

NEWSLETTER 2021



Center for Economic Analyses

Newsletter 2021



...We are making a difference! December 2021

Dear reader,

The year 2021, like 2020 was a challenging year, not only due to the pandemic, but also due to the years-long political crisis, that required efforts for restoration of democratic standards and values in North Macedonia. The outbreak of the Covid-19 pandemic poses a serious threat not only from a health point of view but also from an economic point of view due to the negative worrying effects on the global economy. The European Union (EU), its member states, but also candidate countries such as the Republic of North Macedonia are looking for ways to mitigate the negative economic effects through ambitious fiscal packages and state aid measures. This situation creates, in addition to fiscal challenges a worrying public debt expansion.

Our work at the Center for Economic Analysis - CEA is to thoroughly inform the public about the risks that exist in the Macedonian economy. We are particularly focused on the risks to public finances, whose intensity and likelihood of occurrence are enhanced over a long period of time covering the rule of several Macedonian governments. Through its engagement, CEA worked on increasing awareness for the need of public participation, improved efficiency of the public sector, and contributed toward a more competent and credible civil society and more competitive business environment. The high levels of air pollution, limited water management and waste management capacities, uncontrolled construction, and other environmental challenges prompted us to open new chapters in which we will strive to contribute with economic analyses in order to protect the environment.

In the coming 2022 CEA will continue to question government policies and inform debates through rigorous research and analysis on important developmental issues, with a strong emphasis on the socio-economic problems and more efficient and effective public finance. Please look through the palette of our work in the past year on the following pages.

We would be pleased to provide further information to clarify or deepen the scope of our work at your convenience. CEA Team

Achievements and challenges in 2021:

- ⇒ Initiating dialogue on key economic topics and policies;
- ⇒ Fighting against the lack of fiscal transparency and accountability on national and local government level and actively participating in its improvement
- ⇒ Contribution to the promotion of tax responsibility of the citizens and the authorities in North Macedonia.
- ⇒ Providing quality analyses and recommendations relevant for improved public policies;
- ⇒ Acting towards increasing public awareness about environmental challenges.

Highlights from 2021:

- Building tax moral by motivating and promoting active and responsible taxpayers and their awareness about the social importance of tax revenues, and on the other hand transparent and efficient spending of public funds to enable both economic development and social cohesion.
- ⇒ Urging for increased budget and fiscal transparency, accountability and public participation.
- Emphasizing the need for local governments to establish sustainable and inclusive social and local economic development by increasing their own revenues and increasing external funding
- ⇒ Alerting about the credibility, efficiency and effectiveness of the institutions to monitor the work of legal entities which operations have impact on the environment

⇒ Good Governance and public finance

Center for Economic Analyses

Tax responsibility Project – Towards civic responsibility and responsible tax

The project funded by the European Union through the European Instrument for Democracy and Human Rights, aimed to tackle and contribute to the challenge of increasing the social responsibility specifically tailored to Republic of North Macedonia approaching from both sides, the civic responsibility through evidence based research and awareness raising to boost tax morale and as well as the governments' responsibility through increased transparency and accountability.

With this action we piloted an innovative approach of behavioral economics in order to inform policy and improve public service and deliver positive results for people and communities on the issues of increasing tax morale and tax compliance.

Thus, the goal was to contribute to advancement of civic responsibility in North Macedonia through tax responsibility because building the tax citizenship requires inductively motivating and promoting active and responsible citizenship involved and aware of the social relevance of taxes and on the other hand the transparency and efficiency of any government expenditure to enable human development and social cohesion.

Analysis derived from the project:

- ⇒ Promoting tax liability through insight into the behavior of taxpayers
- ⇒ Analysis of the tax morale determinants
- ⇒ Tax morale in the Republic of North Macedonia: Profile of taxpayers
- ⇒ Tax compliance cost in North Macedonia—An accountant's perspective
- ⇒ Challenges in the local tax system in the municipalities in North Macedonia: Focus on the property tax
- ⇒ Populism and Clientelism in Public Expenditure at the Local Level: An Early Warning Index for Populism and Clientelism
- ⇒ Gender & Taxation Policy Discussion Paper: Selected Municipalities in North Macedonia & Property Tax
- ⇒ <u>Citizen Report Cards of the municipalities of Gostivar, Kriva Palanka, Delchevo</u> <u>and Pehchevo</u>
- ⇒ Methodology for conducting an experiment for tax incentives through communication with taxpayers

The detailed analysis, and activities within the project can be found here.

















Good Governance and public finance

Why improved fiscal transparency?

Fiscal transparency in developing countries could make civil society groups more efficient and bring positive development results. Budgets are the most powerful tool to meet the needs and priorities of the state and its citizens. The transparency of the budget is prerequisite for the participation of the citizens in making decisions on spending public funds and accountability of the authorities.

In the previous year or two, in addition to the regular monitoring of fiscal transparency at the national level, CEA established a methodology for continuous monitoring of fiscal transparency at the local level, as well as tax transparency at the local level.

Open Budget Survey

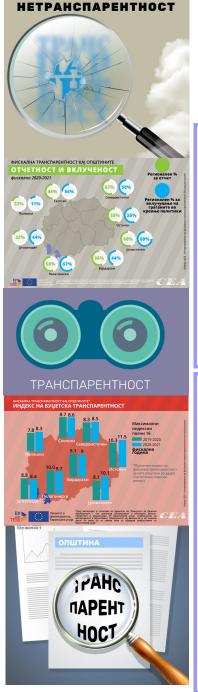
CEA continues to be a partner with the world renowned International Budget Partnership-IBP in the process of implementing the <u>Open Budget Survey for Macedonia</u>. In that line, CEA monitored the government openness for the period 2017-2019.

According to a <u>recent study</u> by the International Budget Partnership, the general conclusion is that governments are failing to respond to Covid 19 crisis in a transparent and accountable manner when it comes to fiscal policy. More than two-thirds of the governments monitored provided only limited or minimal levels of accountability in introducing and implementing their fiscal crisis packages. See more <u>here</u>.

Fiscal transparency of the municipalities in North Macedonia

Fiscal transparency on a local level is as important as it is at the national level. From this aspect, CEA several years in a road measured the index of budget transparency on a local level. The general information is that the LSGU notice an improvement on the index of availability of budget documents in 2019-2020 compared to other fiscal years (2014-2015: 2020-2021).

In an era of digitalization and openness as well as the opportunities offered by modern technology, the availability of documents including budget information needs to be easy and timely, in order to fulfill the right of citizens to receive relevant information. So one of the most relevant indicators of fiscal transparency of municipalities is the availability of budget documents on their official websites as platforms that are available.



Tax transparency of the municipalities in North Macedonia

In 2021, CEA started measuring the <u>tax transparency index</u>. Tax transparency or the availability of information related to the taxation process, local tax collection and tax spending is part of the fiscal transparency and accountability of local governments. Tax transparency is the process of providing the quantitative and qualitative data that society needs to ensure that the tax system works for the benefit of the tax authorities, the government, legislators, those who have elected them, those who pay taxes and all other actors in the tax system. (Global Fiscal Transparency Initiative, GIFT).

⇒ Good Governance and public finance





COVID-19 and the municipalities in North Macedonia: Will the municipalities ask for another central government financing through debt?

The project was implemented by CEA and financially supported by CIVI-CA MOBILITAS program.

The project aims to contribute to the debate on the local effects of the COVID-19 crisis and the impact on local public finance with focus of the municipal revenues. It aims to provide as well insight to policy makers toward more resilient regions.

More about the project see here.

Strengthening Resource Mobilization Activity – SRMA

CEA in Partnership with Cardno Emerging Markets is implementing the Project: Strengthening Resource Mobilization Activity, together with several organizations. The project is funded by USAID. Namely, the project tends to build the capacity of North Macedonia's subnational governments to generate, access, and effectively manage revenues to fund services and programs benefiting their citizens.

The project will contribute to:

- 1) enhance the quality of municipal tax and fee collection systems;
- 2) increase municipal capacity to access external resources from the national government, international organizations, capital markets, and banks; and
- 3) improve the ability of municipalities to plan, manage, and implement public sector revenues in compliance with national regulations;
- 4) advancing the decentralization process.

Private sector engagement, gender and social inclusion, financing for self-reliance, long-term sustainability, and innovation are core pillars of Cardno's approach to SRMA's implementation.



STRENGTHENING RESOURCE MOBILIZATION ACTIVITY



Проект за зајакнување на капацитетите за искористување на ресурсите Projekt për përforcimin e kapaciteteve për shfrytëzim të resurseve

⇒ Good Governance



Competition and State Aid Policy Monitor: 8 Matters!

CEA implemented the project "Monitoring of competition policy and state aid control: 8 Matters!", financially supported by the Swedish International Development Agency (Sida) through the "Nordic Support for Progress of North Macedonia" Project implemented by the United Nations Office for Project Services (UNOPS).

The project that aimed to contribute to an increased level of state aid and competition policy enforcement activities, enhanced transparency and increased awareness of the importance of these policies through monitoring and advocacy (areas covered in the EU negotiation chapter 8).

The project identified obstacles for effective implementation of the state aid control and competition policy, worked on regular monitoring of the state aid and competition policy, and to increase public awareness of the importance and the role of competition policy.

In the past year CEA developed the <u>HANDBOOK on Parliamentary</u> Oversight of Competition Policy and State Aid Control

The main purpose of the manual is to provide guidance to MPs as well as parliamentary staff regarding their responsibilities for parliamentary oversight and control over the implementation of the competition policy and control of state aid in RN Macedonia.

All project outputs about the monitoring can be accessed <u>here</u>.

The importance of audit reports in the fight against corruption– contribution of CEA to a workshop

The importance of audit reports in the fight against corruption was the topic of an online training held on 18.05.2021, organized by Transparency International Macedonia. In addition to the representatives of the State Audit Office, the training was attended by representatives of the State Commission for Prevention of Corruption, the Academy for Judges and Public Prosecutors, prosecutors from the public prosecutor's offices in the country and the Center for Economic Analysis.

CEA with its presentation contributed to the goal to strengthen cooperation between institutions responsible for combating corruption in order to improve mutual cooperation and conduct of competent institutions, in relation to the findings in the final audit reports of the SAO. See more here.









⇒ Initiating Dialogue - EU Integration and Networking



Establishing Policy Bridges with EU-CEA

CEA implemented and finalized the 'Europeanization' project supported by OSI, with the goal to enable better and enhanced networking and collaboration between Macedonian think tank CEA and western European think tanks in the process of Europeanization of the sector and the overall country towards EU.

The project activities were challenged by the Covid-19 but we continued to be active founding member of the TG-Web and participated in the annual conference on territorial governance; contributed to the Journal of Territorial Governance in the Western Balkans; we established contacts with several European think tanks, we collaborated on several occasions with organizations from the region; took part in the European Week of Regions and Cities; continued discussions and debates with the already established think tanks in Europe on especially burning issues of socioeconomic effects of Covid-19, and we significantly improved out communication with the constituents, etc.

CEA continued its efforts to bridge with similar and complementary think thanks throughout Western Europe. Thought its activities for europeanization came closer to jointly collaborate for reaching common goals. During the project implementation, CEA reaffirmed the potential to collaborate with organizations and institutions from Germany, the Netherlands, Poland, Greece, Belgium, Slovenia, Albania, Switzerland.

CEA ranked as 37th globally in terms of quality assurance and integrity of policies and procedures in 2020

According to the annual Global Go To Think Tank Index Report prepared by the University of Pennsylvania, the <u>Center for Economic Analysis-CEA</u> is ranked 37th globally out of a total of 75 think tanks (research centers) and the only one from North Macedonia measured by quality assurance of our products and the integrity of our policies and procedures. The CEA is also ranked among the best think tanks for domestic econom-

The CEA is also ranked among the best think tanks for domestic economic policy for 2020, as well as the best independent think tanks for 2020.



CEA participated in the Urban Debate event in Geneva

Marjan Nikolov as a representative from CEA participated in the Geneva Cities Hub, Geneva Urban Debate, co-organized by UN Habitat, in partnership with UNDRR, The World Bank and UNECEF (held June 28, 2021): Post-Covid Economic & Financial Recovery: What about the City? Cities are at the heart of the recovery process in response to the Covid crisis. Learning from their experience is an opportunity to work towards a sustainable and sustainable urban future. See more here.

⇒ Other CEA Activities



Discussion: Municipal public finances and Covid-19 in North Macedonia

The purpose of this discussion was the implications on the public finances of the municipalities, the experiences in 2020 as well as the future plans and expectations for the next period.

Discussion on the topic: "Property taxes and taxpayer profile: Tax morale in North Macedonia"

Within the regular lectures on the subject Tax Law at the Faculty of Law in Skopje for master studies in finance and financial law, second year in a row, a panel discussion was held on "Taxes transparency on a local levelin North Macedonia" which aimed to introduce students to theoretical aspects and indicators for tax responsibility, experiences from the region and lessons for the Macedonian authorities. This forum was enriched by the discussion of Ms. Gabriela Dimovska from CEA, who presented the results of the monitoring within the broader Tax responsibility Project – Towards civic responsibility and responsible tax.

CEA International Event: Tax Behavior for Better Tax Responsibility

CEA at the final project event, presented the results and proposals for improved tax liability, as results of the Project Tax responsibility Project – Towards civic responsibility and responsible tax, funded by EU through the EIDHR program. The event program consisted of several sessions in where were presented and discussed the challenges of local self-government in collecting local taxes, international experiences with interventions in tax behavior and tax morality, the effects of pilot experiences on influencing tax behavior in North Macedonia at the local level as and citizen involvement as a factor in tax morale.

CEA Journal of Economics

The first CEA Journal was issued in 2006. Starting in 2012 CEA Journal of **Economics** become international journal, indexed in <u>EBSCO</u> and <u>EconLit</u> databases of journals. The journal creates a platform for economic forum where economists practice technical quantitative and qualitative analyses of economic problems and enrich the public debate on economic issues in Macedonia and the region. In 2015, CEA developed a new system for the journal. <u>Online CEA Journal</u>. The last issue is from May 2020 and now the CEA Journal is on-hold.

Web portal: www.mkbudget.org

CEA continuously and promptly updates the open budget platform since 2012. From 2012, CEA designed a platform where all budget information and data are available and open for further data processing.



⇒ Other CEA Activities



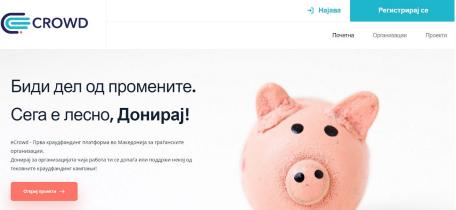
MAKE IT EASY - Establishment of the first crowdfunding platform for civic initiatives in North Macedonia

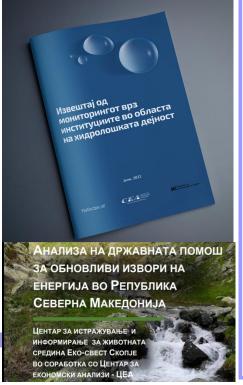
CEA together with the Association for Digital Innovations and Transformations HAB Skopje, the Food Bank and the Association of Young Doctors and Trainees are implementing the project MAKE IT EASY - Establishment of the first crowdfunding platform for civic initiatives in North Macedonia.

The project aims to promote the culture of donation in North Macedonia. The specific objective is to create practical tools that will increase the volume of donations in socially relevant innovative projects in North Macedonia.

The action is based on the belief that providing simple click-to-donate donation tools, which would save the donors time, energy and resources, and make the donation process easier for potential donors by instilling confidence in them. The credibility of the system can mean a big step in building the culture of donation in North Macedonia.







Monitoring of the institutions in the field of hydrological activity

How to make more efficient hydrological monitoring and monitoring of water quality of lakes and reservoirs?

CEA was provoked by the underdeveloped hydrological monitoring of the natural lakes and reservoirs, which is mainly due to the lack of a hydrological monitoring network and human capacity in the responsible institutions.

Hence, together with the Institute for Communication Studies, we raised the question of how adequate and how the legislation on water resources management is implemented, how effective the public policies are and whether the public funds for water resources protection are properly allocated.

The activities that CEA undertakes are part of the project PA3БИСТРИ CE, funded by the British Embassy Skopje,.

See the reports of the CEA activities here, and here.

⇒ Future activities

In the forthcoming 2022 CEA will continue towards achieving of its goals for improving the environment and contributing to more efficient economic development in 2022 Following its mission, in the coming period CEA will:

- ⇒ Continue monitoring the fiscal transparency on a national an local level.
- ⇒ Continue monitoring the tax transparency on a local level.
- ⇒ Continue with CEA's team capacity building through different activates and projects.
- ⇒ Continue research and analyses on current economic topics.
- ⇒ Continue working on the new environmental chapter where CEA can contribute with its expertize.
- ⇒ Continue its efforts to bridge with similar and complementary think thanks throughout Western Europe



CEA's Internship Program—a rewarding & valuable experience

Three dimensions available:

- ⇒ knowledge building,
- ⇒ policy research and writing and
- ⇒ communication and team work experience.

It offers an incredible amount of knowledge of economics, computer science, political science etc., but it also provides a significant amount of new skills and abilities.



CEA TEAM



If you share the same goals with CEA we invite you to be our partner in the coming period.

Center for Economic Analyses

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