by the COVID-19 pandemic. Inevitably, this will compel local government administrations to speak more about costs and benefits when making key decisions. This pressure for better utilization of resources is directly linked to the effectiveness and efficiency of local policies and programs—in terms of the most rational use of their financial and other capacities—and, at the same time, represents an opportunity to improve the reputation of local governments and reduce citizens' distrust in local authorities and their policies.

The aim of this research is to analyze the fiscal transparency and accountability of local self-government units in the Republic of North Macedonia. Based on the subject and objectives defined, the research starts from the assumption that the level of fiscal transparency of LGUs in the Republic of North Macedonia is a very important factor that determines the level of economic and social development of the municipality and the quality of life of its residents.

In line with the identified gaps in the literature on subnational fiscal transparency, this study examines the extent to which local self-government units (LSGUs) in North Macedonia provide accessible, timely, and comprehensive fiscal information and whether such transparency varies systematically across different types of municipalities. Accordingly, the central research question is: **To what extent are municipalities in North Macedonia fiscally transparent and accountable, and how do transparency levels differ between urban and rural municipalities when assessed through the combined application of the PEFA framework and the Index of Open Municipalities (IOM).**

By testing this research question, the study contributes to the existing literature by integrating two methodological traditions, performance-based fiscal evaluation (PEFA) and institutional openness assessment (IOM), in a context where such an approach has not yet been applied. Additionally, the study enriches the empirical evidence on subnational fiscal transparency by introducing a comparative analysis between urban and rural municipalities, thereby addressing a gap observed in prior research.

The rest of the paper is structured as follows. Section 2 elaborates on the theoretical background and the research in the field of interest. Data description and methodology used are described in Section 3. Sections 4 and 5 analyze the Index of Open Municipalities and PEFA indicators, respectively. Section 5 concludes the paper.

THEORETICAL BACKGROUND

High-quality financial and non-financial data on fiscal actions, characteristics, risks, and public assets and liabilities should be accessible to the public. Fiscal data should be presented in budgets, fiscal reports, financial statements, and national accounts in a manner consistent with internationally accepted standards adopted by the Financial Stability Board (2019), and consistently across report types. The Global Initiative for Fiscal Transparency (2018) confirms these requirements and adds that a high degree of transparency and accountability requires publishing precise, quantitative goals for overall fiscal policy, tracking their evolution over time, and explaining changes. The integrity of fiscal data and information must be guaranteed. Authorities—both central and local—should make efforts to evaluate the expected and actual social, economic, and environmental impacts, report on them, and disclose the goals they pursue and the results achieved with the resources entrusted to them.

In terms of the legal framework, the International Monetary Fund (2012) stresses that every financial transaction within the public sector must be supported by law. The public should have access to the laws, rules, and administrative procedures that regulate public financial management, and their implementation should be open to independent examination. All processes related to fiscal transparency should be conducted in an open and clearly regulated manner, following established legal rules and procedures as explained by Mabillard and Zumofen (2017).

Kopits and Craig (1998) define fiscal transparency as openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. To enable the public and financial markets to properly assess the government's financial position and the real costs and benefits of operations—including current and future economic and social consequences—fiscal transparency implies easy access to reliable, thorough, timely, understandable, and internationally comparable information on government operations.

Rosendorff and Vreeland (2006) emphasize that meeting these requirements leads to democratic fiscal transparency and a transparent political regime that provides timely and accurate information about itself, its operations, and the country as a whole. According to Fung (2013), democratic fiscal transparency rests on four principles. First, the public should have access to information about the activities and decisions of the Government and local authorities that affect residents. Furthermore, the quantity of available information should correspond to the degree to which the institution's activities and operations affect the public interest. The information should be presented and organized so that users can easily access it. Finally, the social, political, and economic goals should be structured in such a way that stakeholders are able to act based on the findings and insights revealed.

Grimmelikhuijsen and Welch (2012) explain transparency as disclosure that enables external actors to analyze, assess, and monitor internal operations and characteristics. It supports policy goals such as reducing corruption, uncovering conflicts of interest, strengthening trust in institutions, enabling public participation and improving administrative efficiency.

Therefore, Sol (2013) concludes that transparency affects four distinct domains: reducing corruption, increasing participatory decision-making, improving the efficiency of institutions, and creating better conditions for economic development through better governance.

At the local government level, results from a recent study indicate that higher budget transparency is linked to greater own-source revenues, suggesting that transparency helps

restrain opportunistic borrowing while supporting revenue performance (Mourão, Bronić and Stanić, 2023).

Accountability, according to Yilmaz and Beris (2008), is the other key element of effective—i.e., successful—governance. It entails being answerable to the public and to all stakeholders for decisions or activities at the relevant level of government and taking responsibility for decisions related to the use of public resources. As stated by Melville and Mironyuk (2016), accountability cannot be maintained in the absence of transparency and the rule of law; their absence is, among other indicators, considered poor governance. Improved transparency is followed by improved accountability and responsibility. Hence, fiscal transparency must always be accompanied by accountability, which is why Hood (2010) describes transparency and accountability as Siamese twins, or matching parts, because transparency is a prerequisite and is necessary but not sufficient without accountability, which requires clear goals and responsibility.

In this sense, accountability in the public sector is part of its responsibility; in the context of local self-government units, it is the process of sharing information, explanations, and results—i.e., concretely presenting the work of the LGU—and evaluating the presentation of results from the work of the LGU and the entire budget process before citizens.

Further support for the importance of transparency and accountability in local governance comes from evidence that highlights the need to bring accountability mechanisms to the forefront of empirical analysis (Aquino, 2024).

Accountability, as explained by Cangiano (2017), is considered as a crucial element in the process of achieving better, efficient, and inclusive delivery of public services—especially during periods of austerity and resource constraints and the events that shape our era (for example, the post-COVID-19 economic recovery, climate crises, or the energy crisis caused by the war between Russia and Ukraine). Fiscal transparency appears to limit inappropriate fiscal behavior in the short term, while supporting improved fiscal outcomes over time (Liu and Chen, 2024). Accountability is often used as a conceptual umbrella; according to Adhikari et al. (2023), it embeds the abstract elements symbolizing democracy, such as equality, fairness, transparency, integrity, efficiency, and responsibility. As a result, public accountability, as concluded by Ferry et al. (2015), has always been necessary due to “the need to ensure democratic control of public institutions, to prevent corruption and abuse of power, and to improve public trust in governance arrangements.” In line with the previous discussion, recent empirical research shows that fiscal transparency can strengthen the positive effects of anti-corruption efforts of local government (Yang, Hu, Su and Qiao, 2024). These findings are further supported by additional empirical evidence, which indicates that higher levels of transparency at the local level are associated with lower levels of corruption and stronger institutional accountability (Lyeonov, Drozd and Reshetniak, 2024).

Beetsma, Debrun and Sloof (2022) argue that greater transparency reduces informational noise for voters and limits opportunistic fiscal behavior. They also emphasize the role of independent fiscal councils in reinforcing these effects.

Based on prior empirical findings that link institutional openness with improved fiscal reporting and oversight (Fung, 2013; Grimmelikhuijsen and Welch, 2012; Sol, 2013), and the emphasis of the PEFA framework on disclosure, credibility, and completeness of fiscal information, the research proposes the following hypotheses:

H1: Municipalities with greater institutional openness (as captured by the IOM) are expected to demonstrate higher levels of fiscal transparency according to PEFA indicators. This hypothesis is grounded in the argument that transparency and accountability function as mutually reinforcing governance mechanisms (Hood, 2010; Mabillard and Zumofen, 2017).

H2: Urban municipalities are expected to exhibit higher transparency scores than rural municipalities. Previous research shows that urban local governments generally

possess more administrative capacity, professional staff, and digital infrastructure, which increases the likelihood of publishing timely fiscal information (Rosendorff and Vreeland, 2006).

H3: Higher transparency in budget documentation and public access to fiscal information is associated with enhanced accountability practices at the local level. This is consistent with studies that conceptualize accountability as dependent on both the availability and the usability of fiscal information (Cangiano, 2017; Yilmaz and Beris, 2008).

DATA AND METHODOLOGY

To assess the transparency of local self-government units (LSGUs), this research employs the Index of Open Municipalities (IOM) and the PEFA methodology (PEFA — Public Expenditure and Financial Accountability). Since 2001, PEFA has been promoted as one of the fundamental tools for assessing public expenditures, the credibility and the indicative value of financial statements for different user groups, for evaluating systems of fiscal transparency, and for creating a matrix on the basis of which indicators can be differentiated and used to design an appropriate reform.

The core of the PEFA methodology was initially aimed at assessing the central government, but it is increasingly used to evaluate the characteristics of the local authorities. In that direction, in 2020, the first draft version of PEFA for the evaluation of local self-government units was issued (SNG PEFA — Subnational Government's Public Expenditures and Financial Accountability), providing additional guidance for applying PEFA at the local level.

Within this research, the latest version of the PEFA methodology (2016) and SNG PEFA (2020) will be applied. Additionally, a set of PEFA indicators relating to the transparency and accountability of LSGUs will be selected and analyzed in all their dimensions, in accordance with this methodology.

For the purposes of this research, publicly available data for individual municipalities are used for a period of at least three consecutive years (2021–2023). In addition to publicly available data, the study also relies on primary information collected through structured questionnaires distributed to local self-government units. The questionnaire consisted of 26 statements assessed on a five-point Likert scale ranging from "strongly agree" to "strongly disagree," designed to capture the municipalities' self-evaluation of their fiscal transparency practices. These items were formulated to reflect key elements of disclosure, reporting quality, and public accessibility of fiscal information, ensuring their direct relevance to the analytical framework of the study. After collecting all responses, the data were systematically coded in accordance with the PEFA methodological guidelines. Each response category was assigned a corresponding value that aligned with the PEFA scoring logic, enabling the transformation of qualitative perceptions into structured, comparable indicators. Following the coding procedure, all responses were organized and interpreted according to the relevant PEFA dimensions for each evaluated indicator, which facilitated a coherent and methodologically consistent assessment of municipal fiscal transparency.

The selection of a representative sample of municipalities covered in this research is based on three structured criteria: population size (one small and/or one medium or one large municipality), total revenues of its core budget (one municipality that achieved total revenues above 200,000,000 MKD in 2023 and one municipality that achieved total core-budget revenues below 200,000,000 MKD) and the type of municipality (one urban and one rural). According to the given criteria, two municipalities from each statistical region in the Republic of North Macedonia are included.

INDEX OF OPEN MUNICIPALITIES

The degree of institutional openness toward citizens and society is measured through the Index of Open Municipalities, a comprehensive composite indicator designed to evaluate how effectively public institutions provide easily understandable information to the public. The index assesses the municipal budget process for one fiscal year across three dimensions: transparency, inclusion and fairness and accountability.

On a scale from 0 to 100, each dimension represents a separate sub-index quantifying its unique contribution to the overall openness score of the municipality. The municipality's index value is calculated as a simple average of the three dimensions, meaning that each aspect of the municipal budgeting process bears equal weight. According to the established standards of openness, the municipality must achieve a score of at least 61 to meet the requirement for a satisfactory level of openness. Specifically, when the index value ranges from 0 to 20, openness is considered insufficient; from 21 to 40, minimal; from 41 to 60, sufficient, and from 61 to 80, satisfactory.

According to the Index of Open Municipalities in the Republic of North Macedonia, a minimal level of openness is observed in local governments during the analyzed period from 2021 to 2023. In 2021, only five (5) municipalities achieved a satisfactory level of openness. Eighteen (18) LSGUs had sufficient openness of the budget process (index values between 41 and 60), while the majority, forty-one (41) municipalities had minimal openness (index values between 21 and 40). Nineteen (19) LSGUs recorded an index below 17.9, indicating insufficient openness. The average openness of municipal budget processes in 2021 was 32.4.

Municipalities with minimal or sufficient levels of budget openness were found in most regions — Eastern, Polog, Pelagonia, Southeastern, Southwestern, and Northeastern — while the Vardar region recorded the highest share of municipalities with insufficient openness. In the Eastern Region, most municipalities demonstrated sufficient openness, while six (6) had minimal openness (Figure 1).

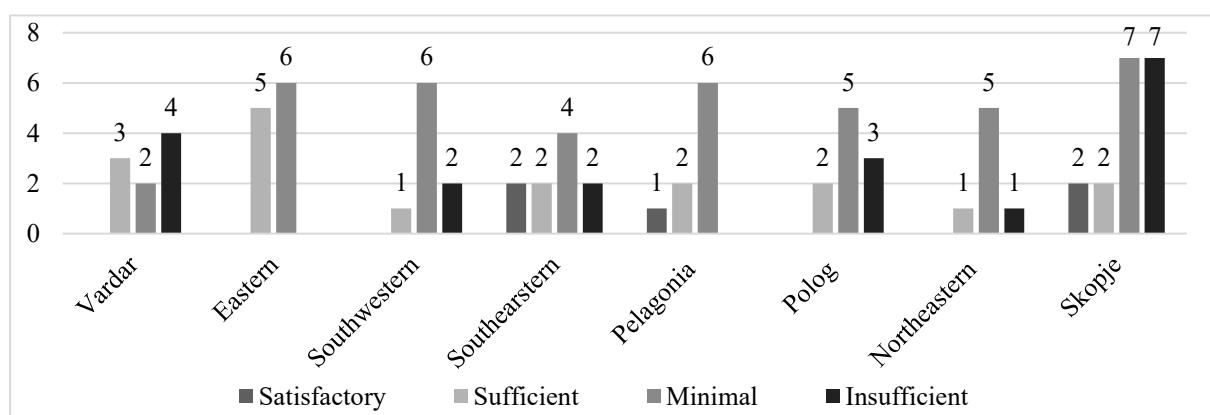


Figure 1. Level of openness by regions for 2021

Source: ZMAI (2022). *Report on the openness of municipal budget processes in the Republic of North Macedonia for 2021*

In 2022, the average municipal openness score in the Republic of North Macedonia was 35.2, still categorized as minimal, since most municipalities (49 LSGUs) scored between 21 and 40. Only eight (8) municipalities reached a satisfactory level of openness.

By region, differences persist; most municipalities with minimal openness are located in the Skopje Region (11), followed by the Pelagonia Region, while the fewest are found in the Northeastern Region (3). The lowest levels of openness were again recorded in Skopje and Pelagonia (3 municipalities each), whereas no municipalities with insufficient openness were found in the Southeastern and Eastern Regions (Figure 2).

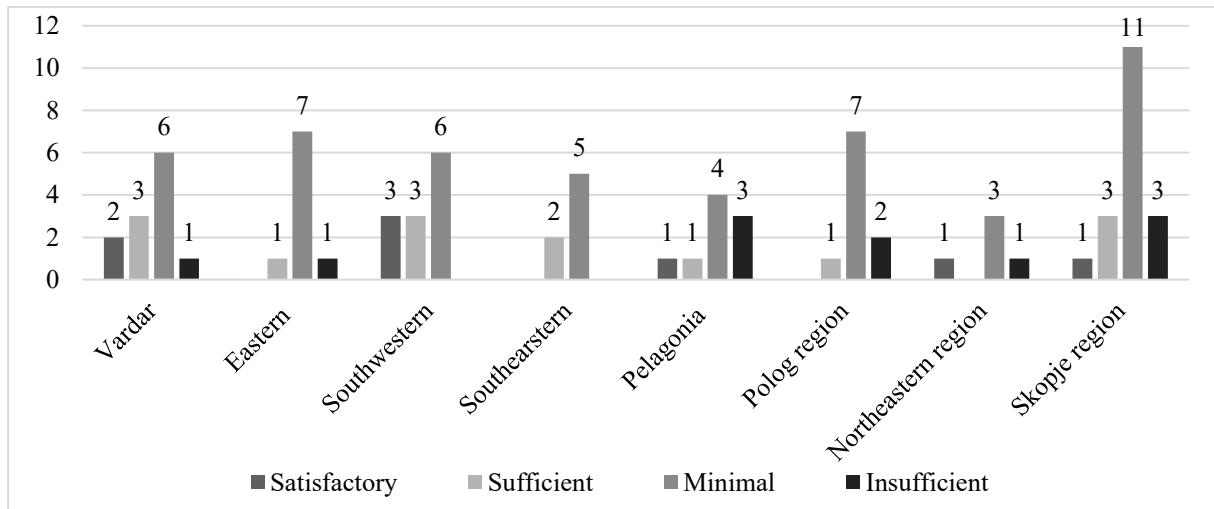


Figure 2. Level of openness by regions for 2022

Source: ZMAI. (2023). *Report on the openness of municipal budget processes in the Republic of North Macedonia for 2022*

In 2023, the Index of Openness for municipalities in North Macedonia reached 37.4, remaining within the minimal range. The majority of municipalities showed minimal (32) or insufficient (10) openness of budget processes. Thirty-four LSGUs exhibited sufficient openness, while only five municipalities achieved a satisfactory level. Urban municipalities continue to outperform rural ones across all three core dimensions — transparency, inclusion and fairness, and accountability (Figure 3).

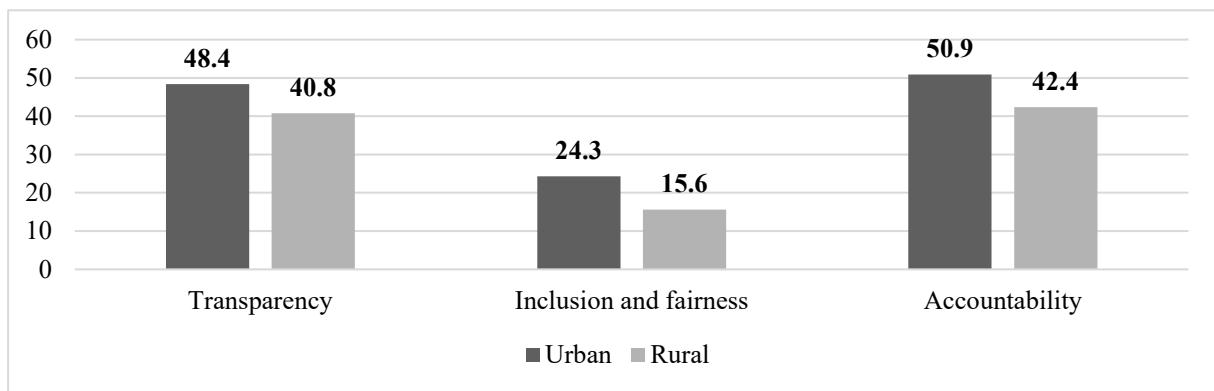


Figure 3. Dimensions of openness of LSGU by type for 2023

Source: ZMAI. (2024). *Report on the openness of municipal budget processes in the Republic of North Macedonia for 2023*

Although the average openness index gradually increased (from 32.4 in 2021, to 35.2 in 2022, and 37.4 in 2023), many municipalities still progress slowly, remaining at minimal or insufficient levels. Urban municipalities consistently dominate, while rural ones have not yet achieved satisfactory transparency and accountability. The persistent number of municipalities with low openness — 10 insufficient and 32 minimal in 2023 — highlights the urgent need for reform.

The analysis of the three openness dimensions shows that the greatest challenge for LSGUs lies in inclusion and fairness, whereas transparency and accountability perform better. The most significant improvement occurred in accountability, which rose by five points (from 40 in 2021 to

45 in 2023). Inclusion and fairness remain the weakest dimension, though they increased by four points (from 18 in 2021 to 22 in 2023).

PEFA INDICATORS FOR BUDGET TRANSPARENCY AND ACCOUNTABILITY

To assess the budget transparency and accountability of local self-government units (LSGUs), three key PEFA indicators were selected—together with their dimensions—directly related to these two criteria: PI-5: Budget Documentation, PI-9: Public Access to Fiscal Information and PI-17: Transparency in the Budget Preparation Process, which also encompass important dimensions such as participatory budgeting and budget forums.

The fifth and ninth indicators from PEFA's second pillar directly evaluate the public's access to fiscal information. This includes whether information is easy to find and understand, available in open formats, and whether key budget documents are published. The indicators also assess the channels through which access is provided (such as publication on the LSGU website, digital platforms, public debates, surveys, reporting via audiovisual and print media, etc.), and whether reporting is timely and comprehensive. Specifically, they examine whether data on revenues and expenditures, audit reports, fiscal forecasts, and similar information are accessible free of charge and without registration. This indicator is vital for sound control and monitoring of budget processes, good governance, and robust transparency and accountability.

Monitoring of participatory budgeting is covered by the seventeenth indicator from the fourth pillar, which measures the effectiveness of participation by relevant stakeholders in the budget preparation process. This includes citizen involvement across all phases of the budget cycle, participation in preparing the budget calendar and engagement during the phase of submitting the budget to the legislative body.

Public Access to Fiscal Information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specific information elements considered essential for citizens. It contains one dimension. The evaluation timeframe is one completed fiscal year (2023), and the assessment follows the criteria set out in the PEFA framework.

Table 1. Overview of fiscal information available to the public for 2023

	Number (%) of municipalities that published:	Number (%) municipalities that did not publish:
Basic elements		
Draft budget	5 (31.25%)	11 (68.75%)
Adopted budget	13 (81.25%)	3 (18.75%)
Budget reports	10 (62.5%)	6 (37.5%)
Financial statements	10 (62.5%)	6 (37.5%)
Audited financial statement	4 (25%)	— (Not applicable for others)
Additional elements		
Pre-budget statement	3 (18.75)	13 (81.25%)
External audit reports	4 (25%)	— (Not applicable for others)
Macroeconomic projections	—	— (Not applicable for others)
Second set of additional elements		
Information on fees, charges and taxes	10 (62,5)	6 (37.5%)
Information on provided services	13 (81.25%)	3 (18.75%)

Source: Prepared by the author

From the analysis of the representative sample, we can conclude that there is no municipality in the Republic of North Macedonia that makes available to citizens all the necessary fiscal information related to the operations of local self-government.

Only 31% of municipalities publish their draft budget for the following fiscal year, while nearly 19% do not even publish the adopted budget on their official municipal website (Table 1).

Regarding budget and financial reports, these are publicly available in 63% of the municipalities in the representative sample. The pre-budget statement—which should be included in the medium-term budget program—and the summary of the draft budget contained in the citizens' budget are publicly available in only 3% and 5% of municipalities, respectively.

Information on fees, charges, and taxes payable by citizens is clearly and precisely explained and publicly posted in 10% of municipalities, while information on services provided and completed projects is published on official municipal websites in 81% of municipalities.

External audit reports for municipalities and entities under their authority are published and available to the public on the State Audit Office's official website (2023). Because the timeframe for evaluating indicator PI-9 is one completed fiscal year (2023), the audits performed in 2023 were taken into account. For all other municipalities for which no external audit was carried out in 2023, neither the basic element—audited annual financial statements accompanied by the external auditor's report—nor the additional element—other external audit reports—are applicable. In addition, the additional element 'macroeconomic projections' is not applicable at the local level because such projections are made at the national level and are included in the budget circular guidelines. Where additional elements identified for subnational assessment are not applicable, they are replaced with a second set of additional elements, as explained in the methodology.

Table 2. Criteria for assessing the indicator PI-9

Grade	Minimum conditions	Number (5%) of municipalities
A	Eight elements available on time, including all five basic ones	2 (12.5%)
B	Six elements available on time, including at least four basic ones	5 (31.25%)
C	Four basic elements available on time	2 (12.5%)
D	Fewer than 'C' conditions met	7 (43.75%)

Source: Prepared by the author

According to the PEFA scoring criteria, only two municipalities in the representative sample made eight elements available to citizens within the prescribed deadlines—including all five core elements—and therefore received an A rating. Five municipalities (31%) provided six elements—at least four of which were core elements—and received a B rating. Two municipalities, rated C, made only four core elements available within the deadlines. Unfortunately, as many as 44% of municipalities made fewer than four core elements publicly available and received an unsatisfactory rating for PI-9 (Table 2).

Budget Documentation

This indicator evaluates the comprehensiveness of the information presented in the annual budget documentation, measured against a list of basic and additional elements. It has one dimension. The timeframe covers one budget submitted to the Municipal Council and is assessed in line with the criteria specified in the PEFA framework.

Table 3. Overview of information presented in the annual budget documentation for 2023

	Number (%) of municipalities that published:	Number (%) municipalities that did not publish:
Basic elements		
Accounting result	16 (100%)	— (Not applicable for others)
Budget execution in the same format as the draft version	7 (43.75%)	9 (56.25%)
Adopted budget in the same format as the draft version	11 (68.75%)	5 (31.25%)
Classified aggregate data on revenues and expenditures	16 (100%)	— (Not applicable for others)
Additional elements		
Financing of deficit	—	— (Not applicable for others)
Macroeconomic projections	—	— (Not applicable for others)
Debt balance	15 (93.75%)	1 (6.25%)
Financial assets	5 (31.25%)	11 (68.75%)
Fiscal risks	2 (12.5%)	14 (87.5%)
Impact of the budget on public policies	—	— (Not applicable for others)
Medium-term fiscal projections	2 (12.5%)	14 (87.5%)
Quantification of tax expenditures	—	— (Not applicable for others)

Source: Prepared by the author

From Table 3, we can conclude that all municipalities calculate the accounting result at the end of the fiscal year to determine whether there is a surplus of revenues to be carried forward into the following year or whether expenditures exceed revenues and an additional source of financing is needed to cover the recorded expenditures.

Our analysis shows that 43% of municipalities present the execution of the previous year's budget in the same format as the draft budget, while the others use different formats, which hinders comparability. Only 69% of the municipalities in the representative sample present the adopted 2023 budget in the same format as the draft budget for that year.

Classified budget revenues, financial assets, medium-term fiscal projections, and quantification of tax expenditures are most often presented in municipal annual reports, but not all municipalities prepare them, and not all include all of the required elements.

Aggregate data on budget revenues and expenditures, divided by group according to the general classification, are presented in the 2023 financial statements for all municipalities.

Debt balances are typically presented in municipal budget reports and in the K3 indebtedness form, which was prepared by all municipalities for 2023, with the exception of only one municipality.

Financial assets are presented in the 2023 annual reports in only five municipalities, although that did not include any detailed data. Only two municipalities prepare medium-term fiscal projections and an assessment of fiscal risks that may potentially arise from municipal operations.

None of the municipalities in the representative sample provide an explanation of the impact of new proposals and public policies on the municipal budget, nor do they quantify tax expenditures.

The additional elements—deficit financing and macroeconomic projections—are not applicable at the local level. A deficit in the basic municipal budget arises only when borrowing is planned; otherwise, expenditures are planned at the level of projected revenues and no deficit occurs. A municipal budget deficit may arise when self-financing activities, grants, donations, and loans—which are not part of the basic municipal budget—are taken into account. Macroeconomic projections are made at the national level and are included in the budget circular.

If one or more additional elements are not relevant, the scoring of this indicator should be adjusted to reflect the number of additional aspects that do apply at the local level (according to the PEFA methodology).

Table 4. Criteria for assessing the indicator PI-5

Grade	1 N/A element	2 N/A elements	3 N/A elements	Number (%) of municipalities
A	4 basic + 5 additional	4 basic + 4 additional	4 basic + 3 additional	2 (12.5%)
B	3 basic + 3 additional	3 basic + 2 additional	3 basic + 1 additional	3 (18.75%)
C	3 basic	3 basic	3 basic	5 (31.25%)
D	Fewer than 3 basic			6 (37.5%)

Source: Prepared by the author

With respect to PI-5 (Table 4), as many as 31% of municipalities prepare and publicly publish only three basic elements of the necessary budget documents and therefore receive a C rating, while 38% receive an unsatisfactory D rating because they prepare fewer than three basic budget documents within the prescribed deadlines.

Transparency in the Budget Preparation Process

This indicator measures the effectiveness of the participation of relevant actors in the budget preparation process, including political leadership, and whether such participation is orderly and timely. It contains three dimensions and uses the M2 (AV) method to aggregate the dimension scores. The timeframe for evaluating dimensions 17.1 and 17.2 is one budget submitted to the Municipal Council, while for dimension 17.3 is a period of three years (2021-2023), assessed according to the criteria set out in the PEFA methodology.

Table 5. Criteria for assessing the indicator PI-17

Dimension	Grade	Minimum conditions	Number (%) of municipalities
17.1 Budget calendar	A	Clear calendar, generally observed; ≥ 6 weeks for budget units	7 (43.75%)
	B	Clear calendar, largely observed; ≥ 4 weeks for units	6 (37.5%)
	D	Below 'C' conditions	3 (18.75%)
17.2 Budget circular	A	Comprehensive circular; cabinet-approved ceilings before issuance	6 (37.5%)
	D	Ceilings missing or late	10 (62.5%)
17.3 Submission to council	A	Submitted ≥ 2 months before FY start in each of the 3 years	3 (18.75%)
	B	Submitted ≥ 2 months in 2 of the 3 years; before FY in 3 rd	6 (37.5%)
	C	Submitted ≥ 1 month in 2 of the 3 years	4 (25%)
	D	Below 'C' conditions	3 (18.75%)
PI-17: Transparency in the budget preparation process	A		3 (18.75%)
	B		4 (25%)
	C		5 (31.25%)
	D		4 (25%)

Source: Prepared by the author

From Table 5, we can conclude that 44% of municipalities had a clear budget calendar for 2023 that was generally followed and provided to the budget units within at least six months from receipt of the budget calendar to complete their detailed estimates on time; consequently, for these municipalities, dimension 17.1 was rated A. In 38% of municipalities, there was a clear budget calendar for 2023 that was largely followed, giving budget units at least four weeks from receipt of the budget circular to complete their detailed estimates on time.

For the budget circular to be complete, it must include ceilings by individual items; however, this was not the case for the 2023 budget circular in as many as 63% of municipalities in the representative sample, so for these municipalities, dimension 17.2 received a D rating.

During the conduct of this analysis, we observed that after the municipality receives the budget circular, together with the expenditure ceilings by individual line items, it is forwarded to the municipal budget users; however, the consolidated budget most often does not reflect the requests of the local self-government units. Instead, once the circular has been processed—and after interventions by the municipal administration and the mayor—the consolidated budget is submitted to the Municipal Council for final adoption. Additionally, we encountered situations in which the Ministry of Finance sent the budget circular to the municipalities within the prescribed deadline, but it did not, in a timely manner, include information on the amounts of transfers the municipalities would receive. Consequently, the circular that is forwarded to budget users within the municipality also lacks information on the financial framework, i.e., the ceilings within which they must plan their activities for the following year. This information is obtained later, which delays the timely planning of the next year's budget and results in missing the statutory deadline for submitting the draft budget to the Municipal Council by 15 November of the current year for the following year's budget.

For these reasons, only 19% of municipalities submitted their draft budget to the Municipal Council at least two months before the start of the fiscal year in each of the three years and therefore received an A for dimension 17.3. In six municipalities, in two of the three years, the local authority submitted the draft budget at least two months before the start of the fiscal year and submitted it before the start of the fiscal year in the third year, thereby receiving a B rating for dimension 17.3. Municipalities rated C for dimension 17.3 submitted the draft budget at least one month before the start of the fiscal year in two of the three years.

Overall, only three municipalities were rated A as the most transparent in the budget process under indicator PI-17, four municipalities were rated B, and four municipalities—rated D—were among the least transparent with respect to the budget process.

CONCLUSIONS

Local governments collect and spend public funds to provide goods and services for citizens. To do so effectively, they must implement sound fiscal policy, manage finances responsibly and remain fully accountable for their decisions and actions. Transparent budget systems, where local authorities provide the public with comprehensive, timely, accurate, and useful information, make this possible. Existing research shows that such transparency improves the local authority credibility, increases effectiveness, limits corrupt and wasteful spending, and facilitates access to domestic and international financial markets.

The central research question of this study sought to determine the extent to which municipalities in North Macedonia demonstrate fiscal transparency and accountability, and whether these transparency levels differ between urban and rural municipalities when evaluated using an integrated PEFA-IOM methodological framework. The results provide a consistent empirical narrative: while overall transparency practices remain modest, clear and systematic differences appear across municipal types, and institutional openness emerges as a critical factor linked with enhanced fiscal disclosure.

Accordingly, the first hypothesis is **supported**. The findings confirm that openness and fiscal transparency function as mutually reinforcing dimensions of good governance. Municipalities that exhibit stronger public communication, more accessible information channels, and participatory mechanisms tend to meet a greater number of PEFA disclosure requirements, particularly those related to budget documentation, reporting timeliness, and public access to fiscal information.

These results are consistent with previous studies, which find that higher fiscal transparency strengthens accountability and public trust at the local government level (Ferry, Eckersley and Zakaria, 2015; Mourão, Bronić and Stanić, 2023).

The second hypothesis is also **supported**. Urban municipalities consistently outperform rural ones across nearly all indicators. The results reflect structural disparities documented in previous studies: urban units possess greater administrative capacity, more professional staff, stronger digital infrastructure, and more resources dedicated to information management.

Similar urban-rural differences in fiscal transparency have been observed in other empirical studies, where administrative capacity and institutional resources play a decisive role (Liu and Chen, 2024).

The third hypothesis is partially supported. While municipalities with higher transparency do exhibit more consistent reporting and more visible accountability mechanisms, the relationship is not equally strong across all indicators. The interaction between transparency and accountability appears contingent on additional factors—such as administrative capacity, political commitment, and citizen engagement.

This finding is consistent with recent empirical evidence suggesting that transparency contributes to accountability only when supported by political commitment and citizen engagement (Yang, Hu, Su and Qiao, 2024).

Based on the findings, we can conclude that fiscal transparency is not only a normative requirement but also a key mechanism for ensuring accountable, inclusive and responsible local governance. Although positive trends have been observed in recent years in the increased publication of budget documents and improved access to information, the analysis showed that the average level of transparency among municipalities in the Republic of North Macedonia remains unsatisfactory. Significant differences were noted between urban and rural municipalities, with the former demonstrating higher levels of transparency, while the latter continue to exhibit alarmingly low results.

In line with the Index for Open Municipalities, in the Republic of North Macedonia, a minimal level of openness of local authorities is observed in the period analyzed (2021–2023). The PEFA analysis also confirms the low levels of transparency, accountability, and openness of LSGUs toward citizens in North Macedonia. Assessing municipalities in accordance with the PEFA indicators for transparency and accountability—PI-5 (Budget Documentation), PI-9 (Public Access to Fiscal Information), and PI-17 (Transparency in the Budget Preparation Process)—we arrived at the same conclusion regarding the need to improve transparency and accountability of LSGUs.

The local authorities must strengthen the fiscal transparency and openness of their operations. First, the existing core budget documents must be publicly available. Although most municipalities have published them, this is not the case for all. Municipalities that prepare but do not publish these documents should do so immediately and at minimal cost by using their official websites.

Local authorities should also strive to broaden citizen participation, which can lead to a public dialogue on budgeting and the preparation and publication of a citizens' budget. To expand access and avoid unequal access to information, budget reports should be published on official municipal websites. Where internet access is limited, municipalities can provide hard copies—at least of the core budget documents—available in public libraries and information desks nationwide, free of charge or for a minimal fee. In multilingual countries such as North Macedonia, budget reports

should be published in multiple languages. To facilitate data use, budget reports should be accompanied by versions that allow open access to data. Local authorities should commit to publishing each document on time; late publication eliminates the possibility for citizens to use the information promptly and to be engaged in the decision-making process. Municipalities should follow established best practices when drafting all budget reports. They can and should consult the many available manuals containing detailed guidance on the structure and content of budget reports, such as the Government of North Macedonia's Transparency Guide issued by the Ministry of Finance (2023), the IMF's Fiscal Transparency Manual (2023), and the World Bank's Public Financial Management guidance (2023).

Finally, it is important that specific information related to social assistance rights for vulnerable citizens, as well as programs for gender equality, minority groups, and poverty reduction, be widely disseminated—particularly within the local communities that are the focus of these programs.

REFERENCES

Adhikari, P., Nkundabanya, S., Soobaroyen, T., & Jayasinghe, K. (2023). Public Sector Accounting in Emerging Economies in the Evolving Post-Covid Era. *Journal of Public Budgeting Accounting and Financial Management*, 35 (3), 297-308. <https://doi.org/10.1108/JPBAFM-06-2023-203>

Aquino, A. C. B. (2024). Accountability from the periphery to the centre of the local government: Empirical evidence and implications. *Local Government Studies*, 50(3), 412-430. <https://doi.org/10.1080/03003930.2024.2415683>

Beetsma, R., Debrun, X. & Sloof, R. (2022). The political economy of fiscal transparency and independent fiscal councils. *European Economic Review*, 145, 104118. <https://doi.org/10.1016/j.euroecorev.2022.104118>

Cangiano, M. (2017). *Top-down budgeting and MTBFs*. Presentation presented at the **Public Resource Management Seminar**, State General Accounting Department, Ministry of Finance, Rome, Italy, February 6-8. https://www.rgs.mef.gov.it/_Documenti/VERSIONE-1/Comunicazione/Workshop-e-convegni/Seminario_2017-02-6-8/07-Top_Down_Budgeting_and_MTBFs.pdf

Ferry, L., Eckersley, P., & Zakaria, Z. (2015). *Accountability and transparency in English local government: Moving from 'matching parts' to 'awkward couple'?* **Financial Accountability & Management**, 31(3), 345-361. <https://doi.org/10.1111/faam.12060>

Financial Stability Board. (2023). Compendium of standards: IMF Fiscal Transparency code. <https://www.imf.org/external/np/fad/trans/Code2019.pdf>

Fung, A. (2013). Infotopia: Unleashing the democratic power of transparency. *Politics & Society*, 41(2), 183-212. <https://doi.org/10.1177/0032329213483107>

Global Initiative for Fiscal Transparency. (2018). The high-Level Principles on Fiscal Transparency, Participation and Accountability. <https://fiscaltransparency.net/documents/GIFT-EHLP-9Feb18.pdf>

Grimmelikhuijsen, S., & Welch, E. W. (2012). Developing and testing a theoretical framework for computer-mediated transparency. *Public Administration Review*, 72(4), 562-571. <https://doi.org/10.1111/j.1540-6210.2011.02532.x>

Hood, C. (2010). Accountability and transparency: Siamese twins, matching parts, awkward couple? *West European Politics*, 33(5), 989-1009. <https://doi.org/10.1080/01402382.2010.486122>

International Monetary Fund. (2012). *Fiscal transparency, Accountability and Risks*. <https://www.imf.org/external/np/eng/2012/080712.pdf>

Kopits, G., & Craig, J. (1998). Transparency in Government Operations. *IMF Occasional paper*, No. 158. <https://www.imf.org/external/pubs/ft/op/158/op158.pdf>

Liu, S. & Chen, X. (2024). Impact of fiscal transparency on local fiscal revenue and expenditures: Evidence from a natural experiment. *Finance Research Letters*, 67, 105828. <https://doi.org/10.1016/j.frl.2024.105828>

Lyeonov, S., Drozd, S. & Reshetniak, Y. (2024). Interrelations between transparency of local authorities and corruption: Evidence from municipal surveys in Ukrainian regional cities. *Public and Municipal Finance*, 13(2), 168–181. [https://doi.org/10.21511/pmf.13\(2\).2024.14](https://doi.org/10.21511/pmf.13(2).2024.14)

Mabillard, V., & Zumofen, R. (2017). The complex relationship between transparency and accountability: A synthesis and contribution to existing frameworks. *Public Policy and Administration*, 32 (2), 110-129. <https://doi.org/10.1177/0952076716653651>

Melville, A., & Mironyuk, M. (2016). Bad enough governance: state capacity and quality of institutions in post-Soviet autocracies. *Post-Soviet Affairs*, 32 (2), 132-151. <https://doi.org/10.1080/1060586X.2015.1052215>

Ministry of Finance of the Republic of North Macedonia. (2023). Budget Transparency Portal and Fiscal Data Reports. Skopje: Ministry of Finance. <https://arhiva.finance.gov.mk/wp-content/uploads/2021/02/REVISED-FISCAL-STRATEGY-OF-THE-REPUBLIC-OF-NORTH-MACEDONIA-2021-2023.pdf>

Mourão, P., Brnić, M. & Stanić, B. (2023). The impact of local governments' budget transparency on debt in Croatia. *South East European Journal of Economics and Business*, 18(2), 21–33. <https://doi.org/10.2478/jeb-2023-0016>

PEFA Secretariat. (2016). PEFA: Public Financial Management Performance Measurement Framework. Washington, DC: PEFA Program. https://www.pefa.org/sites/default/files/PEFA_2016_Framework_Final_WEB_0.pdf

PEFA Secretariat. (2020). Guidance for Subnational Government PEFA (SNG-PEFA) – Draft. Washington, DC: PEFA Program. https://www.pefa.org/sites/pefa/files/news/files/PEFA%20SNG%20Guidance%20-%20pilot%20version_Oct2020.pdf

Rosendorff, B.P., & Vreeland, J.R. (2006). The effect of political regime on transparency: democracy and data dissemination in Latin America. *Latin American Studies Association*, 14-19. https://jrv.mycpanel.princeton.edu/LASA_06.pdf

Sol, D. A. del. (2013). The institutional, economic and social determinants of local government transparency. *Journal of Economic Policy Reform*, 16 (1), 90-107. <https://doi.org/10.1080/17487870.2012.759422>

State Audit Office of the Republic of North Macedonia. (2023). External audit reports for municipalities (Annual set). Skopje: State Audit Office. [https://dza.mk/sites/default/files/2024-07/eng_DZR_Godisen_Izvestaj_facing_2023%20\(1\).pdf](https://dza.mk/sites/default/files/2024-07/eng_DZR_Godisen_Izvestaj_facing_2023%20(1).pdf)

Transparency International. (2023). *Corruption Perceptions Index 2023*. Berlin: Transparency International. <https://www.transparency.org/en/cpi/2023>

World Bank. (2021). Boosting fiscal transparency and accountability at the subnational level. Washington, DC: World Bank Group. <https://www.worldbank.org/en/news/press-release/2021/10/18/world-bank-group-sanctions-system-promotes-accountability-and-transparency-in-combatting-corruption-in-fiscal-year-2021>

World Bank. (2023). World Bank Group's goal. Washington, DC: World Bank Group. <https://ieg.worldbankgroup.org/evaluations/public-financial-and-debt-management/chapter-1-world-bank-and-management-public-finance>

Yang, L., Hu, W., Su, Z. & Qiao, J. (2024). *Impact of anti-corruption on the sustainability of local government debt in China: The moderating role of fiscal transparency*. *Sustainability*, 16(21), 9507. <https://doi.org/10.3390/su16219507>

Yilmaz, S., & Beris, Y. (2008). *Good governance and the emergence of a new accountability agenda*. In G. Péteri (Ed.), *Finding the money: Public accountability and service efficiency through fiscal transparency* (pp. 13–41). Open Society Institute / Local Government and Public Service Reform

Initiative. <https://internationalbudget.org/wp-content/uploads/Finding-the-Money-Public-Accountability-and-Service-Efficiency-through-Fiscal-Transparency.pdf>

ZMAI. (2022). Report on the openness of municipal budget processes in the Republic of North Macedonia for 2021. <https://zmai.mk/wp-content/uploads/2022/10/index-mk-2021-min.pdf>

ZMAI. (2023). Report on the openness of municipal budget processes in the Republic of North Macedonia for 2022. <https://zmai.mk/wp-content/uploads/2023/11/indeks-na-otvoreni-opstini-2022.pdf>

ZMAI. (2024). Report on the openness of municipal budget processes in the Republic of North Macedonia for 2023. <https://zmai.mk/wp-content/uploads/2024/10/100-2023.pdf>

<i>Article history:</i>	Received: . 16.11.2025.
	Revised: 6.1.2026.
	Accepted: 19.1.2026.