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**Citizen Participation in Making Public Finance Public:
Comparing research in Croatia, Macedonia and Ukraine**

by

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Summary

This article is about making public finance public and it gives a comparative basis to the subnational budget watch project that took place in Croatia, Macedonia, and Ukraine based on a grant organized and funded by the Local Government and Public Service Reform Initiative of the Open Society Institute–Budapest.

The following questions have informed the structure of this project concerned with the disbursal of funds within local government budgets and subsequent monitoring by civil society actors like nongovernmental organizations as well as private citizens who ideally form into what this project loosely calls the subnational budget watch. In short, as its basis, this study asks: (i) Are citizens participating? Does legislation enable them to participate? Are there institutional arrangements for participation? (ii) Are budget data available, reliable, and timely? Could one compare actual with planned figures? (iii) Is it clear who is accountable for what? Does the executive branch of the government take in consideration external auditors' reports and/or requests from the legislative branch?

Irrespective of the opportunities for participation; of the availability, reliability, and timeliness of data; and the accountability of governments to citizens; all three countries show poor participation and understanding of the concepts that support such subnational budget watch initiatives more substantial in more mature democratic models than those present in post-communist transition states. In order to de-alienate citizens and to demystify the budget and bring it closer to the populations concerned, further research and advocacy is needed. Like this study, it should raise awareness of the importance of the transparency of the budget, accountability of governments, and the participation of citizens, particularly at lower levels of government. Models and action plans vary from the establishment of monitoring committees in Croatia and strengthening the independence of budgetary users in Ukraine, to addressing citizens with reader-friendly budget guides in Macedonia.

Key words: subnational budget watch, budget transparency, government accountability, citizens' participation, Ukraine, Macedonia, Croatia

1. Introduction

The intention of this article is to give a comparative study of subnational budget watch in three countries – Croatia, Macedonia, and Ukraine – based on a one-year project organized

¹ This article only slightly varies from the article Ott (2006).

and funded by the Local Government and Public Service Reform Initiative of the Open Society Institute–Budapest.²

The countries in this sample face huge democratic deficits, large and entangled governments, and inadequate levels of public services, all accompanied by inactive populations. During the post-communist transition, it was expected that governments at the local and regional levels most likely would become more influential and that citizens would become more aware of the issues and participate at the local level. Simultaneously, citizens would begin to engage in the relatively new concept of a subnational budget watch. This has yet to happen.

In connection with the above set of problems, this study has sought to ask: (i) Are citizens participating? Does the legislation enable them to participate? Are there institutional arrangements for participation? (ii) Are budget data available, reliable, and timely? Could one compare actual with planned figures? (iii) Is it clear who is accountable for what? Does the executive branch of the government take in mind external auditors' reports and/or requests from the legislative branch?

This article expands briefly on the findings of the country articles and more details can be found in each article respectively (Daskalovski, 2006; Maletić, 2006; Slukhai, 2006). Irrespective of the opportunities for participation; of the availability, reliability, and timeliness of data; and the accountability of governments to citizens; all three countries show poor participation and understanding of the concepts that support such subnational budget watch initiatives more substantial in more mature democratic models than those present in post-communist transition states. In order to de-alienate citizens and to demystify the budget and bring it closer to the populations concerned, further research and advocacy is needed. Like this study, it should raise awareness of the importance of the transparency of the budget, accountability of governments, and the participation of citizens, particularly at lower levels of government. Models and action plans vary from the establishment of monitoring committees in Croatia and strengthening the independence of budgetary users in Ukraine, to addressing citizens with reader-friendly budget guides in Macedonia.

The remainder of this article will enunciate the problems of establishing subnational budget watch programs on the local level; analyze the similarities and differences among three countries, Croatia, Macedonia, and Ukraine; establish common problems and possible solutions, explain situations, expectations and possible actions in the future; and finally provide some conclusions.

Box 1.
Budget watch

Budget watch is a relatively new concept first requiring a definition of who are the watchers, and what, why, and how they watch.

Budget watchers are usually non-profit, non-government organizations or individuals with the mission of promoting transparency or openness of government, its accountability and citizen participation. They usually emphasize that budget is too important a document upon which revenues are gathered and public expenditures made to be left to the discretion of government bureaucrats and elected representatives only. Citizens as taxpayers are contributing to government treasury and they should also have a say in distribution of these funds. It is why budget watchers insist on insight into the collection of revenue and distribution of expenditures, dealing

² I would like to thank the authors of the country studies—Ivana Maletić, Sergii Slukhai, and Zhidas Daskalovski—for their contributions, OSI-LGI for giving me the opportunity to mentor the project, and Scott Abrams for both constructive and friendly cooperation since the beginning of the project.

with issues like equity, fairness, and efficiency. To facilitate this process they insist on the transparency of budget documents and budgetary processes and the possibility of citizens to participate in these processes. The final goal is to achieve more accountable government.

Typical activities of budget watchers include budget analyses and distribution of results in form of newsletters, briefs, citizens' budget guides, and various other publications. They also participate in public hearings, public debates, and various lobbying and advocacy activities.

Budget watchers may aim at general budget transparency, accountability, and participation or may specialize in some topics like poverty, education, health, environment, or gender.

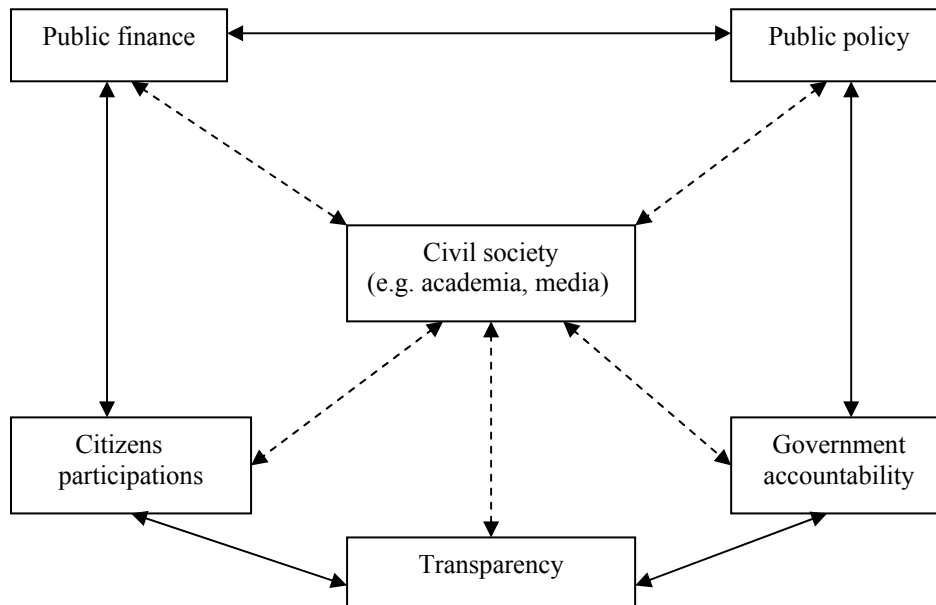
Budget watchers can concentrate their activities on national level of government, but more and more they become active at subnational levels as majority of the issues that directly affect the life of citizens like education or welfare are under the competency of subnational authorities.

Budget watch activities in USA are particularly developed and groups are numerous both on the national and state and county levels. International Budget Project (IBP) of the Center on Budget Policy and Priorities (CBPP), Washington, D.C., could be mentioned as a leading group in this field. There are also very good and active budget watch groups in countries like India (e.g., Center for Budget and Policy Studies—CBPS, Bangalore; Developing Initiatives for Social and Human Action—DISHA, Ahmedabad), South Africa (Institute for Democracy in South Africa—IDASA, Cape Town), or Mexico (Center for Research and Analysis—FUNDAR, Mexico City). However, civil society's engagement in budget watch in Europe is still lagging behind.

2. The Problem of a Subnational Budget Watch

The goal of each society should be to have sound, efficient, and equitable public finances in line with possibilities and needs of that society. To fulfill that goal a country needs to have a sound public policy. A good public policy requires government accountability at all levels. For keeping the government accountable, the basic prerequisite is transparency. And who is able to require transparency but citizens? Citizens elect their representatives in legislative and executive branches of the government to make decisions for them. But budgets are too important to be left only to elected representatives in governments and parliaments or to possible interplays of politicians and interest groups that they might represent. This is why citizen participation is needed. And so we have a circle as seen in Figure 1: public finances → public policy → government accountability → transparency → citizen participation. The arrows could also point in the opposite direction, forming a full circle. In the middle of that circle we could imagine some representatives of civil society, academe, the media, or in this case our three authors trying to influence all of them.

Figure 1.
The subnational budget watch circle



In the context of the LGI’s broader agenda, authors were asked to steer their efforts so as to be able to foster positive government reform. In this particular case, the term *government reform* could better be broadened to *government and social reform*. A further request was to produce analytical, policy-oriented studies, despite the fact that the field is not rich in academic literature. Finally, the goal was to present policy options and recommendations geared towards the policymaking community in respective countries.

In the particular context of the subnational budget watch the authors were asked to provide models of participation and monitoring for local and regional government budgeting. A further request was to create a usable subnational budget watch template by synthesizing the lessons of best practices existing in many countries at the national level. Again, one must add that while there are literature and relevant case studies about the budget watch at the national level, they are few at the subnational level. The authors were also asked to formulate an action plan for generating momentum, highlighting issues such as access to reliable and sufficient data, the “translation” of budget lines to an understandable format, matching the rhetoric of public officials to the budget lines, and examining the role of auditing and oversight, particularly comparing the national and subnational players.

3. Similarities and differences among the case study countries—Croatia, Macedonia and Ukraine—and their authors

What do these three countries have in common? First, they are all post-socialist countries coping with problems of transition from a socialist to a market economy and building a democratic society in conditions of the strong role of the state (private sector share of GDP ranging from 60 percent in Croatia to 65 percent in Ukraine and Macedonia), a democratic

deficit, weak institutions, underdeveloped civil society, and serious economic imbalances, all aggravated by the consequences of war in Croatia and serious political crises in Macedonia and Ukraine. Second, all three of them are new countries established after the collapse of bigger federations, struggling with developing new states and appropriate institutions. Third, all three countries have problems with national minorities. Macedonia has a large Albanian minority (23 percent of the population) and Ukraine has a large proportion of Russians (22 percent). Croatia has a considerable Serbian minority (around 4.5 percent of the population) and it has problems with the territories that went through tremendous changes of population during and after the war in 1990s. These regions in Croatia are now populated by refugees from other areas of Croatia and ex-Yugoslavia territories, further complicating the issue. Minorities are important in this context because they tend to be highly regionally concentrated, and this might cause particular problems in some regions.

What are the differences among the three countries? Table 1 draws attention to the essential data. Croatia and Macedonia are dwarfed by the size and population of Ukraine. In terms of the difference in the absolute and per capita levels of GDP, Ukraine has ten times as many citizens as Croatia yet its absolute GDP is only twice the size. While GDP per capita is at similar levels in Macedonia and Ukraine, in Croatia it is twice as large.

Table 1.
Basic facts about Croatia, Macedonia, and Ukraine

	Croatia	Macedonia	Ukraine
Population (in millions)	4.4	2.0	48.4
Area ('000 sq. km)	56.5	25.7	603.7
GDP (in billion USD, 2004)	34.3	5.3	65.0
GDP p.c. in 2004 at current international USD (PPP)	12,336	6,767	6,414

Source: For population and area (Der Fischer Weltalmanach 2006); for GDP (Transition Report 2005).

Third, the countries have different types of territorial organization (see Table 2). Macedonia has only one tier of subnational government—municipalities (towns, villages and communes within the capital city). Croatia has two tiers of government—counties plus municipalities (cities and communes). Ukraine has three tiers—regions, counties and municipalities (cities, urban districts, urban settlements, and rural councils). Along with the number of tiers of government goes the average population of a municipality ranging from around 630 in Ukraine to 23,800 in Macedonia, with Croatia being in the middle with around 3,200. Of course, the population per municipality cannot be taken as a vital decentralization indicator (one could look into other indicators like the share of central government expenditures in total direct expenditures), but it could be indicative of the ability of citizens to participate.

Table 2.
Number of sub-national units in Macedonia, Croatia, and Ukraine

Level	Macedonia	Croatia	Ukraine
Regional	None	None	27 ³
County	None	20+Zagreb ⁴	490
Municipality ⁵	33 towns ⁶ 37 villages 10 communes in Skopje	123 cities 429 communes	456 cities 188 urban districts 886 urban settlements 28,585 rural councils
Average population of a municipality	23,800 ⁷	3,198	633 ⁸

Source: Adapted from the correspondence with Daskalovski, Maletić, and Slukhai.

Finally, irrespective of the final outcome of the processes, the three countries are in different stages regarding the eventual EU integration. While Croatia has already started negotiations with the EU, Macedonia has candidate status, and Ukraine only has a partnership and cooperation agreement and is considered as a possible partner within the European Neighborhood Policy.

The large discrepancy in the size of the countries, in terms of territory and population, the differences in their territorial organization, and to a greater degree, the differences in wealth shown by the absolute and per capita GDP, offer different possibilities for the patterns of citizen participation. The same might be concluded about the stages of the relationship with the EU.

Another key difference is that the three authors come from three very different backgrounds. All three of them engaged in this program because they are genuinely interested in promoting budgetary transparency, accountability of government, and citizen participation. But Ivana Maletić is an economist employed by the government, actually a deputy minister of finance of the Republic of Croatia, thus representing government itself. Sergii Slukhai, also an economist, is a university professor, representing the academic community. Zhidas Daskalovski is a political scientist, belonging to an NGO, representing civil society. All these differences are reflected in their topics: Ivana Maletić deals with the supervisory and monitoring role of the central government and the public in general over the local government

³ Regional level includes 24 oblasts, Autonomous Republic of Crimea, Kiev City and Sevastopol.

⁴ Zagreb as capital has status both of a city and a county.

⁵ Basic level of local authority.

⁶ Towns have more than 3,000 citizens.

⁷ The biggest one is Kumanovo with 105,484 citizens and the smallest one is Vraneshtica with 1,322.

⁸ In the calculation, the urban districts are excluded in order to avoid double counting.

units in Croatia; Sergii Slukhai researches budgetary oversight and accountability in secondary education in Ukraine; and Zhidas Daskalovski analyzes the role of the public in subnational budget monitoring in Macedonia.

4. Common problems and possible solutions for the case study countries

4.1 Common problems

Despite the various backgrounds of the authors and the stages of decentralization and democratization of their countries, one can discern some common problems that are more or less emphasized in all three cases. They may be broadly grouped under the topics of an inappropriate or defective legislative and institutional framework, the dominant role of government bodies, and the subordinate role of the public.

4.1.1 The inappropriate or defective legislative and institutional framework

Although Ukrainian legislation regulates citizen participation in budget oversight in various documents from the constitution to particular laws, the procedures for obtaining information about issues of public concern are not precisely stated. Consequently, it is questionable whether citizens can exercise their right to influence public bodies, especially regarding budgetary issues at the local level. Ukrainian legislation also does not provide a clear framework concerning the effective use of public money, independence of local governments and budget users from central government, and the accountability of local governments and budget users to the public.

Within the Macedonian legal framework there is no mention of any possibilities for citizens to be involved in the budgetary process. However, the legislature does not preclude citizen participation in general. On the contrary, from the constitution to various laws, participation of citizens in decisions about common matters is encouraged. One can conclude that although legal provisions do not directly provide for the possibility for budget participation at the local level (and the national level as well), the legal background for it has been ensured indirectly.

It seems that among three countries Croatia has the best legal basis for citizen participation. However, various institutional weaknesses and psychological and cultural obstacles result in: (i) a poor supervisory and control environment for effective central government, (ii) inadequate citizen participation, and (iii) slow improvements of government accountability.

An inappropriate or deficient legislative and institutional framework is the most repeated topic in all three papers. The situation varies from country to country. Croatia has the legal preconditions but lacks the necessary democratic knowledge and tradition, in addition to psychological and cultural obstacles. Legislation exists in Ukraine too, but procedures are wanting and result in questionable realization. The worst situation is in Macedonia where only an indirect legal background for citizen participation has been provided.

4.1.2 Dominant role of government bodies

The governments are dominant in all three countries and may be summarized as: centralism, under which all issues of public importance are supposed to be resolved at the national level; the strong role of the state, whether at national or local levels, in all aspects of life from politics to the economy and social issues; weak, usually coalition governments that have to cope with more pressing issues of daily survival and are often unable to fasten on the processes of decentralization and of dismantling the dominant role of government bodies.

In Ukraine the central government bears most of the responsibility for the delivery of public services, including secondary education. Weak popular demand for independent local authorities and the long-lasting traditions of a centralized state lead to the lack of any strong desire to shift more power from the top to the bottom. Even in the rare cases of decentralization, the local authorities do not become truly accountable and fiscally independent. As a consequence transparency that has been greatly improved at the national level seems much more problematic at local levels. All these facts contribute to the weakness of the role of the citizens and government dominance, more at the national, but indirectly at the local level, too.

Local governments in Macedonia are hardly prepared to step beyond the former regime's behavior and accept the principles of accountability and transparency. The roles and the responsibilities in the management of public finances are not clear and in these circumstances it is difficult to hold the government accountable for budget policy and decisions. There are no specific provisions in laws stating clearly that documents covering the budget should be accessible to interested citizens. Lack of willingness and legal pressures for a change enable government bodies to run the show.

In Croatia the consequences of war, occupation of a third of the country, and huge movements of population have all been constraints on feeble efforts for decentralization. Excessive number of territorial units and, consequently, the inefficient, oversized administration at several levels of government, plus areas of special national concern, contribute to the slowness of the diminution of the dominating role of government bodies. Numerous hurried decisions necessary for the eventual EU accession have further enhanced the dominance of government bodies, at both the local and the national level. Consequently, despite the nominal decentralization, a kind of centralization is actually in process, contributing to further "governmentalization" of the country.

4.1.3 Minor role of the public

With the dominating role of government bodies, the minor role of the public logically follows. In all three countries, and unfortunately not only in them, information and data are missing, the majority of people are alienated from the government budget and its process, and there is a strong need to demystify the budget and bring it closer to the population.

In Ukraine, a country with a population of almost fifty million, some vital national budget statistics are published once a year, in one hundred copies and distributed only to high-level national authorities, but not to local authorities or citizens. No wonder the general public has little involvement in or influence on budgetary issues like the level of school funding, the

research topic of our study. The problem lies in the factual formation of local budgets that gives no space to public involvement. Local budgets are formed from top down, being still a replica of the Soviet-type budgeting process when the Communist Party made all the decisions instead of citizens. Even today there is no reason for local officials to discuss budgets with the public because they are predetermined by the state. It is not that the public is ready or over-demanding either.

At the moment there are no institutional arrangements for citizen participation in Macedonia. Citizens hardly participate in the budgetary process on the sub-national level and this issue is not on the agenda of citizens' groups and non-governmental organizations. Citizens are passive and the political culture negatively influences the direct involvement of concerned citizens in the budgetary processes. Even when citizens show some initiative, responses from the local governments are not encouraging.⁹ In sum, budgetary monitoring at the sub-national level is very difficult to undertake in practice.

Croatia faces the problem of willingness more than a lack of possibilities. Its citizens are not organized well and they are still passive.¹⁰ By contrast, the local media—radio, television, newspapers—are very powerful and influential. Media have been instrumental in initiating communication between the public and local governments, trying to talk openly about the problems and change the mentality of secrecy. There are also more and more local governments, particularly developed and wealthier ones, promoting the publication and distribution of citizens' budget guides and organizing public hearings and open discussions. However, this is not an obligation of local governments. Legal weaknesses do still exist, like there being no requirements for the public presentation of simplified financial reports intelligible to a wider public. This leads to a poor capacity to deal with information presented in a complicated way. The existing Association of the Towns and Municipalities is also very passive and has only narrow functions. Despite the efforts of some local governments and local media, there is still a lack of awareness of the need for participation and of changes that can be encouraged.

Briefly, in Ukraine the top-down, predetermined process of budgeting does not give space to public involvement; in Macedonia citizens hardly participate and public engagement is not on the agenda of even citizens groups; and in Croatia citizens are poorly organized and passive, so that, despite the efforts of some local governments and local media, the awareness of the need for participation is still rather undeveloped.

Box 2.

Opening Budgets to Public Understanding and Debate

For the purpose of this text it would be interesting to have results from *Opening Budgets to Public Understanding and Debate, Results from 36 Countries* (IBP 2004). Of the three countries only Croatia participated, and unfortunately did not fare well. As some of the issues mentioned below have been improved lately, one might expect a better evaluation in the results to be published in 2006, but an improvement in ranking is questionable as one could expect the other surveyed countries to have improved too. Keeping in mind how the other two countries—Macedonia and Ukraine—were ranked substantially

⁹ A mayor of one municipality in Macedonia was so irritated by the request of the researcher to get a copy of the municipal budget that he said to him, "Would you please leave the room."

¹⁰ The pilot project of our fellow could be taken as the best indicator of the role of the citizens in Croatia. She dropped the idea of surveying citizens about budget processes and their openness to the public after realizing that a group of colleagues from the pilot who are all experts in the field were as completely uninformed as citizens. None of them ever saw the budget of the local unit in which he/she is living or participated in any of the budget processes in his/her local unit.

worse in other indicators like press freedom, corruption, and competitiveness, one cannot have high hopes for their eventual rankings if they participated in this comparison of budget transparency.¹¹

In the IBP survey, “Croatia’s scores are uneven, indicating mostly positive practices in the area of ‘monitoring and evaluation reports,’ but negative or mostly negative practices in the other two major categories: ‘executive budget documents’ and ‘encouraging public and legislative involvement.’”

In the “executive budget documents” category, Croatia scored only 28 percent, well below the cross-country average. The budget provides information on the budget year and the prior year, but no historical data or projections beyond the budget year. Its score of 12 percent in the “comprehensiveness” subcategory indicates that the budget presents little or no information in areas such as the macroeconomic forecast upon which the budget is based, quasi-fiscal activities, and tax expenditures.

In the area of “monitoring and evaluation reports,” the country’s score of 51 percent indicates slightly positive practices. The executive releases in-year reports on a monthly basis, but does not issue a mid-year review of the budget. Year-end reports by the executive, although released in a timely manner, lack the details needed to facilitate comparisons between enacted levels and actual outcomes.

In the “encouraging public and legislative involvement” category, Croatia fares poorly. It provides *no* information highlighting policy and performance goals—that is, it provides no information about who benefits from various programs and how those programs are performing—making it difficult to assess how budgetary figures connect to desired outcomes. In the other two subcategories—“involvement of the legislature” and “facilitating public discourse and understanding”—Croatia does moderately well, with scores of 54 percent. Although Croatia issues a pre-budget statement, it does not make available a non-technical “citizens’ budget” or other supplementary materials that could be used to expand public understanding of the budget.

4.2 Common solutions

Basic recommendations in this study evolve around improving the participation of citizens, the autonomy and responsibility of local governments, and the oversight or monitoring capacities of central governments.

4.2.1 Promoting participation of citizens

As customers of public services, and at the same time providers of public money, citizens should be interested in participating in budgetary processes and decision-making. Thanks to the legacy of non-democratic regimes, paternalistic and highly centralized states, citizens might not be yet aware of their rights and possibilities. Unfortunately, they are often also unaware of their obligations. However, one could expect that step-by-step these ideas might become more pronounced. Works like this one are expected to move the citizens closer to that direction. Promoting participation of citizens is not an easy task. There is no established, academic literature, accessing data is difficult, and promoters sometimes even face open hostility. So what could be done?

¹¹ If we look at global press freedom ranking, Croatia is 82nd, Macedonia 107th, and Ukraine 123rd. All three countries are considered *partly free*. For comparison, Estonia and Latvia are considered *free* and ranked 24th, the same as the United States (Freedom House 2005). Comparing corruption perception indices, Croatia is 70th in a group with countries like Burkina Faso and Lesotho; Macedonia is 103rd with Gambia, Swaziland, and Yemen; Ukraine 107th with Eritrea, Zambia, and Zimbabwe. Some of countries in transition are much better ranked, i.e., Estonia 27th and Slovenia 31st. (Transparency International 2005). Comparing competitiveness indices, Croatia is 62nd, Ukraine 84th, and Macedonia 85th. Some of the best-placed among transition countries are Estonia 20th or Slovenia 32nd (World Economic Forum 2005).

A number of policy measures to strengthen the role of the civil sector in the budgetary oversight of the local governments in Macedonia could be recommended. First, it is necessary to have clear provisions in relevant laws guaranteeing citizens permanent access to local financial information. Second, local governments should be obliged: (i) to disseminate budget information, (ii) to organize regular quarterly open sessions and special public hearings before adopting key decisions, (iii) to publish income and expense statements and balance sheets, (iv) to have a proactive approach to transparency with information made available in reports and on websites, (v) to allocate sufficient human resources to processing information requests, and (vi) to become trained to deal courteously with the public. All that should be stated in relevant laws. For the beginning, a lot is expected from the access to information law (passed in 2005) that might benefit the citizens. It is expected to make budget monitoring of local governments much easier and to directly empower ordinary citizens in their dealings with institutions that now seem distant and all too powerful.

Whether citizens, NGOs or media, all watchers in Croatia should communicate, be involved, ask questions, and actively participate; give concrete suggestions to their local governments; expand their working knowledge and ability to understand and compare local budgets; and not “vote with their feet” without trying to act and make changes. Watchers should be involved in all stages of budgetary process. In the preparation stage they should participate in decisions about programs. That would enable them to better understand local governments’ work and intentions and might ensure better satisfaction with the provision of local services. In the execution stage they should monitor and ask for results. That might help to prevent inefficient usages of public funds, frauds, and irregularities and provide budget execution reports for the public. In the financial reporting stage, they should comment, ask for simplicity, and compare with other local units, so as to better understand the situation in the particular local community but also in the country as a whole and get idea about new possibilities.

Keeping in mind the low level of influence of the general public in Ukraine on the level of public expenditures, the goal of the policy proposed is to increase the public participation in the budget in order to gain more efficiency in providing public services. The problem cannot be solved just by an additional legal act (on public governance, for example), but with a complex policy mix directed mainly at the institutional strengthening of public governance. The core mechanism for securing a higher level of public inclusion could be the decentralization of educational administration, accompanied by a higher level of school self-government and responsibility of unit managers. That might mean a new schooling paradigm, devolution of functions from central to local governments, more autonomy of budget users, different money allocation, and promoting competition among budget users.

4.2.2 Promoting autonomy and responsibility of local governments

It might be concluded that greater autonomy and responsibility of local governments, usually connected with higher levels of decentralization, might improve the prerequisites for a better subnational budget watch.

Achieving clarity of roles and responsibilities in the management of public finances in Macedonia would be essential to the citizens’ capacity to hold the government accountable for budget policy and decisions. One could only hope that after the newest reforms in 2005 subnational budgets will be drafted with more concern for accountability. The country should

not be over-centralized and local governments should not be left to deal with important municipal issues without recourse to sufficient funding. The practice of many municipalities of running into debt and even finding extralegal means to manage their work should be stopped. As a result, budget transparency should be an issue of concern to local governments, and central authorities should not tolerate the state of affairs by reasoning that the citizens need their basic local needs filling.

As the central government in Ukraine bears most of the responsibility for the delivery of public services including secondary education, public policy options should be developed for enhancing local budget accountability in the education branch. Legislation should be revised to increase the independence of budgetary users, in this case educational establishments, and also to strengthen the accountability of educational establishments and authorities to the public. It could be obtained with the implementation of self-regulating mechanisms at the school level combined with a normative formula-based approach in the allocation of public moneys. Simultaneously, the elements of competition among schools should be launched. This could raise not only school cost efficiency, but also the quality of education.

The formal 2001 decentralization of government functions in education, health, and welfare in Croatia was not followed with the appropriate decentralization of financing. The central government still has to decide whether it wants decentralization of both authorities and financing, or decentralization of authorities and centralization of financing. Government should also invest in solving the problems of equalization grants, fiscal capacity indicators, and shared taxation formulas. The preoccupation with the number of local governments is clearly a politically delicate and tough issue to resolve. Clear definition of powers and responsibilities at all levels of government and establishment of stable financing mechanisms based on objective criteria could greatly affect the autonomy and responsibility of local governments, making them more interested in being accountable to citizens.

4.2.3 Promoting oversight or monitoring capacities of central governments

Decentralization means greater autonomy and responsibilities of local governments, but at the same time it requires a strong oversight or monitoring capacities of central government. Central government should enable equalized development of local communities and guarantee the appropriate level of public services to all citizens without financial difficulties.

As local governments are assumed to perform state functions at the local level, central government in Ukraine is mostly interested in controlling local spending decisions. Unfortunately, state budgetary oversight is biased towards control of the legality of money usage rather than its efficiency. For any change in this practice, a redefinition of the role of the relevant ministries, in this case of education, is necessary. The relevant ministry should be responsible not only for the content of education, but also for the budgets of the school entities. The ministry should establish departments capable of dealing with financial analysis and monitoring. Central government should solve the unclear processes of the formation and usage of the budgets of educational establishments and the inefficient usage of public resources. It should also enhance the usage of alternative sources of financing, competition among budget users, and free some of the taxpayers' money by replacing it with private sources. The goal of these changes is to obtain effective mechanisms capable of guaranteeing the best possible usage of educational budgets at both the macro and the micro level. It could

also increase public interest in the issue and consequently public participation in budgetary decisions.

There is no effective mechanism for controlling local financial management in Macedonia and this is why major legal and institutional changes are necessary. If the aim is successful fiscal decentralization, close monitoring of local budgets (as well as the national budget) is necessary. It should prevent the current practices of local governments of accumulating debts, owing suppliers of goods and services, and undertaking illegal financial management practices that currently cannot be easily identified, even by the state audit authorities. Getting rid of the illegal practices and non-payment culture of the government could promote a taxpayer culture and consequently positive *quid pro quo* feelings among citizens.

The absence of active central government involvement in local government activities in Croatia is one of obstacles in the way of their further development. It could sound contradictory to the previous claims about strong centralization in Croatia, but it could also be indicative of the real state of the affairs. Besides enhancing the autonomy and responsibilities of local governments, central government should improve external monitoring mechanisms and establish procedures for monitoring local governments. Thus they can come to understand that, as well as the state audit authorities, the central government can also monitor, control, and audit their activities.¹² On the local government side the emphasis should be on financial management, fiscal discipline, and efficient usage of resources. On the central government side it is necessary to build analytical and monitoring capacities. It will of course be difficult, considering the constant problems of attracting staff to public administration. But that is another topic.

5. Situation, expectations and what could be done

Like the majority of other countries in the post-communist transition, the countries from our sample—Croatia, Macedonia, and Ukraine—face huge democratic deficits. They are also confronted with large government expenditures and inadequate levels of public services, all accompanied by inactive populations. The options are smaller governments, meaning a decrease in services; larger governments, with an increase in taxes; or better governments, i.e., an increase in effectiveness. Witnessing the slow processes of restructuring of the economies and the health systems, plus the aging of population, one could expect that large governments are here to stay, meaning that citizens as taxpayers should try to promote other options.

One could also expect that governments will most likely become more influential at the local and regional levels and that citizens will become more aware of the issues and engaged to participate at local levels, and, logically, ultimately begin to actively engage in subnational budget watch.

In Table 3 participation, information, and accountability is compared in the three countries. Judging from the answers to the set of questions, the situation seems to be the worst in Macedonia and much better in Ukraine and Croatia. Answers to almost all questions for Macedonia are negative, while the majority of answers for Croatia and Ukraine are positive,

¹² None of the respondents in Croatian survey, when asked who monitors the activities of local unit, mentioned central government, the Ministry of Finance, or some other ministry. Over 40 percent of respondents circled the State Audit Office then followed internal control, local assembly, local budget and finance committee, etc.

even though they usually come accompanied by some disclaimer like “but,” “still,” or “yet”. Of course, this evaluation is rather subjective and cannot be used for any kind of ranking of the three countries. The most discouraging conclusion could be that citizens of all three countries participate: “hardly,” “poorly,” or “on a very small scale,” irrespective of the possibilities for participation; the availability, reliability, and timeliness of data; and the accountability of governments.

Table 3.
Participation, information, and accountability in Macedonia, Ukraine, and Croatia

	Macedonia	Ukraine	Croatia
Participation			
Are citizens participating?	Hardly.	On a very small scale.	Poorly.
Does the legislation enable them to participate?	Not directly, but some indirect encouragements exist.	Formally yes, but without clearly defined mechanisms.	Yes.
Are there institutional arrangements for participation?	No.	Public hearings.	No, but numerous examples of arrangements in practice.
Information			
Are data available?	Only on <i>ad hoc</i> basis.	On a very limited scale, without detailed information available to citizens.	Yes, but not in citizen-friendly formats.
Are data reliable?	No.	Mostly yes, but shadow activities of budgetary users still exist.	Yes, quite.
Are the data timely?	No.	Yes.	Yes.
Could one compare actual vs. planned figures?	No.	Yes.	Yes.
Accountability			
Is it clear who is accountable for what?	Provided by 2004 Law on Budget.	In general, yes, but with severe problems.	In general, yes, but with some limitations.
Do the executives take in mind external auditors reports?	No. Central authorities even tolerated local governments running debts until 2004.	Yes.	Yes.
Does the executive bear in mind requests from legislative?	Not, unless these suit the interests of central government.	Yes, still with quite large autonomy.	Yes, still with quite large autonomy

Source: Adapted from correspondence with Daskalovski, Maletić, and Slukhai.

It is obvious that we need action to de-alienate citizens and to demystify the budget and bring it closer to the population, and that the action should be based on research and advocacy. That is exactly where our case studies fit in. They are expected to contribute to the raising awareness of the importance of the transparency of the budget, the accountability of governments, and the participation of citizens, particularly at lower levels of governments. Proposals for the introduction of new models and action plans for participation and monitoring are given by Daskalovski (2006), Maletić (2006) and Slukhai (2006).

For Croatia, Maletić proposes concrete institutional framework in the form of a newly established monitoring committee with representatives of relevant ministries, budget users,

and citizens (NGOs, local governments associations, media, etc.). She also clearly defines working plans for the committee. Functional committee could change the role and the position of citizens in the subnational budget watch, enabling them a formal position within the process.

Slukhai proposes a practice from New Zealand for Ukraine. In that model, schools enjoy a high grade of fiscal independence and are required to perform in a fiscally sound way. The relevant ministry should deeply involve in fiscal issues and should not relinquish their management solely to the Finance Ministry. The model might be a good example to prove that decentralization and school autonomy are capable of providing not only very good results in the delivery of education, but also of enhancing the incentives of citizens for participation in local budgetary issues.

Bearing in mind the poor possibilities for participation, lack of information and accountability in Macedonia, Daskalovski opted for the translation of budget lines to an understandable format and for the generation of momentum in the form of a published citizens' budget guide. The intention is to use the experiences of similar publications for other countries and to consult experts in the field. A good citizens' budget guide could enable ordinary citizens, as well as politicians and the media, to understand better the basics of the budget and the budgetary processes.

6. Conclusions

Budgets are too important for citizens to be relinquished to the sole stewardship of legislative and executive branches of government. Citizens should try to participate in budgetary processes from the very beginning, when the governments start preparing the budgets, to the final stages when governments and auditors report on their executions. This article tried to explain why the citizens should engage, how to do so, and what questions to ask. The subnational level was emphasized because it usually provides basic education, health, or welfare, services that citizens are particularly interested in. Consequently, one might expect citizens to become most easily attracted to engagement at local levels. We hope that this article will fill a gap in the existing literature and give some directions for possible actions of all interested parties—the legislative and executive branches of governments, public servants, academia, the media, NGOs, and citizens.

We should here emphasize the limitations of our conclusions, based as they are on the comparison of only three countries. Although they have a lot of issues in common, these countries are different by size, wealth, territorial organization, and their current relationship with the EU. The authors of the case studies also have different backgrounds and consequently different approaches. The topic is rather new and comprehensive, experiences from other countries are rare, and we cannot claim that the approach taken was the best one. Further work would analyze a bigger sample of countries, e.g., a group of ex-Soviet or ex-Yugoslavia countries or new EU members and candidate countries. One could also concentrate on particular segments, e.g., the role of local assemblies in local budgetary decision-making or the effects of the harmonization with the EU on the possibilities for citizens' participation.

It would also be good to engage as many countries as possible in *Opening Budgets to Public Understanding and Debate*, i.e., the budget transparency index by the International Budget

Project, which is expected to impact participation and accountability. Of course that impact could be looked upon in the opposite way as well, i.e., how participation and accountability could affect transparency. Besides a worldwide budget transparency index, one could easily imagine a worldwide budget participation index. Such an index might make feasible a comparison of citizen participation and enable them to have a greater influence on governments' decisions concerning revenue collection and public services provision. Of course, decisions should be in line with the possibilities and needs of these same citizens, their local communities and their countries.

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