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Local transparency and participatory budgeting connections in the case of North Macedonia and Slovakia

Prepojenie miestnej transparentnosti a participatívneho rozpočtu v prípade Severného Macedónska a Slovenska

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Abstract: Participatory budgeting (PB) can have many effects including greater legitimacy of investment decisions due to the inclusion of citizens in determining investment priorities. This leads to greater continuous participation, engagement, education and increased civic responsibility, thus achieving greater transparency in public expenditure, while encouraging accountability and responsibility of politicians. It serves as an instrument for social innovation and has positive effects on the quality of deliberation, democracy, and social capital. This study is conducting pilot research of an international project, and it focuses on the possible effects in transparency in public policy at the local level. The paper aims to explore the influence of participatory budgeting on fiscal transparency and citizens' participation in financial decision-making among the local governments in North Macedonia and Slovakia. The findings indicate that local budget transparency is positively associated with sustainability of the PB process for both countries, furthermore the higher the level of transparency in the 2018 period, the higher the probability that PB would still be ongoing in 2022 in both countries.

Key words: *Participatory budgeting. Transparency. Slovakia. North Macedonia.*

JEL Classification: H72. D72. O57.

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Introduction

A goal with democratic governments is to have active participation with the populous. Besides the normal citizen participation tools set out in the legislation, there are other methods which citizens use in their public affairs. Likewise, local self-governments seeking to be as open as possible introduce different elements that enable the public to engage in public (financial) decision-making beyond the legally defined instruments. Such tools include public debates, opinion surveys, city websites, regular publication of city newspapers or newsletters, city radio and television, public speaking hours, etc. The methods and concepts of participation that are currently becoming increasingly prominent are participatory budgeting, participatory planning, co-creation/co-operation, social networking, internet forums, automatic news delivery to email addresses or texting, applications used to report incentives and suggestions for improving the functioning of local self-government (Vitálišová et al., 2017; Pirošík, 2005; Špaček, 2017). Juza (2019) points out that one of the necessary conditions for the sustainability of contemporary democracies is the political and civic involvement. In recent years, the concept of political participation has been expanding: several traditional instruments have undergone a process of 'modernisation' (e.g., petition - e-petition); however, at the same time, there are new ways of involving individuals as well as groups in the community or local decision-making processes (civic involvement) (Murray Svidroňová et al., 2023). In this paper, we focus on participatory budgeting (PB) as one of the methods to increase citizen participation in financial decision-making. Participatory budgeting is a concept that promotes the democratic nature of public budgets through the direct involvement of citizens (or the wider public) in certain budgetary processes. It started in Porte Alegre in Brazil due to the efforts made by the Brazilian Workers' Party at the end of the 1980s. PB was seen as the first step from representative democracy towards that of direct democracy, calling PB a case of radically democratising democracy; a practice in which the until then marginalised people from poor neighbourhoods were allowed to deliberate with the municipality on how to spend part of its budget (De Vries et al, 2022; Milosavljević et al., 2023). The main goal was that this would have redistributive effects with more public investments in the poor districts, presumably resulting in an overall rise in the human development in the city (Abers, 2000; Avritzer, 2006; Baiocchi et al., 2008). PB is said to be able to create a stronger civil society, improve transparency, lead to greater public accountability and allocate resources more effectively (Jaramillo & Alcázar, 2017; Touchton et al., 2019; Wampler, 2012). Goldfrank (2011) pointed out the democratic participation and the need for transparency in the process and outcome of PBs. Other authors (e.g. Cabannes, 2004; Koonings, 2004; Rios & Rios Insua, 2008) argue that PB can result in greater legitimacy of investment decisions due to the inclusion of citizens in determining investment priorities; create further participation, engagement, education and increased civic responsibility; achieving greater transparency in public expenditure, encouraging accountability and responsibility of politicians; serving as an instrument for social innovation; and having positive effects on the quality of deliberation and democracy and social capital. Instead of social justice or quality of local democracy, adopters of participatory budgeting in Europe have often preferred to understand PB as a tool supporting the efficient allocation of public resources, a tool enhancing political accountability, or a tool supporting sustainable governance (Manes-Rossi et al., 2021; Balážová et al., 2022).

In Slovakia, the first initiatives were a bottom-up process - PB was started by a local NGO and the work of volunteers in 2011 (in Bratislava), followed by the town of Ružomberok in 2013 and the city of Banská Bystrica in 2014 (Džinic et al. 2016). It can be noted that since 2015, the total number of local self-governments offering participatory budgeting to their citizens has grown significantly to 59 municipalities in 2022 (Murray Svidroňová & Klimovský, 2022). Starting in 2006, the first participatory budgets in North Macedonia were introduced and continued on an on-and-off basis via the support and facilitation of the international donor community, predominantly implemented through the help of civil society. Some local self-governments have accepted and sustained this practice without relying on external donor assistance.

The substance of PB i.e., the redistribution of a significant part of the municipal funds through actual deliberation with previously marginalised groups, has lost importance compared to achieving effects that were originally seen as side effects (De Vries et al., 2022). We focus on the effect of possible increases in transparency not just in public finance but in public policy at the local level.

Our main area of interest in this article lies in exploring the influence and impact PB on enhanced transparency, which goes beyond public finance but encompasses public policy at the local level. Additionally, we aim to delve deeper into the consequences that increased transparency may have on decision-making processes and the overall governance structure at the local level. By broadening our focus to encompass public policy, we seek to uncover the broader implications of transparency for local communities and explore how this phenomenon can foster more accountable and participatory governance. The geographical area of exploration are the local governments in North Macedonia and Slovakia.

1. Fiscal transparency – selected factors

Transparency can be considered a political determinant of a cross-sectional nature. In a representative democracy, the legitimacy is based on the trust that the elected representatives shall implement the will of the citizens. Therefore, maintaining the citizens' trust in their elected representatives is based on myriad and multifaceted interrelated factors, including and not limited to the openness and accessibility of data and information, transparency, accountability, and participation.

Citizens delegate the decision-making to their representatives and thus require transparency and accountability to assess and validate whether the government (regardless of level) acts accordingly. Public participation supplements the process through transparency and accountability (Gilman, 2016). Nevertheless, these elements are interconnected, and crucial, as sound governance principles encompass more than just fiscal transparency, which primarily involves revealing budget-related information and data. Simple disclosure of data and information alone fails to address the complex nature of transparency.

There is no clear understanding of whether fiscal transparency, which is often used to explain other factors and states including corruption, debt accumulation, fiscal policy outcomes, decentralisation and election, turnout is not as likely to predict fiscal accountability and citizens' participation level and vice versa. For example, Benito & Bastida (2009) find a positive correlation between budget transparency with fiscal performance. Halachimi & Holzer (2010) discuss participation and performance to enhance trust and the necessary democratic conditions.

Fiscal transparency nexus with different determinants has been looked at and examined by various authors (e.g., Bernick et al., 2014; Stanić, 2018; Arapis & Reitano, 2018; Capasso et al., 2021) from different geographical coverage and viewpoints, some of which are that fiscal transparency depends on:

– Political conditions include political competition, political ideology, governance type (democracy), voter turnout, and size of the public sector, adverse selection, and moral hazard.

– Economic conditions such as economic development, growth, and social welfare.

– Fiscal performance/financial determinants, including fiscal spending, fiscal performance, debt, budget (im)balance, government's wealth, intergovernmental transfers, leverage.

– ICT determinants – digitalisation (Internet access) and e-governance, social media use and visibility.

– Determinants on the side of citizens include municipal size (population size/density), citizens' characteristics (education, age, gender), citizens' wealth, and unemployment.

On the one hand, fiscal transparency is typically directly or indirectly required by law, where specific regulations stipulate the mandatory and minimum disclosure requirements for the budgeting process and cycle. On the other hand, in recent decades, considerable pressure has been put on governments at all levels to improve their communication with citizens by being more open, transparent and accountable. In this sense, more and more attention is being paid to fiscal and budgetary issues. Some of the most prominent global initiatives that advocate for these issues are the International Budget Partnership, the Global Initiative for Fiscal Transparency and the Open Government Partnership. Therefore, the principles of open government have been recently applied in many economically well-developed countries, as North Macedonia and Slovakia are both members of the Open Government Partnership.

Several studies support the existence of relationships between transparency and public participation initiatives, including participatory budgeting. On this matter, it is vital to keep in mind that transparency can be both a determinant as well as an outcome of higher engagement of the public or their active participation (e.g., Brun-Martos & Lapsley, 2017; Kim & Schachter, 2013). Research suggests that the adoption of PB could lead to greater transparency (Baiocchi, 2001; Carroll et al., 2016; Cabannes & Lipietz, 2018). Brun-Martos & Lapsley (2017) pointed out participatory budgeting can improve municipality performance in areas such as democracy, government, and transparency. PB is thus seen as a mediating instrument between the worlds of democratic accountability and city management, that enables better access to information which is crucial in achieving the aim of transparency. Also, Crossman and Fischer (2016) see PB as a tool for increasing transparency - engagement of the public in understanding state finances provides a further benefit in that citizens become curious about how the PB funding fits into the larger scheme of city finances and are more active in public matters (public participation), including public control which is closely linked with transparency. Apostolou and Eckardt (2022) have gone even further and claim that participatory budgeting by creating fiscal awareness about municipal finances and making citizens more educated in the field of public finances, can increase transparency in times of fiscal stress. For Slovakia, Balážová et al. (2022) proved a correlation between participatory budgeting and transparency, bearing in mind that the results do not show whether higher local government transparency facilitates easier adoption of PB or whether PB contributes in any significant way to higher local government transparency.

For our analysis, we build up on the research by Balážová et al. (2022) and we would suggest that citizens' demand for transparency at the local level may be positively correlated not only with the provision of various information but also with the fiscal transparency of the local self-governments (e.g., Piotrowski & Van Ryzin, 2007),with the willingness of these local self-governments to ensure the sustainability of transparency-facilitating tools, including participatory budgeting.

2. Material and methods

This paper´s objective is to explore the nexus of participatory budgeting and fiscal transparency as well as citizens' participation in financial decision-making among the local governments in North Macedonia and Slovakia. The countries were chosen based on cooperation of these two countries in an international project which among others aims to compare the conditions of fiscal decentralization and transparency between Central Europe and Western Balkan. The participants from 16 countries discussed the various methods for measuring transparency level and the methodologies in North Macedonia and Slovakia seemed to be most compatible regarding the measured indicators of transparency. The project has just begun in 2022 and more countries will be added into the research of this particular issue of PB and fiscal transparency.

To fulfil the objective, we set a following research question (RQ): Is there an association between the implementation and length of participatory budgeting and the transparency of local policymaking?

Fiscal transparency in this paper is measured by the area of transparency in budgets and contracts. The indicators were chosen as variables for the analysis since they are the most similar indicators available despite using different methodologies for data compilation. Both indicators monitor areas connected with the local budget transparency such as publicly and timely available budgets, description of all budget items (completeness and narrative reports), current year plus three past years (draft budget, the enacted budget, the quarterly budget execution reports, the budget final account).

For Slovakia, we use the Transparency International Slovakia (TIS) ranking called 'Open government'. This ranking primarily monitors the level of transparency (i.e., the content and amount of information provided), the existence of written rules for essential processes, and the quality of anti-corruption mechanisms, in addition to tools for involving the public in decision-making. The ranking consists of 11 indicators based on publicly available, easily measurable and objectively verifiable data (TIS, 2022). The ranking is conducted only for the 100 largest municipalities in Slovakia; therefore, some data for smaller municipalities with PB is missing. To make it comparable with Macedonia, we chose only one indicator from the ranking - budgets & contracts. This indicator evaluates seven areas connected with the local budget transparency, e.g., up-to-date description of all budget items, publicly available budgets on the websites (current year plus three past years), quality of information on invoices and contracts of the municipality and system of their publicising. This indicator is expressed in %.

As for North Macedonia, we monitored a selected indicator of budget transparency. The local budget transparency index in North Macedonia is based on the Center for Economic Analyses (CEA) annual monitoring for all 81 LSGUs. The CEA index for budget transparency is based on the degree of the timely availability, completeness, and accessibility of eight essential local budget process documents including draft budget, the enacted budget, the quarterly budget execution reports, the budget final account, the annual budget execution narrative report. The cumulative index is calculated on a scale from 0 to 16, with 2 points assigned for each timely presented, complete, available, and retrievable document on the official LSGU website and 1 point for documents not publicly available on the website. These must be accessible via a response to a formal Public Information Act request or are published as part of an official municipal gazette. Furthermore, no points are assigned if there the document is unavailable, nor it has been provided (there has been no response) via the official public information request. The summative index covers parts of two fiscal years i.e., fiscal year 0, which covers the availability of the documents for the execution of the budget for the current year, while year 1 covers the budget planning documents for the subsequent fiscal year. Throughout the years, the index has been gaining recognition among municipalities and has been a motivating factor for increasing the timely availability of budget documents and process transparency. However, there is still much room for improvement in the budget process transparency in terms of consistency and inclusivity, which entails granting access to information and data and the transparency of the process itself (Garvanlieva et al., 2020). Because Macedonia's Budget transparency index of covers parts of two fiscal years and it is an ordinal scale variable, we created the variable 'Change in Budget transparency' in % (how the budget transparency changed in 21/22 compared to 19/20). We assume that the higher the score for Budget transparency, the longer PB has been in place in the municipality.

The research sample consists of all 59 Slovak and 49 North Macedonian local self-governments that have implemented PB, which is still running. The primary method used is nonparametric correlation analysis (Spearman's rho) carried out in SPSS (Statistical Package for the Social Sciences), version 28. The analysis covers 2018 (pre-COVID-19) - 2022 (post-COVID-19), but we do not aim to explain the studied phenomenon before and after the COVID-19 pandemic. The public sector and its policies (budget planning and related procedures specifically) respond very slowly to changes and cannot reflect the rapid effects of the pandemic, Due to this inelasticity of public procedures, we just present the results as a simple time series analysis.

In order to answer the RQ, we set the following hypotheses:

H1. We assume that there is a difference in Budget transparency between municipalities that have PB implemented and municipalities that do not use PB

H2. We assume that the longer PB has been in place in the municipality, the higher the score for Budget transparency.

For H1 we investigated whether there was a statistically significant difference between the level of budget transparency of municipalities that did and did not have PB in place in 2018 and 2022. As the normality of the distribution of transparency values in the years studied was not confirmed (Shapiro-Wilk test, Kolmogorov-Smirnov test, p-value < 0.001), we used the non-parametric Mann-Whitney test to test the assumption.

We used Pearson's correlation coefficient to determine the degree of dependence between the time (length) of PB implementation in the municipality and the score for Budget transparency in H2. This correlation characteristic measures the strength of the linear dependence between two quantitative variables. Since it takes values from the interval < -1; 1>, it reflects the strength and the direction of linear correlation between observed variables. Since we worked with a core set of municipalities in both Slovakia and Macedonia that had implemented participatory budgeting, we did not test the significance of the correlation coefficient.

3. Results and discussion

In this section we test the hypotheses based on the results of Mann-Whitney test and nonparametric correlation analysis using Spearman's rho (Tables 1 and 2).

To calculate the degree of dependence between variables in different periods, the number of monitored objects (local self-governments) that had PB introduced in a given period was different i.e., different numbers of valid data are available in individual periods.

Table 1 Results of Mann-Whitney test

Ranks (2018)				
PB2018yes_no		N	Mean Rank	Sum of Ranks
Budgets2018	,00	83	47,63	3953,50
	1,00	17	64,50	1096,50
	Total	100		
Test Statistics[a]				
	Budgets2018			
Mann-Whitney U	467,500			
Wilcoxon W	3953,500			
Z	-2,187			
Asymp. Sig. (2-tailed)	0,029			
a. Grouping Variable: PB2018yes_no				
Ranks (2022)				
PB2022yes_no		N	Mean Rank	Sum of Ranks
Budgets2022	,00	63	45,14	2844,00
	1,00	37	59,62	2206,00
	Total	100		
Test Statistics[a]				
	Budgets2022			
Mann-Whitney U	828,000			
Wilcoxon W	2844,000			
Z	-2,426			
Asymp. Sig. (2-tailed)	0,015			
a. Grouping Variable: PB2022yes_no				

Source: own

The results of using the Mann Whitney test show that the difference is statistically significant in favour of the municipalities that had PB in place. This finding can be supported by the descriptive characteristics in Table 2, which show higher Budget transparency in municipalities that had implemented PB.

Table 2 Descriptive characteristics

Budgets2018			
PB 2018 yes_no	Mean	N	Std. Deviation
,00	76,0591%	83	16,31712%
1,00	86,1408%	17	12,55945%
Total	77,7730%	100	16,14028%
Budgets 2022			
PB 2022 yes_no	Mean	N	Std. Deviation
,00	73,1746%	63	16,21085%
1,00	80,8919%	37	10,47957%
Total	76,0300%	100	14,78291%

Source: own

To monitor the dependence between the length of PB implementation and transparency, we had data for only 17 Slovak municipalities in 2018 (Table 3). Other municipalities in the research sample did not have PB in place in that year, so they lacked information on the length of its introduction. We found that there is a moderately strong direct linear dependence between observed variables (Pearson correlation coefficient = 0.405) i.e., budget transparency increases as the length of established PB in the municipalities increases. To track the dependence between the length of PB implementation and transparency, we had data for 37 Slovak municipalities in 2022. Once again, we the analysis showed that there is a moderately strong direct linear dependence between the monitored variables (Pearson correlation coefficient = 0.33) i.e., budget transparency increases as the length of PB introduced in the municipalities increases.

Table 3: Results of correlation analysis

Slovakia		Length of PB 2019	Budgets 2018
LengthofPB2019	Pearson Correlation	1	0.405
	Sig. (2-tailed)		0.107
	N	24	17
Budgets2018	Pearson Correlation	0.405	1
	Sig. (2-tailed)	0.107	
	N	17	37
Slovakia		Length of PB 2022	Budgets 2022
LengthofPB2022	Pearson Correlation	1	.330*
	Sig. (2-tailed)		0.046
	N	59	37
Budgets2022	Pearson Correlation	.330*	1
	Sig. (2-tailed)	0.046	
	N	37	37
North Macedonia		Length of PB 2019	Change in Budget transparency 2019/2020
LengthofPB2019	Pearson Correlation	1	0.040
	Sig. (2-tailed)		0.830
	N	32	32
BudgetTransparency20192020	Pearson Correlation	0.040	1
	Sig. (2-tailed)	0.830	
	N	32	49
North Macedonia		Length of PB 2022	Change in Budget transparency 2021/2022
LengthofPB2022	Pearson Correlation	1	0.048
	Sig. (2-tailed)		0.744
	N	49	49
Budgets2022	Pearson Correlation	0.048	1
	Sig. (2-tailed)	0.744	
	N	49	49
*[a] Correlation is significant at the 0.05 level (2-tailed). ** Correlation is significant at the 0.01 level (2-tailed).*			

Source: own

For North Macedonia, the coefficient of the correlation between the length of PB introduction and transparency is in both years 2018 and 2022 very close to 0 i.e., transparency is not affected by the length of PB in Macedonian municipalities or only very lightly.

The results from Table 3 indicate that for Slovakia, there is a moderately strong direct dependence i.e., the longer the period of PB, the higher the budget transparency, which supports the H1. Bearing in mind that the Spearman's rho represents bipartisan dependence, we can also say that higher budget transparency is associated with higher sustainability of PB measured in the length of years implemented. This is in line with the research of Balážová et al., 2020 who came to the similar conclusion (transparency influences the sustainability of PB).

Comparing our results with other related studies, to name a few e.g., Brun-Martos and Lapsley (2020) pointed out that even in the United Kingdom, a country which is a slow adopter of PB, the PB has the potential to enhance both democratic accountability and effective city management through transparency. Their study reveals a city of Edinburgh which is profitably engaged with democratizing its budgetary activities and seeking to achieve greater transparency for its citizens and managers through the PB. Similarly, Kim (2014) showed the impacts of effective participatory budgeting on transparency and public trust in government in the context of the Republic of Korea. In the latter case, the roles of community values as mediator are emphasized. Crossman and Fischer (2016) suggest that the road to fiscal responsibility lies with budgetary transparency and widespread public knowledge of state and municipal finances. A potential key to achieving these objectives is participatory budgeting. Also in Serbia, among motivating factors for citizens to engage in PB are centred around the need for democracy, transparency, education, efficiency, social justice and community (Milosavljević et al., 2020). Like in our study, other authors find barriers to the development of PB influencing the transparency, e.g., Hartog and Bakker (2018) consider the differences and incompatibility at the level of neighbourhoods, districts and cities of budget flows and the administrative processes as the main barriers to use the potential of PB for increase transparency of local governments in the Netherlands. The latest study from 2022 for Slovakia (Balážová et al. 2022) showed among other statistically significant determinants there was also the transparency of local policy-making measured by the TIS index. The analysis showed that the higher the score of transparency, the higher the likelihood of a more "durable" PB (in their research they use term of durability for how long the PB has been in use in the municipalities). The correlation does not indicate whether higher local government transparency makes it easier to adopt PB or, conversely, PB contributes to higher local government transparency.

Conclusion

Participatory budgeting arrived in the region of Central and Eastern Europe relatively late, more than 20 years after its origin in Porto Alegre, Brazil (Sintomer et al., 2013). It has quickly grown in popularity and has become one of the tools for citizen participation with many positives, one of them being an influence on transparency in local policy and decision-making.

Compared to 2018, municipal fiscal transparency showed a decline in 2022. Transparency in Slovak local self-governments has, on the whole, marginally decreased. North Macedonia has seen some progress in transparency in the examined period. The results of Mann-Whitney test support H1, showing that there is a statistically significant difference between municipalities with PB in place and municipalities that have not implemented PB. This difference is in favour of the municipalities with PB.

To answer the RQ on association between the implementation and length of participatory budgeting and the transparency of local policymaking we can conclude that the quantitative analysis of this paper has shown that PB and fiscal transparency (measured by Budget transparency) are correlated. In both countries, the longer PB has been in place, the higher the score for Budget transparency, although for North Macedonia this corelation is very weak.

Being a pilot study, this research has covered two countries participating in an international research project. Each country uses its own method for monitoring transparency, but the focus was on comparable indicators related to participatory budgeting. This is definitely the biggest limit of our research that the indicators chosen as variables for the analysis are compiled using different methodologies. However, we used the most similar available indicators and adjusted the selected variables for H1 in order to obtain the most objective results. Both transparency and the PB are complex, driven by an array of determinants and their combinations, while generally, there are simplified modalities for measurement. Thus, on the one hand, it poses limitations but also opens up opportunities for further research. Exploring other determinants' like the gender of the mayor, experience of mayor (newcomer), population, PB budget size, etc. influencing PB and participation is an area for possible future research. Future research will also bring its own methodology to map selected factors of transparency which would make the comparative analysis easier, also given the fact that the research should include more countries of Central Europe and Western Balkan and in a similar vein, other participation mechanisms could be explored in the future.

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