



POLICY BRIEF No. 2
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Strengthening Integrity in Local Climate Finance: Municipal Budget Cycle Good Governance

Effective and sustainable climate finance at the local level does not depend solely on the amount of available funds, but above all on the quality of how those funds are managed throughout the entire budget cycle.

This document shows that three independent sources of evidence - institutional analysis, citizens' perceptions and the business sector's experience - point to the same conclusion: climate funds at the local level lack adequate budget tagging, are insufficiently represented in reporting to municipal councils, and are exposed to the risk of corruption and irregularities, due to insufficient transparency and accountability at every stage of the budget cycle - from planning to oversight.

The aim of this brief is to offer concrete, evidence-based recommendations for the four key stakeholders - the central government, local self-governments, citizens and the business sector - through which the existing potential (the high awareness and readiness to participate among citizens and businesses) can be translated into improved oversight, greater participation and improved institutional trust.

Key messages

- The risk of corruption and irregularities in local financing of activities and investments related to environmental improvement and climate change response is concentrated in the budget execution phase - public procurement and contract management - but originates from weaknesses identified across all four phases of the budget cycle.
- Institutional findings¹, citizens' perceptions and business sector experiences are three independent sources that are largely aligned: a lack of adequate climate tagging of the budget, a lack of quality narrative reporting intended for municipal councils and citizens, and access to public procurement being limited for most local businesses.
- Citizens' awareness and understanding of the concept of climate finance and businesses' readiness for green investments are relatively high and do not depend directly on the quality of local governance – but they represent significant potential that the current institutional framework does not successfully convert into participation, oversight or trust.
- The differences among municipalities are considerable: the composite governance index ranges from 46 to 19 points (0–100), indicating that solutions exist and are achievable, but are not being shared among local self-government units through the application of good-practice examples.
- Parallel, coordinated interventions are needed at the level of the central government (standards, oversight, transparency of transfers), local self-governments (implementation, participatory mechanisms), citizens (channels for reporting and participation) and the business sector (open and predictable procurement).

¹ See more in [Baseline Assessment: Climate Finance in North Macedonia: Analysis of Public Financial Management Processes in the Context of the Budget Cycle](#)

Basis for the conclusions

This document is based on cross-referencing findings from multiple sources – documents produced within the project: (1) the [Baseline Assessment](#) of integrity and corruption risks in climate finance (Activity 1.1), which applies a corruption risk assessment methodology; (2) the [Mapping](#) of institutional capacities and practices in nine municipalities according to the PEFA Climate framework (CRPFM indicators) (Activity 1.2); (3) the [Citizens' Survey](#) with a narrative analysis of perceptions of transparency, accountability, participation and corruption risk; (4) the [Composite Indices](#) derived from the citizens' survey (awareness, transparency, accountability, participation, corruption risk, trust); and (5) the [Survey and Composite Indices](#) of local businesses. The combination of institutional, citizen and business data enables the recommendations given below to be based on aligned evidence from multiple sources.

Good governance in the budget cycle

The risks and weaknesses in climate finance at the local level are not random or isolated - they occur systematically across the four consecutive phases of the budget cycle, with a weakness in one phase amplifying the risks in the next. The diagram below shows the four phases together with their level of institutional risk, based on a combination of *PEFA Climate* indicators and the findings of the Baseline Assessment.

Figure 1. Risk by budget cycle phase - local climate finance.



Phase 1 - Budget Preparation and Planning

INSTITUTIONAL FINDING

The Mapping showed that not one of the 9 municipalities has established a system for tagging climate-relevant expenditures in the budget - indicator CRPFM-2 is rated D in all municipalities. This means that there is no systematic way for either the central government or citizens to determine how much is actually being spent on climate measures, which structurally weakens every future reporting and audit process from the very start of the budgeting process.

CITIZENS' PERCEPTION

Only 16.2 points out of 100 on the participation index - shows that citizens are almost entirely uninvolved in the planning of local budgets related to the environment and climate, while public hearings, where they exist, do not reach the wider public.

BUSINESS SECTOR EXPERIENCE

Awareness and understanding of the concept among local businesses is relatively high, but their knowledge does not translate into active participation in planning - businesses are not consulted when defining municipalities' priorities for green investments.

Risk of corruption / irregularities

The Baseline Assessment identifies a potential risk at this phase: politically motivated allocation of funds toward „visible“ rather than the most effective climate projects, as well as selective presentation of climate impact data (greenwashing) when justifying and reporting per budget items. The absence of adequate tagging allows these risks to remain unverifiable.

Implication for public policy

The central government should prescribe a single methodology for climate tagging of the budget, mandatory for all municipalities, linked to the reporting system to the Ministry of Finance.

Phase 2 - Execution: Public Procurement and Contracts

INSTITUTIONAL FINDING

This is the phase with the most concentrated risk factors according to the analysis in the Baseline Assessment, and at the same time the phase with the weakest institutional coverage (CRPFM-5 and CRPFM-8, related to public investment and procurement management, which are rated predominantly D across municipalities).

CITIZENS' PERCEPTION

28% of citizens identify precisely the selection of contractors/suppliers in public procurement as the area with the highest risk of corruption - almost twice as many as any other response in the survey. This shows a citizen consensus on which point in the process is most vulnerable, according to their perception.

BUSINESS SECTOR EXPERIENCE

Data from the business survey confirm the same finding - of 146 firms surveyed, 80.1% have never participated in a municipal green/climate procurement. Of the 19 firms that participated and did not win a contract, only 31.6% say there was no risk, while 42.1% specifically locate the risk precisely in the execution phase, through cost overruns, inflated invoice values, and delayed delivery. In contrast, the 10 regular contract winners rate the same process as risk-free— which is an indicator of limited competition.

Risk of corruption / irregularities

The Baseline Assessment identifies potential points of vulnerability at this stage: influence/risk of kickbacks in the allocation of contracts, contracts at above-market prices, and the risk of discretionary evaluation of contractors through insufficiently transparent criteria. This is the phase where institutional, citizen and business findings converge.

Implication for public policy

This is the priority area for intervention across the entire cycle: open, digitized and traceable procurement procedures related to climate and the environment, with publicly available criteria and results, are a precondition before investing in any other segment of the cycle.

Phase 3 - Reporting and Internal Control

INSTITUTIONAL FINDING

CRPFM-4, which measures the quality of narrative reporting to municipal councils, is rated D/D+ in all municipalities – indicating that municipal councils in practice do not receive an elaborated, substantive explanation of climate expenditures, but instead largely receive synthesized formal financial reports.

CITIZENS' PERCEPTION

The transparency index and the accountability/oversight index are among the lowest of the six citizen indices, which aligns with the institutional findings on the lack of adequate narrative reporting - citizens lack the opportunity for full insight, because the information is not available in a sufficiently understandable and adapted form.

BUSINESS SECTOR EXPERIENCE

The transparency index according to businesses (calculated only for the 68 businesses with sufficient exposure/experience) is higher than the citizens' index, but still insufficient, given that businesses that directly enter into contracts should have full insight into the terms of execution.

Risk of corruption / irregularities

The Baseline Assessment points to a possible risk of overlap or double funding due to fragmented or limited reporting - when the same climate project or budget line is implemented through multiple independent programs without cross-checking, this makes monitoring and verification more difficult.

Implication for public policy

Mandatory standardized narrative reporting on climate expenditures to the councils, with public disclosure, should shift from being good practice by choice to being an obligation.

Phase 4 - External Audit and Oversight

INSTITUTIONAL FINDING

The oversight institutions (SCPC and SAO) have an established systemic role, with the main remaining challenge being the establishment of a feedback loop between audit/oversight reports and the process of preparing subsequent local budgets.

CITIZENS' PERCEPTION

The results indicate limited informational reach, with only a quarter of citizens sufficiently familiar with the role of the SCPC and SAO to express trust in their oversight function.

BUSINESS SECTOR EXPERIENCE

Businesses showed moderately positive trust, which represents a good basis for further advancing transparency in public procurement and building greater confidence among economic operators and competition.

Risk of corruption / irregularities

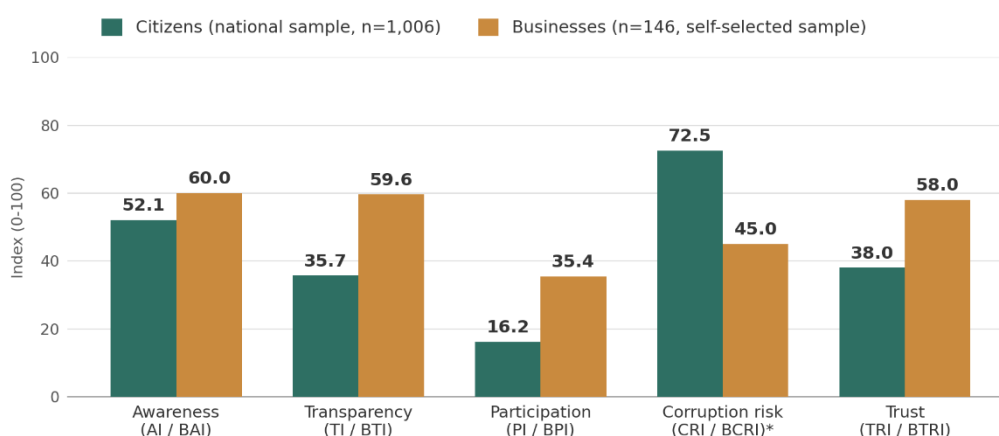
The Baseline Assessment points to a potential risk of administrative formalism - that is, placing the focus on the formal-legal regularity of documentation rather than on evaluating the actual effect and the climate results achieved. This can create a situation where projects are properly documented, but their substantive effectiveness remains insufficiently assessed.

Implication for public policy

Recommendations from audit reports and SCPC procedures need to be systematically integrated as feedback into the next budget planning cycle. Through publicly available insight into these processes, it becomes possible to close the governance loop and continuously improve policies.

Comparison of perceptions and experiences of citizens and local businesses

The composite indices from the two surveys show similarities: awareness and understanding of the topic is relatively high among both citizens and businesses, but participation and accountability lag significantly behind, while the perceived risk of corruption and irregularities remains high in both groups



* For the corruption risk index, a higher value means a WORSE outcome - the opposite direction from the other four indices.

Figure 2. Comparison of composite indices - citizens versus businesses (0–100).

The unequal access is visible through the division of businesses according to their experience with public procurement: local businesses that regularly win contracts rate the process as almost free of shortcomings, while businesses without success in the procedures see the risk precisely in the contract execution phase.

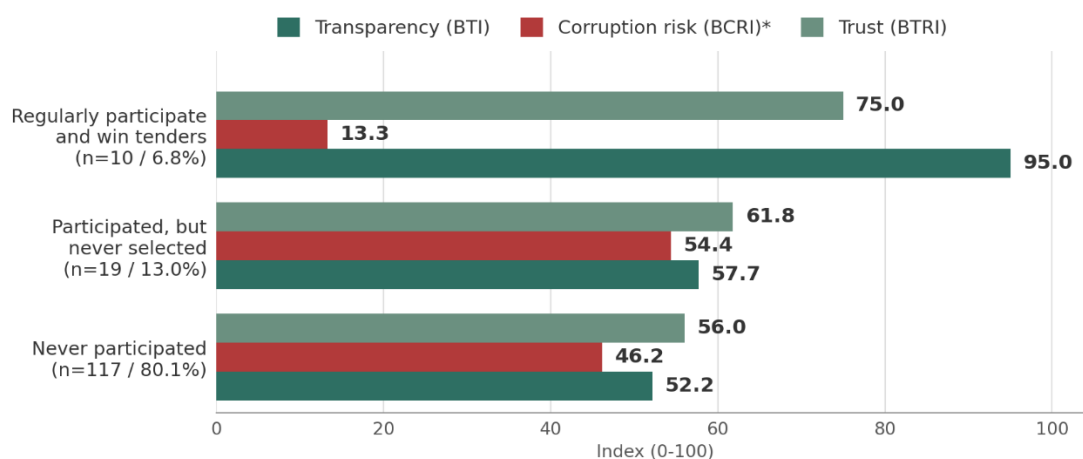


Figure 3. Transparency, risk and trust indices among businesses, by procurement experience.

Differences among municipalities

The diversification among the nine municipalities points to several profile types: municipalities with high alignment between awareness and governance, municipalities with high awareness but weaker institutions, municipalities with low awareness but relatively favourable perception, and municipalities that are weak across several indices at once. This range shows that solutions are achievable in a local context and do not require waiting for national reform - however it also shows that, without targeted support, the „weaker“ municipalities will not be able to automatically catch up to the average.

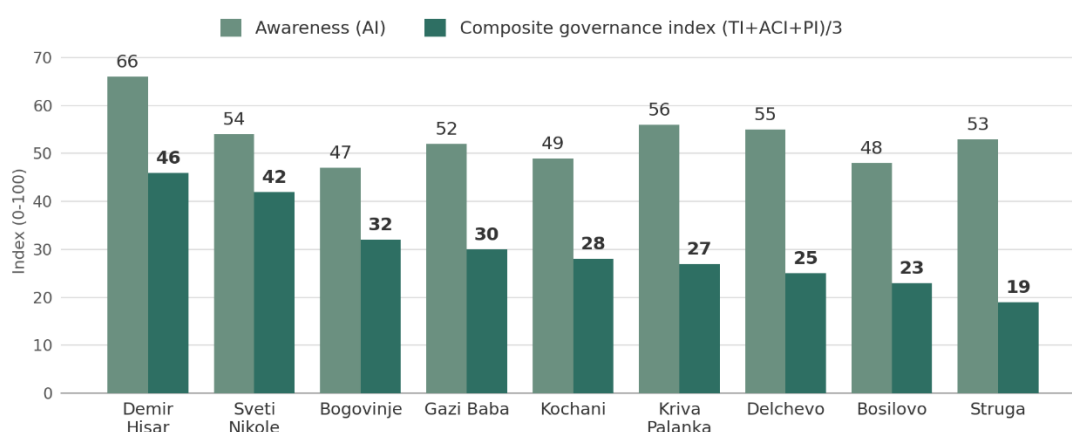


Figure 4. Awareness versus composite governance index, by municipality (descending).

Cross-cutting governance aspects

Transparency - Transparency has the strongest association with the level of trust among both citizens and businesses, and represents an entry point for improving governance. Even modest steps toward greater openness of data and information can bring a disproportionately large effect on building trust.

Participation of citizens and businesses - participation is among the lowest-rated dimensions in both the citizen and business participation indices. Participation does not grow automatically with awareness and understanding of the topic, but requires concrete, dedicated channels and direct mechanisms for participation.

Integrity and corruption risk - The assessed corruption risk index among citizens is the highest of all six citizen indices, meaning that the perception of risk is systematically stronger than the perception of good governance. This requires corruption to be addressed directly and openly in every future policy, rather than as a secondary issue.

Intragovernmental coordination - The differences among municipalities, visible through the composite governance index, show that good practices already exist within some local self-government units, but there is no mechanism through which the central government can systematically identify, document and transfer them to weaker municipalities.

Recommendations for public policy

The recommendations below are directed at climate finance policy and good governance of public funds, by key stakeholders:

Central government

- Prescribing a single, mandatory methodology for climate tagging of budget lines for all municipalities, aligned with the reporting system to the Ministry of Finance and the Ministry of Environment and Physical Planning.
- Introducing a legal obligation for standardized, publicly available narrative reporting on climate expenditures to municipal councils and, further, to citizens.
- Formalizing a mechanism through which SAO findings and SCPC procedures concerning municipalities become a mandatory input into the next budget cycle, with public feedback.
- Developing and publishing an annual comparative overview of municipalities according to climate governance indicators (based, for example, on *PEFA Climate* or equivalent), with the aim of transferring good practices from the best-performing to the weaker municipalities.
- Conditioning part of the transfers/grants for climate-related projects on minimum standards for procurement transparency and reporting.

Local self-government

- Digitizing and publicly publishing the criteria, procedure and results of climate-related procurement - a priority measure given that 80% of businesses have never participated in a procedure, and 28% of citizens see precisely this as the greatest risk.
- Introducing regular, announced public hearings specifically dedicated to the climate portion of the budget, instead of generic budget hearings in which climate items get lost.
- Publishing narrative reports on climate expenditures to the council at least twice a year, in an understandable, non-technical i.e. citizen-friendly format accessible to both citizens and businesses.
- Establishing a simple, protected channel for reporting suspicious procedures in public procurement, with clear feedback to the person reporting.
- Applying practices from municipalities with a higher composite governance index, through the exchange of experience, rather than building the process separately in each municipality.

Citizens

- Requesting and using new channels for narrative reporting and published public procurement results to demand concrete accountability for each climate project, instead of general criticism.
- Participating in public hearings dedicated to the climate portion of the budget; current participation is low not due to a lack of interest, but due to a lack of channels and mechanisms.
- Reporting suspicious procedures through the official mechanisms of the SCPC and local channels, thereby creating a documented trail that supports audits.
- Participating in consultations organized by civil society organizations to ensure that the perceptions from the surveys influence future policies.

Business sector

- Requesting, through business associations and chambers, the introduction of standardized, published criteria for climate-related procurement before bids are submitted
- Reporting irregularities in contract execution (cost overruns, delayed delivery) through official channels.
- Making use of the high readiness for green investments through proactively seeking information and participating in consultations on future climate procurement.
- Joining forces through business associations for collective advocacy for greater procurement transparency - individual firms, especially those without prior experience, have limited influence if they act on their own.

ABOUT THIS BRIEF



This policy brief was prepared within the project Strengthening Integrity in Local Climate Finance: Transparent and Accountable Climate Finance for Corruption Prevention (2025/488-600), funded by the EU Rule of Law Programme (IPA 2021), and implemented by the Center for Economic Analyses - CEA.

The project aims to contribute to strengthening the integrity, transparency and accountability of climate related finance at the local level in North Macedonia, thereby helping to reduce the risks of irregularities and improve the allocation of local resources.

This policy brief and its recommendations are based on the [Reports](#) analysing the governance of climate finance in nine municipalities, through the perceptions of citizens and the experiences of the business sector, prepared by CEA.

Source of illustrations: The graphic displays were produced with the support of artificial intelligence technology.



Contact:

Center for Economic Analyses - CEA

info@cea.org.mk

ceaorgmk@gmail.com

www.cea.org.mk



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