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SUMPOR: Citizens and the city: the case for participatory
budgeting in the City of Zagreb

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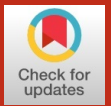
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Introduction to the Public Sector Economics 2018 Conference – Fiscal Openness: Transparency, Participation and Accountability in Fiscal Policies

KATARINA OTT, Ph.D.
DUBRAVKO MIHALJEK, Ph.D.

Editors' introduction
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Katarina OTT
Institute of Public Finance, Smičiklasova 21, 10000 Zagreb, Croatia
e-mail : kott@ijf.hr
ORCID: 0000-0003-2242-4181

Dubravko MIHALJEK
Bank for International Settlements, Centralbahnplatz 2, 4002 Basel, Switzerland
e-mail: Dubravko.Mihaljek@bis.org
ORCID: 0000-0003-4706-9534

1 WHY FISCAL OPENNESS?

The Institute of Public Finance, publisher of the journal *Public Sector Economics*, together with the Friedrich Ebert Stiftung and the International Budget Partnership, held its third annual conference in Zagreb on 26 October 2018. The main theme of the conference was fiscal openness: transparency, participation and accountability in fiscal policies.

Openness is widely recognized as an important feature of good fiscal policy. By enhancing governments' accountability, citizens' trust, and reducing opportunities for corruption, greater fiscal openness may contribute to a more efficient collection and distribution of public resources. Researchers around the world and international organizations such as the International Monetary Fund, the OECD, the World Bank, the International Budget Partnership, the Global Initiative for Fiscal Transparency, and the Open Government Partnership are showing growing interest in fiscal openness. Although expanding, this field of inquiry is still new, and many basic questions remain open. Which aspects of fiscal openness should be targeted? Where does demand for fiscal openness come from? Why are some governments more fiscally open than others? What are the effects of greater fiscal openness in practice? What is the role of technology, in particular of the internet and social media, in generating the demand for more and better fiscal information? How can we harness technology to provide such information? How can countries without extensive experience in fiscal openness benefit from those that have seen its positive effects?

The Institute of Public Finance has been involved in research on fiscal openness for many years, particularly with respect to budget transparency and public participation at national and sub-national levels. Currently, the Institute is coordinating a project "Understanding, monitoring and analysing local government budget transparency: Case study of Croatia and Slovenia – Open Local Budget Index (OLBI)", funded by the Croatian Science Foundation (IP-09-2014). One of the most visible outcomes of our research has been the constant improvement of the average online budget transparency of Croatian counties, cities and municipalities and increased interest in the topic within Croatia. Therefore, it seemed natural to focus on fiscal openness and invite contributions on the topic from around the world.

2 ABOUT THE 2018 PUBLIC SECTOR ECONOMICS CONFERENCE

The program committee – Francisco Bastida (University of Murcia and American University of Armenia), Bernardino Benito (University of Murcia), Mihaela Bronić (Institute of Public Finance), Juan Pablo Guerrero (Global Initiative for Fiscal Transparency), Paolo de Renzio (International Budget Partnership), Joachim Wehner (London School of Economics and Political Science) and Ronnie Downes (OECD) – evaluated over sixty submissions, 17 of which were presented at the conference.¹ The topics included transparency practices in different institutions;

¹ The conference was supported by the European Commission Representation in the Republic of Croatia, Croatian Science Foundation, Croatian Ministry of Science and Education, Association of Cities in Croatia, Croatian Chamber of Economy, Association of Municipalities in Croatia, Croatian County Association, Croatian Bank for Reconstruction and Development, Zagrebačka banka, OTP Bank, and Privredna banka Zagreb.

determinants and effects of fiscal transparency; international exchange of tax information; fiscal audits, transparency and accountability; the role of technology in fiscal policy; public participation in budget processes; and openness of local government budgets. This issue provides a selection of keynotes and papers from the conference; more are expected in subsequent numbers.

James E. Alt in his conference keynote traces the evolution of the concept of fiscal transparency in academic and policy agendas over the past three decades. As the turning point in this evolution, Alt sees the idea of Kopits and Craig (1998) that timely publication of clearly presented budget documents facilitates market discipline, by allowing market participants to properly assess governments' intentions.² From there on, academic research has focussed on designing, compiling and analysing transparency indicators, and studying their relationship with fiscal and political outcomes. Alt highlights a number of lessons from this rich literature: we have become more aware of the complexity of fiscal transparency issues and the importance of institutional detail; realised how effects of transparency depended on the socio-political context; and learned to respect the unintended consequences of transparency, notably those resulting from the use of internet information.

Some of these takeaways are echoed in the second keynote and two empirical papers that were presented at the conference and are published in this issue. *Francisco Bastida's* keynote highlights the "quality" rather than "quantity" aspects of transparency as the key to the strengthening of public trust in government: to be effective, transparency should not overload citizens with budget documents that are too technical; information in these documents should be fair and unbiased; and data comparable and objective. Otherwise, piles of data provided under transparency initiatives will remain sterile and irrelevant, triggering no citizen or taxpayer response to government policies.

Sandra Švaljek, Ivana Rašić Bakarić and *Marijana Sumpor* test some conclusions from the transparency literature in a case study of participatory budgeting in the city of Zagreb, Croatia's capital. They note that a handful of Croatian cities apply various forms of active citizen participation in deciding on the allocation of at least a fraction of the local budget. However, the city of Zagreb hesitates to implement participatory budgeting. As a result, the level of citizens' awareness and interest in the local budget processes is only moderate, while the level of participation is extremely low. The authors ask whether this outcome could be explained by barriers erected in the city administration, or those existing in citizens themselves. They find that low participation can be partly explained by demographic and socio-economic characteristics of the population. However, an important factor is also the perception that city authorities ignore citizens' opinions, so in the current political setting involvement in the budget process is a waste of time for individuals. Unlike the earlier studies, however, they find that individuals who are not supportive of the

² See George Kopits and Jon Craig, 1998. Transparency in government operations. *IMF Occasional Paper* No. 158.

current state or the local political system and intend to vote are more likely to consider themselves informed about actions of the local government.

The last contribution from the conference in this issue looks at the transparency of law making and fiscal democracy in the Middle East. *Lobna M Abdellatif, Mohamed Zaky, Mohamed Ramadan, Jad Mazahreh* and *Ibrahim Elghandour* use the Open Budget Index dataset to measure the quality of the law-making process for government budgets in Egypt, Jordan and Tunisia. They identify a specific limitation to fiscal democracy in these countries: the lack of attention to financial impact assessments in the process of budget law making. In particular, the inclusion of mandatory out-of-budget allocations – which do not require parliamentary approval – in the regular budgeting process reduces the flexibility of the budget and its responsiveness not only to macroeconomic developments, but also to other national priorities and citizens’ preferences. Greater attention should therefore be given to assessing the financial implications of proposed budget laws, and balancing them against expected benefits using efficiency and effectiveness measures.

3 CALL FOR PAPERS FOR THE 2019 CONFERENCE ON WEALTH AND PROPERTY TAXATION

The Institute of Public Finance and Friedrich Ebert Stiftung has already announced the *Public Sector Economics 2019 Conference – Wealth and property taxation: where do we stand?* to be held on 24 October 2019 in Zagreb, Croatia. The goal of this conference is to provide a state-of-the-art assessment of the profession’s thinking on the potentials and limitations of these taxes and their role in a modern economy. The call for papers invites submissions of historical reviews, studies of experience, as well as theoretical, empirical and policy papers on different aspects of wealth and property taxation.



Twenty years of transparency research

JAMES E. ALT, Ph.D.

Conference keynote*

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James E. ALT

Frank G. Thomson Professor of Government, Harvard University, Institute for Quantitative Social Science,
1737 Cambridge Street, CGIS Knafel 307, Cambridge, MA 02138, USA

e-mail: jalt@iq.harvard.edu

ORCID: 0000-0002-9218-8164

1 INTRODUCTION: HOW DID FISCAL TRANSPARENCY REACH THE ACADEMIC AGENDA?

With applications in financial, regulatory, monetary, and fiscal policy, and with the World Bank, IMF, OECD, and many other NGOs advising on best practices, fiscal transparency has become a major theme of contemporary research in political economy and public administration. It was not always so. Even though the connection between transparency and corruption prevention was understood by the ancient Athenians, the connection with democracy at least since 1689, and the importance of bookkeeping and auditing practices in economic development even earlier, there was little academic interest in the causes and consequences of transparency. An important stimulus to academic thought was Holmström (1979), with 10,000+ citations. One could weave a narrative through three subsequent streams of analysis – institutions, corruption, and debt – in academia with real-world developments from Watergate, the US Foreign Corrupt Practices Act, the founding of Transparency International, some aggressive lobbying by US firms, to the FCPA Amendments and OECD Convention of 1997-98. However, even though the 1990s saw increased attention to information, opportunism, and verification and the path-breaking publication of Mauro (1995, also 10,000+ citations), there was essentially no mention of “transparency”. It is no longer so.

Today, according to the US Department of State (2017), fiscal transparency is a critical element of effective public financial management, one that helps in building market confidence and underpins economic sustainability. Fiscal transparency also fosters greater government accountability by providing a window into government budgets for citizens, helping them to hold their leadership accountable and facilitating better-informed public debate. These pronouncements may be somewhat exaggerated, but around the literature one finds similar claims, that transparency promotes not only stability, sustainability, and credibility, but even trust. These claims have some truth in them, but overall the evidence in support of them is mixed. Our goal in this note is to look at twenty years of transparency research and highlight what is known and what is new.

A common view of fiscal transparency twenty years ago was that budgets that included numerous special accounts and failed to consolidate all fiscal activity into a “bottom line” were too complex to comprehend and thus not transparent. More complete definitions contained observability in two senses: that information provided should be accurate, comprehensive, timely, accessible, and verified, and that there should be receipt (and maybe comprehension) of information by the public, an argument at least as old as Bentham, for whom “publicity” was a central concept. In these senses, transparency requires state capacity to calculate and technology to make information accessible and forbids it to be withheld. Acquiring and understanding information has become more costly with complexity and contested components like risk and sustainability, especially for receivers who need more ability to “read”. For accountability, receivers need the capacity (sophistication) to use data: this is more of an issue with voters than markets. Most

recently transparency has come to include rights of public participation in decisions: this is very different.

In January 1998 George Kopits and Jon Craig wrote “Transparency in Government Operations”, an IMF Occasional Paper. It represents a turning point, even though (amazingly to me), it has had only 500 citations in the twenty years since. Their argument was straightforward: timely publication of a clearly presented budget document (i.e., transparency) allowed the market to evaluate government’s intentions, key to the market imposing discipline on government. As Kopits and Craig saw it, this would increase political risk (i.e., impose a cost on incumbent politicians of running unsustainable policies). Moreover, transparent public financial accounting would allow comparing budgeted and actual financial operations, and thus facilitate achievement of basic macroeconomic policy objectives and increase the productivity of public expenditure. More generally, boldly, transparency would thus increase trust in government. For evidence (mostly narrative), they alleged strong a priori reasons that transparency improves economic performance, arguing that it was a precondition for sustainability, accountability, and corruption prevention. Although citation was sparse, others quickly picked up the theme: within a year Vito Tanzi published “Corruption Around the World: Causes, Consequences, Scope, and Cures” in the IMF Staff Papers and Bill Easterly’s “When is fiscal adjustment an illusion?” appeared a few months later. It seemed as though the rush to data and empirical research to examine these claims was on.

2 THE FIRST DECADE AND BEYOND

By 2006 NGOs had produced a flood of indicators. The IMF had managed to get half its members to do a ROSC (Report on Standards and Codes) based on its 1998 Code and Transparency manual. The OECD’s country surveys produced a report on best practices in 2002. The first Open Budget Index, prepared with the opinions of independent experts rather than national government officials, came out in 2006. Nevertheless, limited empirical work appeared. What did mostly assumed that “More information is better” (citing Holmström) and focused on moral hazard and career concerns. An early model by Ferejohn (1999) assumed all politicians were motivated only by rents (no screening effects) and made transparency endogenous by allowing the agent (politician) to choose the observability of her actions. Politicians could thus commit to more effort (more transparency), receiving higher tax-based compensation than if action were completely hidden. The result: under some conditions, transparency increases incumbent retention and fiscal scale by reducing the negative impact of tax increases.

An early empirical paper employing this approach was Alt, Lassen, and Skilling (2002) on governor approval in opinion polls in US states. They collected nine indicators from published sources (based on surveys of civil servants) on whether states were committed to GAAP, using a binding independent revenue forecast, including performance results, voting the budget in a single bill, and so on. They showed that a higher transparency score was associated with greater state fiscal

scale and higher governor approval ratings. Alt, Lassen, and Rose (2006) tackled the obvious endogeneity (joint causation) problem with earlier results by collecting an interview-based retrospective panel dataset for 1972-2002, since replicated and still requested. These data showed that political competition was associated with greater transparency (subsequently independently confirmed), political polarization was associated with lower transparency, and that fiscal imbalance was associated with increases in transparency (evident in case studies but less robust in the quantitative analysis). Other papers (Alt and Lassen, 2006a, 2006b, 2008; Alt and Lowry, 2010) showed that transparency was less successful in reducing deficits when competitive pressures of the electoral calendar increased, that competitive institutions conditioning transparency were associated with lower corruption, that the US municipal bond market's response to state deficits was conditioned by institutional transparency, and that in the US, electoral support (vote and frequency of electoral defeat) revealed that raising taxes transparently hurts incumbent governors less.

Theory in the early years pushed to go beyond the sole focus on moral hazard, largely (to sum up a complex subject) because of a growing awareness that with incomplete incentives, results become more complicated and conditional. For example, in models of voting to re-elect, discipline and selection have opposing welfare effects via equilibrium behavior if there are good and bad types (Besley, 2006). A flirtation with yardstick competition helped a little. Others raised the possibility of "too much sunshine" (Hood and Heald, 2006) or the wrong information structure (Prat, 2005). Though it was clear that there remained a big role for institutional analysis, causality (to say nothing of measuring the relative frequency of types) often appeared ambiguous. In other ways there were still missing aspects of transparency. At most we were measuring access to information as opposed to its quantity and quality, justification, or verifiability, and even access was only measured by communications media freedom and penetration (newspapers and television, not yet the impact of the Internet).

There was also much more empirical work by other scholars, and the field has expanded rapidly in recent years. De Renzio and Wehner (2017) provide an excellent review; there are other reviews (cited in their sources) but this one is most useful for the theme of this Note. They conclude that over a number of diverse papers the origins of transparency do seem to involve fiscal stress and political competition, but that there are only mixed macro results on spending, deficits, and debt. Results seem to be conditional on the presence of mechanisms of dissemination to lower acquisition costs, like the availability of a free press. Transparency appears good for LDC investment, but whether it is also good for development is at best a "maybe". On publicity (the impact of actual receipt of information), there are important results on audits, media freedom, and maybe penetration. Since fresh perspectives are helpful, we will look more closely at some of these below. Finally, de Renzio and Wehner find that participation affects the distribution rather than the magnitude of spending, as well as public satisfaction or sense of

empowerment with process, but remain appropriately (in my view) skeptical about research cumulation, strength, and impact.

3 2010 AND AFTER

“Traditional” data sources expanded enormously as “practitioners” provided new data sources. NGOs have been hyperactive: the World Bank is creating datasets on Government Statistical Capacity and has launched the Budget Transparency Initiative, the International Budget Project regularly releases new versions of the Open Budget Index, and the IMF in 2017 revised definitions of net and gross debt in its World Economic Outlook database while joining the World Bank and other institutions in establishing PEFA, the Public Expenditure and Financial Accountability framework. Several of these institutions and others form GIFT, the Global Initiative for Fiscal Transparency, which among other things provides an online Open Fiscal Data Package. Then there is the Extractive Industries Transparency Initiative; also, Eurostat provides the Financial Transparency system to enable examination of EU funding recipients via online searches. There are also two major “private” datasets available: Hollyer, Rosendorff and Vreeland (2018), and Williams (2014). Both make heavy use of the World Bank’s World Development Index data, gauging a country to be non-transparent to the extent that its data do not appear in the WDI. Williams uses more sources, but the main contribution of both is to make data available for more countries in more years, shifting the focus to developing countries (in particular middle-income autocracies) and state capacity and willingness to disclose information. Replicating existing results for advanced countries (e.g. Alt, Lassen, and Wehner, 2014) does not apparently provide a great deal of new information.

More importantly, conceptual and measurement innovations abound. There have been a number of creative new looks. Here I will highlight just a few: new ways to approach freedom of information, including performance evaluation, getting closer to the details of accurate accounting, including public participation. Many of these areas have benefitted from the increasing use of experiments, especially in economics but also to some extent in political science and public administration.

One very creative new look was Berliner’s (2014) examination of the passage of Freedom of Information Acts (FOI laws) that can increase the cost to politicians of corrupt acts, especially in democracies. He notes the conundrum that electoral promises to increase transparency were rarely or at best slowly kept, but many laws were passed regardless, almost all new laws since 1995 in developing countries. The argument is that this is an insurance or hand-tying game, that the laws pass when a governing party fears losing power, or in some way holds power but does not expect to keep it. The argument is supported by narratives from countries such as Japan, South Korea, Mexico, Canada, Guinea, Niger, and Nigeria. These and subsequent related results recall some of the original Alt-Lassen-Rose findings on the importance of competition as a conditioning context. Increases also appear to be sustained, which implies that models involving commitment are reasonable.

The PEFA (2016) framework incorporates transparency (how well informed on finances the public is kept) as a pillar, joining it to accountability and suggesting standards of credibility: aggregate accuracy, consistency over time, and compositional invariance of financial indicators. Preliminary results nevertheless seem familiar. Expenditure executed slightly better on average than revenue; lack of transparency is mostly due to economic shocks, challenges in revenue forecasting (poor forecasts), the use of supplementary expenditures, and the unreliability of donor funds. But a great deal of data will become available, both local (the BTI) and national. Theory to shape expectations would help: what is needed is a model in which incumbents have distinct policy preferences and are held accountable for the difference between observed outputs and prior expectations. There is one: the Meiwitz (2007) model of accountability assumes incumbents belong to parties with distinct policy preferences and have private information about feasibility constraints on policy. One could incorporate transparency by allowing voters' information about feasibility constraints to vary but so far I have not seen this done.

Creative accounting is not new; fiscal illusion and false "adjustment" have been studied for years. Much of the recent transparency literature builds on re-election and election-timing motivating government obfuscation and concealment (see Hudspeth et al., 2015; most recently Repetto, 2018). Questions abound. How important is election-timing in government accounting choices? Is accrual accounting manipulation-proof? In world where fiscal policy is increasingly focused on second-order, complex rules with contested meanings, what does this do to the need for transparency? Different accounting systems treat assets and liabilities differently; Alt, Lassen and Wehner (2014) show the need to dig deep into the accounting components to detect manipulation. More information on variation in public sector accounting standards will be very helpful: the information concerning 14 countries recently made available (Brusca et al., 2015) is a good start. Fund-shifting to evade rules, delays in passing and releasing data on budgets and other comprehensive financial reports, treating public-private partnerships as non-public: all need further study. There is a burgeoning area for transparency studies with new applications all the time to corporate governance and executive pay.

Finally, there is some indication that participation has different effects from older measures of transparency. It may be that mandating participation has more impact on targeting and distribution of expenditures, by both geography and gender, on public satisfaction with outcomes and process, and on citizen (especially women's) sense of empowerment. But participation's impact also can be frustrated by entrenched gatekeepers. Competent participation is highly information dependent and can require some sophistication to understand how best to use the information. It is thus also vulnerable to strategic information-providing, particularly when source credibility is hard to assess, as on the Internet.

4 THOUGHTS FOR THE FUTURE

Increasingly we see that transparency alone is often not the answer. The literature on corruption reminds us that enforcement power often has to be added to free transmission of information to make transparency effective. For instance, publicized random audits did expel some corrupt mayors in Brazil (Ferraz and Finan, 2008) but this happened only in conjunction with active local radio, in contexts where re-election was possible, so losing was a potential penalty. In contrast, Olken's (2007) Indonesian audits were ineffective because no penalties were possible, not having been fixed by public participation. The need for competence and sophistication grows as transparency comes to be seen as a cheaper substitute for enforcement. As Olken put it, "Transparency and publicity are powerful tools but only if combined with grassroots organizations with the incentive and the competence to use the information provided."

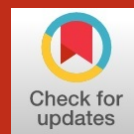
What else have we learned? First, I would say: recently, to have more respect for complexity, a heightened awareness of tradeoffs, and the importance of more attention to institutional detail. The general problem of the endogeneity of institutions has only rarely been attacked, so the growth of experiments is very helpful – but not definitive, at least in part because the experimental work suggests that "local" is important. Second, we have seen how the efficacy of transparency depends on social and political context: we see this in comparing democracies with autocracies, the inconsistent effects of resource dependence, and how low levels of literacy/empowerment make information less actionable. Third, we learn again to respect unintended consequences like the threat of authoritarian conformity and popular disillusionment and the danger of negative externalities, particularly around the Internet. All in all, even though the World Bank (2016) is still a cheerleader, it is just not as easy as the State Department said: what works best when there are multiple agents? Making information actionable (by public or prosecutors) is challenging. Technology accentuates the impact of transparency, but cuts both ways, as in the case of Internet information provision: while more information is provided less verification is possible.

Worse, participation in polarized contexts in the presence of motivated reasoning creates a novel tradeoff. Motivated reasoning (Lodge and Taber, 2000) describes a tendency to seek information that confirms prior beliefs (i.e., a confirmation bias), to view evidence consistent with prior opinions as stronger or more effective (prior-attitude effect), and to dismiss evidence inconsistent with prior opinions, regardless of objective accuracy (disconfirmation bias). The result: with information in conflict, more information means less updating and no fact-checking. With polarization, this means that ramping up transparency is not the solution with nonrandom exposure to messages. Expert credibility requires consensus facts but strategic media pundits, partisan think tanks, and, even more, interest groups raise doubts. More sophistication is needed to connect action, effects, and benefits to the individual. It seems likely that this could once again make an intermediate level of transparency optimal.

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Transparency and government trust



FRANCISCO JOSÉ BASTIDA ALBALADEJO, Ph.D.

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Francisco José BASTIDA ALBALADEJO

University of Murcia, Facultad Economía y Empresa, Campus de Espinardo, E-30100, Spain

American University of Armenia, 40 Marshal Baghramyan Avenue, Yerevan 0019, Republic of Armenia

e-mail: alba@um.es

ORCID: 0000-0001-9875-3817

1 INTRODUCTION

Trust is essential for democracies, for it enhances the legitimacy of governments by linking citizens, their institutions and politicians (Godefroidt, Langer and Meuleman, 2017). Besides, trust is considered a solution to many current social problems, including the lack of confidence stemming from the crisis in democratic governance (Choi and Woo, 2016).

An appropriate level of confidence in institutions is essential for democratic governance (Yang and Holzer, 2006). In addition, public trust in the government is not only important for citizens, but also for public officials, since it is essential that they receive the necessary support for implementation of public policies (Gordon, 2000).

2 EVOLUTION OF GOVERNMENT TRUST

Although trust is considered one of the critical components of good governance (Wu, Ma and Yu, 2017), public trust in governments has decreased significantly in recent decades (Gordon, 2000; Park et al., 2015; Welch, Hinnant and Moon, 2005). According to Bouckaert and van de Walle (2003), on the one hand, politicians, journalists and citizens show concern about the decrease in confidence in the government. On the other, this lack of confidence lessens the legitimacy of governments and makes it complicated for citizens to agree with public policies, which becomes a major problem when these policies mean unpopular measures in times of crisis. This concern has to do with the diminution of social and political trust, the confidence of citizens in their political leaders, in governmental institutions and beliefs in democratic norms and values (Choi and Woo, 2016).

3 TRANSPARENCY AND TRUST

The literature shows that transparency increases the degree of trust (Park and Blenkinsopp, 2011). Transparency is the most powerful solution, the cornerstone of one of the most intangible problems of democratic governance: the increasing distrust of citizens towards the government.

Zhao and Hu (2017) define transparency as a strategic responsibility, essential to enhance trust in relationships (Wasike, 2016; Song and Lee, 2016; Bauhr and Grimes, 2014). In addition, transparency creates a climate of trust among people and encourages them to believe more in governments, fostering an environment of openness that allows citizens to control institutions and participate in decision-making. Thus, trust is essential in the ability to implement, for example, participative budgets, in which taxpayers may decide the way their resources are used to increase the general welfare.

For some academics, political distrust is not a consequence of weak government, but rather, it is the matter of a better-informed public trusting government more (Cook, Jacobs and Kim, 2010), since citizens will understand more clearly how local government policies contribute to public welfare (Porumbescu, 2015).

Accordingly, disseminating information about government activities is crucial to increasing public confidence. As will be indicated later, this information must be the leverage that makes people hold their incumbents accountable. This transparency must have a real impact on how citizens assess their politicians' performance, so that democracy is strengthened.

Beyond these effects of transparency on trust, some authors such as Buehn, Dell'Anno and Schneider (2017), consider that the lack of transparency impacts on the loss of confidence, which in turn triggers fiscal illusion. Fiscal illusion is connected with transparency through the *agency theory*, which posits that politicians (agents) may not always work to increase citizens' (principals') welfare, but sometimes the former may seek to achieve their own targets, regardless of citizens' needs. Thus, the *agency theory* shows that higher levels of information reduce information asymmetries, which in turn limits potential conflicts of interest between principals and agents and increases confidence in politicians.

4 EFFECTIVE TRANSPARENCY AS THE KEY FOR GOVERNMENT TRUST

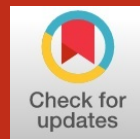
According to all the arguments stated earlier in this short note, it is not how many technical documents are made available to citizens, but how the data are conveyed so that people get the key, relevant information (it is about “quality” rather than “quantity” of transparency). Accordingly, transparency, to be effective, should meet three basic requirements:

- Transparency should report relevant information, and not contribute to data overload with documents that are too technical.
- Transparency should be based on unbiased, fair information.
- Data should be objective and comparable with counterparts.

Finally, if we address only the transparency issue, we will inevitably be fixing only the “supply” side of the system. Citizens, the “demand” side, should be trained to hold their politicians accountable in accordance with the transparent data disclosed. Otherwise, transparency is to no avail. If they trigger no citizen or taxpayer response, the huge amounts of data remain sterile, with nobody understanding or making practical use of the information released.

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Citizens and the city: the case for participatory budgeting in the City of Zagreb

SANDRA ŠVALJEK, Ph.D.*
IVANA RAŠIĆ BAKARIĆ, Ph.D.*
MARIJANA SUMPOR, Ph.D.*

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Sandra ŠVALJEK

Croatian National Bank, Trg hrvatskih velikana 3, 10000 Zagreb, Croatia

e-mail: sandra.svaljek@hnb.hr

ORCID: 0000-0002-1220-2385

Ivana RAŠIĆ BAKARIĆ

Senior Research Associate, The Institute of Economics, Department for Regional Development,

Trg J. F. Kennedyja 7, 10000 Zagreb, Croatia

e-mail: irasic@eizg.hr

ORCID: 0000-0002-5157-9134

Marijana SUMPOR

Senior Research Associate, The Institute of Economics, Department for Regional Development,

Trg J. F. Kennedyja 7, 10000 Zagreb, Croatia

e-mail: msumpor@eizg.hr

ORCID: 0000-0001-8439-4470

Abstract

Since there is constant concern that local government heads allocate budget resources in favour of various pressure groups, the paper investigates whether local participatory budgeting can be implemented in order to better align budget allocation with citizens' needs in the Croatian context. The paper analyses the results of the citizen survey intended to question whether the citizens of Zagreb could embrace the participatory budgeting, based on their interest in the way the money of Zagreb's taxpayers is spent and willingness to participate in the budget preparation process. The main determinants of the interest, awareness and participation of citizens in local budget processes are explored as well. The results of this study indicate a moderate level of citizen awareness and interest in local budget processes, but an extremely low level of participation. Since citizen participation is crucial for democratic decision-making and ensuring transparency and accountability, the identified factors should be addressed in a planned manner. Citizens' willingness and capacity can be increased through raising awareness and implementing measures intended to encourage spontaneous participation.

Keywords: participatory budgeting, citizen preference, local public services, City of Zagreb

1 INTRODUCTION

Nowadays, participation of the public in governance processes, especially on the local level, is seen as desirable and beneficial by both scholars and professionals. It is also widely accepted that citizens should be involved in the budgetary process. Participatory budgeting is not merely a theoretical concept but has been tested and implemented in many ways and forms. After it was successfully inaugurated in Paulo Alto in Brazil in the late 1980s the attractiveness of participatory budgeting has been steadily growing and as an example of good governance practice has been implemented in many jurisdictions in all parts of the globe (Dias, 2015). According to some studies, in 2013 there were between 1,269 and 2,778 participatory budgets in the world and more than 200 cases of participatory budgets in Europe (Sintomer, Herzberg and Röcke, 2015).

In Croatia, too, the idea of public participation has found supporters, appearing as an element of the budgetary process since the beginning of the 2000s. Currently, a handful of Croatian mid-sized cities are applying some kind of active participation of citizens in deciding upon at least a fraction of the budget allocations. However, in the city of Zagreb, the Croatian capital and the biggest urban municipality in the country, there is still little enthusiasm for this political innovation. Since there is already sufficient experience with participatory budgeting in Croatian cities, lack of acquaintance with the concept cannot explain the hesitance to implement participatory budgeting in Zagreb. This reluctance to involve citizens actively in the budgetary procedure could be explained either by barriers pertaining to the city administration or by barriers related to citizens themselves.

The primary aim of this paper concentrates on the latter, as it tries to find out whether the citizens are willing to be involved and interested in participatory budgeting, as well as to identify factors determining the level of their willingness to participate in budgetary processes.

This paper studies the specific case of the city of Zagreb and enables the understanding of citizens' attitude towards the city budget, and to recognize those aspects of that attitude that could trigger their higher participation in budgetary decision-making, once the preconditions existed.

The first section of the paper gives an overview of the literature on participatory budgeting, indicating the pros and cons of as well as possible barriers to its implementation. The second section presents the experience of Croatian cities with participatory budgeting and describes budgetary practice in the city of Zagreb. The third section is dedicated to the explanation of the survey presented in the paper, the data obtained through that survey and the results of the analysis carried out using these data. The final section concludes and gives some policy advice based on the research results.

2 LITERATURE REVIEW

Citizen involvement is nowadays seen as an important and unquestionable ingredient of modern, functioning and democratic local governance. Scholars and professionals emphasize various benefits brought about by citizen participation, such as enhancement of public accountability, better public services, higher government responsiveness to the needs of the community including various groups of society leading to more satisfactory and more efficient solutions, enhanced public confidence in government, etc. (Esenaliev and Kisunko, 2015; Enshassi and Kullab, 2014; Im et al., 2014; He, 2012; Irvin and Stansbury, 2004). Further, according to Michels and De Graaf (2010) citizen participation contributes to a number of democratic goods. They identified several arguments in favour of more direct forms of citizen participation: that it gives citizens the opportunity to influence decision making; it allows the inclusion of individual citizens in the policy process, it leads to decision-making based on public reasoning and increases the legitimacy of decisions (Michels and De Graaf, 2010). Public engagement improves social capital and the relationships between citizens and government (Arnstein, 1969; Delli et al., 2004).

Citizen involvement is a broader concept that entails different areas and levels of participation. Participation in budgetary processes, on which we focus in this paper, is one of the areas of public participation in governance. According to Ott and Bronić (2015), "public participation in government fiscal policy and budget processes refers to the variety of ways in which citizens, civil society organisations, businesses and other nonstate actors interact directly with public authorities on issues relating to government taxation and revenue collection, resource allocation, spending and the management of public assets and liabilities". Budget

engagement specifically may increase accountability and transparency for public funds, which in turn may improve residents' trust in local government (Kim and Schachter, 2013). In times of austerity or other resource-scarce settings, public participation in local decision-making also proves to be a viable cost-saving strategy (Enshassi and Kullab, 2014).

Although the involvement of citizens in the budget process comes in various intensities ranging from the only formal and symbolic to tight cooperation between the authorities and various stakeholders, it is usually taken that there are three levels of participation – information disclosure, consultation and active participation of citizens (Enshassi and Kullab, 2014; Im et al., 2014). Information disclosure entails only one-way communication between government and citizens, in which government provides data and information on the planned and adopted policy decisions to the citizens. Consultations comprise asymmetrical relationships in which citizens can give recommendations and suggestions or express criticism on policy decisions, but the authorities do not have the obligation to incorporate this feedback into policy formulation. Active participation supposes a partnership between citizens and government, i.e. the actual influence of citizens on the budget (Im et al., 2014).

Although its merits are generally accepted, communities are confronted with various obstacles hampering the implementation of participatory budgeting. Barriers to the implementation of this kind of instrument can be found on both sides – on the side of the government itself, and on the side of the citizens. In addition, sometimes the regulatory framework can also limit the depth of citizen involvement in the budget procedure. The barriers pertaining to the government could be its limited institutional capacity or inadequate institutional behaviour, but also the fear of the bureaucrats and politicians that participation will diminish their role and their control of budget resources. Zhang and Yang (2009) examined how the adoption of citizen participation in the budget process is associated with city managers' professional factors, institutional environment, and willingness to represent citizens. They found out that managers' professionalism, perceived political environment, and attitude toward citizen input are important factors explaining local governments' adoption of participatory budgeting.

On the other hand, citizens may be reluctant to participate in the budget procedure if they are not educated about the advantages of civic participation and not interested in public life. One of the major barriers to participation is citizen apathy and the perception that involvement would be a waste of time since the authorities would ignore their opinion and allocate budgetary resources according to their own interests (Enshassi and Kullab, 2014; Birskyte, 2013).

Lack of knowledge about the process is recognized as one of the factors limiting wider citizen participation in budgeting (Beckett and King, 2002; Franklin and Ebdon, 2004). Additionally, participation is costly and time-consuming (Callahan,

2002; Franklin and Ebdon, 2004). Local government, representatives and citizens often perceive public budgeting as a difficult administrative task that should be handled by experts who have specialized knowledge, technical skills, and experience. Franklin and Ebdon (2004) point out that the timing of citizen participation is very important, because input that is received late in the process is less likely to have an effect on outcomes. If citizens are involved early in the local budget process, they gain more knowledge about fiscal situations, which allows them to make informed decisions when casting votes on fiscal matters (Beckett and King, 2002; Franklin and Ebdon, 2004). Beckett and King (2002) showed that uninformed citizens are more focused on short-term private gain instead of long-term public benefit.

Fung (2015) identified three challenges to the creation of successful participatory governance: the absence of systematic leadership, the lack of popular or elite consensus on the place of direct citizen participation, and the limited scope and powers of participatory innovations.

In our paper we concentrate on exploring whether there are barriers on the side of citizens such as to prevent successful implementation of participatory budgeting in the city of Zagreb. The relationship between citizens' participation and demographic factors, proximate socio-economic factors, and endogenous psychological factors has been the topic of extensive academic discussion. There have been a number of research works into the factors that are associated with different forms of participation. According to previous studies demographic factors, including socioeconomic status, gender, and psychological factors are systematically linked to patterns of participation.

Regarding gender differences, the studies found out differences in political opinions and attitudes, participation in elections, political activity and participation (Galligan, 2012). A wide range of sociocultural forces contribute to gendered patterns of participation – including education and labour force participation. Men are more likely to be highly educated and to have higher levels of employment than women, which means that they are more likely to acquire the necessary resources and social capital required for participation (Conway, 1999; Inglehart and Norris, 2003). In line with that, research showed that men are more likely to have an interest in economic issues and policy, while women have more interest in social and environmental issues. Galligan (2012) argues that to understand these gendered patterns of participation, it is important to also take into account the cultural, social, and religious norms that determine gender roles within a society, and the differential opportunities to engage that are made available to women and to men. He also argues that women in more developed countries are more active in politics and participate to a greater extent than women in less well-developed countries. Also, studies suggest that women in countries with predominantly Catholic traditions have lower levels of political interest, political knowledge, and political participation than women in countries with Protestant traditions (Inglehart and Norris, 2003).

Various studies showed that citizens with higher socio-economic status have higher levels of political knowledge (Delli Carpini and Keeter, 1996; Niemi and Junn, 1998; Hart and Atkins, 2002; Delli Carpini, Cook and Jacobs, 2004; Schulz et al., 2010) and higher levels of political participation (Hart, Atkins and Ford, 1998; Lopez and Marcelo, 2008; Zukin et al., 2006).

Another important determinant of citizen participation is trust (Carreira, Machado and Vasconcelos, 2016). In social sciences, trust is defined as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another” (Rousseau et al., 1998). In other words, the level and quality of citizen participation in public policy may be influenced by the level of trust in politicians and public institutions (Lopes et. al, 2004; Inglehart, Norris and Welzel, 2002). Berman (1997) showed that city governments enjoy more trust if they use strategies of participation, information, and reputation. Kweit and Kweit (1981) argued that participation in government increased the trust of citizens. Norris argues that communities with low levels of trust in the government have a lower perception of the effectiveness of political participation, and the voting behaviour is not very positive either (Norris, 1999). Citizens’ involvement in public policy is related to individual experience with politicians and public institutions; when individuals feel negative about their contribution to public policy, they will be unlikely to participate in public policy issues (Lopes et al., 2004).

Conversely, part of the literature suggests that trust can have a different impact on political participation, depending on whether the participation process is bottom up or top-down. Therefore, several authors argue that when it comes to bottom-up processes of political participation it is distrust, not trust in the government, that encourages participatory behaviour (Easton, 1967; Gamson, 1971). According to research on collective action, due to mistrust, the government itself often becomes a target of the social movement (van Zomeren and Spears, 2009; De Cremer and Van Vugt, 1999; Tyler, Degoey and Smith, 1996). Citizens’ dissatisfaction with their government can be an antecedent of some collective behaviour (Gamson, 1971).

However, several studies suggest that greater participation in public policy is not related to public trust (Wang and Berman, 2001; Mckenna, 2011; Carr, 2015; Rowe and Frewer; 2000).

Some researchers argue that a positive attitude toward local government encourages citizens’ participation in local government matters (Kosecik and Sagbas, 2004; Piotrovski and Van Ryzin, 2007; Stevenson, 2007). According to Rishi (2003) citizens’ social actions are determined by their attitudes. Rishi claims that if people’s attitude toward an event or an action is positive, it is more likely that they will direct their behaviour in more meaningful ways (Rishi, 2003). In line with that, if people have positive attitudes towards their local government, it is more likely that they will both be supportive of the local government and also participate more in local government issues.

3 PUBLIC PARTICIPATION IN LOCAL BUDGETS IN CROATIA AND IN ZAGREB

In the last 25 years Croatia has set up a legal framework and other instruments that provided the citizens with necessary rights for participation in governance (right to be informed, right to be consulted, right of initiative, right to be involved and partnership right) thus enabling their participation in the budgetary process as well (Struić and Bratić, 2018). In addition, there were several information campaigns and projects financed by international donors, aimed at fostering fiscal transparency and empowering citizens to involve themselves in budgetary decision-making (Ott and Bronić, 2015). The Institute of Public Finance also made a contribution to greater openness of local budgets by conducting analyses of budget transparency in Croatian counties, cities and municipalities, by informing the general public on the development of budget transparency on the local level through different communication channels, and by emphasizing examples of good practice in participatory budgeting (Ott et al., 2018).

However, there are still only a few cities that have embraced some form of participatory budgeting in Croatia. Among them, one should mention Crikvenica as a city conducting public hearings on budget allocation since 2002, Pazin, which through its website provides an opportunity for its citizens to actively participate in the city's budget process, and Rijeka, which has designed an educational budget game and offers its citizens an e-form to assess the current budget and submit their own substantiated proposals and projects for the next fiscal year. There are also a few other cities that have enhanced the accessibility of budgetary data to their citizens and that provide some form of participatory budgeting, such as Pula, Slavonski Brod, Osijek, Mali Lošinj and Labin (Ott et al., 2018; Džinić, Svidroňová and Markowska-Bzducha, 2016).

However, the efforts to introduce participatory budgeting in Croatia are still quite marginal. Even the cities that are already using this instrument allocate only a relatively small proportion of the budget to projects upon which the citizens are able to decide. The largest cities apart from Rijeka but including Zagreb do not consider involving citizens in budgetary procedure at all.

The city of Zagreb administrative structure consists of three administrative self-governance levels including the central capital city and county level, the 17 city districts and 218 local boards. Citizens can participate in budgetary decision-making only as district councillors or local board members through the formulation of local communal action plans.¹ Local communal action plans adopted by the district and municipal board councils have to be approved at a higher level, and the implementation of communal activities is almost exclusively managed by the respective city departments and city utility companies. This in turn shows that in reality the city governance system is heavily centralised and in fact does not allow for broader citizen participation in budgetary processes.

¹ For more information see: <https://www.zagreb.hr/en/city-administrative-bodies/1994>.

If we reflect on the mentioned three levels of participation (Enshassi and Kullab, 2014; Im et al., 2014), information disclosure does formally flow between the city of Zagreb government and the citizens, but only one-way. Budgetary acts, data and information on planned and adopted policy decisions are publicly available to the public. This provision of information and data is enhanced by the ease with which information technology can be employed. All fiscal reports are regularly published on the website of city of Zagreb and its Assembly. The Zagreb city district councils and municipal board meetings are used for the process of formal consultations. However, these comprise asymmetrical relationships in which elected citizens can only give recommendations and suggestions while the authorities do not actually have the obligation to incorporate this feedback into policy formulation.

4 SURVEY, DATA AND RESULTS

Our research involves a survey designed and carried out in order to get insights into perceptions of the citizens of City of Zagreb about awareness of and participation in local budgetary processes (see appendix). The respondents to the survey were citizens of Zagreb, 18 years of age and older who have lived in Zagreb for one year or longer. The sample was stratified by age and gender and by the districts of the city.

Data were collected by telephone survey method where households and individuals within the household were sampled by a stratified random sampling method. The sample obtained is age-, gender- and city district-representative. The sample is representative of the last census of the Republic of Croatia, that of 2011. Data analysis and cross-tabulation have been conducted using SPSS software. The average time to complete the 2017 survey was 20 minutes.

The survey instrument was a combination of open- and (mainly) close-ended questions. As a random telephone survey, the margin of error is ± 4.9 percentage. The field work was outsourced to a market research agency and was carried out between 10th and 15th September 2018, conducted by computer-assisted telephone interviewing (CATI) method. Telephone survey response rate calculations are more complicated due to the great number of dispositions possible. That type of survey enables researchers to obtain data for any desired number of respondents because an unwilling participant can be replaced by someone willing to respond.

Strictly speaking, the response rate calculated as the number of completed surveys (700) divided by the total number of calls of all eligible respondents (14,990), is low and comes to 4.5 percent. However, such a low response rate should not be taken as a threat to data integrity as long as the final sample of respondents is representative of the entire population. It is important to note that response rates themselves are not a measure of survey quality. Namely, researchers have demonstrated that telephone surveys with low response rates are still able to represent the entire population accurately (Curtin, Presser and Singer, 2000; Keeter et al., 2000).

Table 2 presents the characteristics of the study sample. The mean age was 48.4 years, the median age 48 years (min=18, max=92 years), and 54.3% of subjects were women. On average, the respondents had lived in Zagreb for 39.5 years (Me=40, min=2 and max=87 years). An overview of individual characteristics reveals some interesting and statistically significant differences along the spatial and gender lines. Compared with data for male respondents, a significantly fewer women completed higher education and were employed. Except for gender, socio-demographic differences between participants who reported from peripheral parts of the city and participants who live in other parts of the city were observed (table 2).

Since trust in public institutions is considered an essential factor for strong citizen participation in local budget processes, it could be assumed that a lower level of trust leads to less citizen interest and participation (Lopes et al., 2004; Inglehart and Baker, 2000; Inglehart, Welzel and Klingemann, 2003). The survey data reveal an interesting fact: respondents in general reported greater trust in people in their community and in the police than in local and central government (table 2). There is no difference in level of trust between individuals in peripheral and non-peripheral city districts. However, it is interesting that the level of trust in the local community and in police is significantly higher for female than for male respondents (t-test, $p < 0.1$).

As expected, risk-taking attitudes (e.g. establishing own business, etc.) are higher for males than females (table 2). This is in line with the wide agreement that females are more risk-averse than males (Croson and Gneezy, 2009; Powell and Ansic, 1997; Borghans et al., 2009).

Apart from trust, political attitudes and voicing political opinions may also have a strong impact when they shape political participation. In this regard, respondents' political system preferences and participation in the next presidential and local elections was considered (table 1). Evidently, both current local and state political systems have low popularity (25 percent of respondents support the system). Among the political attitudes, distinct differences between men and women are observed. Lower support for the current local political system is observed among male (22% support the system) than female respondents (28% support the system). Future participation (or intention to participate) in both types of elections was high at about 87 and 85 percent of all respondents in the parliamentary and local elections, respectively (table 1).

It is interesting that current state political system is significantly less supported in peripheral quarters of the city of Zagreb (table 1). Also that particular subpopulation reported a lower intention to vote in next elections.

TABLE 1
Individual, household and community characteristics

	Average	Female	Male	City	Periphery
Personal characteristics					
Age	48.4	48.3	48.6	49.3	40.7*
Number of years with residence in Zagreb	39.52	39.7	39.4	40.1	34.3*
Without school	0.00	0.00	0.01	0.00	0.00
Primary school	0.02	0.02	0.02	0.02	0.01
Secondary school	0.44	0.48	0.39***	0.43	0.49
Collage, BA, MA, MS, PHD	0.53	0.49	0.57***	0.53	0.50
No answer	0.01	0.01	0.01	0.01	0.00
Risk attitude, 0-10 scale	4.8	4.6	5.0	4.8	4.9
Labour market status					
Employed	0.52	0.48	0.57**	0.51	0.60*
Unemployed	0.07	0.09	0.05**	0.07	0.12
Retired	0.30	0.32	0.28**	0.32	0.14*
Housekeeper	0.02	0.02	0.00**	0.01	0.05*
Inactive (student)	0.08	0.07	0.08	0.07	0.08
Trust, in scale from 1-4					
Trust in people in community	2.6	2.6	2.6	2.61	2.59
Trust in local government	1.8	1.9	1.8***	1.84	1.93
Trust in central government	1.7	1.7	1.7	1.73	1.65
Trust in police	2.8	2.9	2.6***	2.76	2.77
Political attitudes (proportion of respondents "Yes")					
Supports current political system (state level)	0.25	0.27	0.23	0.26	0.16
Supports current local political system	0.25	0.28	0.22**	0.26	0.25
Is going to vote in last parliamentary elections	0.87	0.86	0.88	0.88	0.81
Is going to vote in local elections (yes)	0.85	0.83	0.87	0.86	0.81
Household demographics					
Household size, people	2.99	2.99	2.99	2.9	3.9*
Household income, '000 kuna/month	5.3	5.09	5.53	5.2	5.8
Household size					
Live alone	0.13	0.15	0.11	0.15	0.0*
2 members	0.27	0.26	0.28	0.29	0.11*
3 members	0.26	0.24	0.28	0.25	0.32
4 members	0.19	0.19	0.19	0.18	0.27
5 members	0.09	0.09	0.10	0.09	0.15
More than 5	0.05	0.06	0.04	0.04	0.15*
Household income per member (in kuna)					
2,000 kuna and less	0.01	0.01	0.01	0.01	0.01
2,001-3,500	0.05	0.07	0.02**	0.05	0.01

	Average	Female	Male	City	Periphery
3,501-5,000	0.10	0.11	0.10	0.11	0.05
5,001-6,500	0.10	0.10	0.10	0.10	0.12
6,501-8,000	0.12	0.12	0.12	0.12	0.11
8,001-10,000	0.14	0.14	0.14	0.13	0.17
More than 10,000	0.30	0.27	0.35**	0.29	0.41

Note: the mean differences for female/male, city/periphery are tested using *t*-test (for quantitative variables) and using *Chi-square* test for qualitative variables. Significant differences are indicated by * $p < 0.01$, ** $p < 0.05$, *** $p < 0.1$.

Source: authors' calculation.

The responses to questions in the city budget module indicated a moderate level of awareness of and interest in local budget processes, but an extremely low level of participation (see table 2). Only 41 percent of respondents think that they are informed about the city budget, while almost two thirds of respondents think that they are not informed at all. However, the great majority of respondents (84 percent) expressed an interest in being informed on how the local budget funds are being spent, and only 8.1 percent indicated no interest and 8.3 percent little interest. Interestingly, 53.4 percent of respondents do not know that the city government has the legal obligation to inform the citizens about the city budget, with the majority of them having limited information (32.7 percent of respondents indicated that the information on the city budget was inaccessible to them and 29.9 percent of respondents indicated that the information was accessible with difficulty). The low degree of civic participation in local budget processes could be caused by a lack of confidence in the effectiveness of citizen participation. Only about 27.4 percent of respondents believe that “an ordinary citizen can influence budget processes”. Positive responses on whether “anyone from your household tried to influence budget process” constitute only 8.5 percent of the total. However, even 87.9 percent of respondents think that the government of the city of Zagreb should allow the participation of citizens in drafting the city budget. The respondents were also asked whether they would participate in a public hearing on the budget of Zagreb if it were possible. Almost 70 percent of respondents indicated that they would participate in that process. Out of the total number of respondents who would not participate in public hearings, 14.2 percent do not believe that their opinion could have any influence on allocation of budget resources, while 10 percent are not interested in participating in public hearings, and only 5.8 percent of them think that the city government can assess better than them how the city budget resources should be spent.

TABLE 2

Awareness about and participation in local budget processes

Indicator	No	Yes	Yes sub-categories		
			Little	Fair	Very
Informed about the city budget	0.59	0.41	0.29	0.09	0.03
Interest in how the city government spends the city budget	0.16	0.84	0.19	0.22	0.43
Knows that the city government has the obligation to inform you about the city budget	0.53	0.47			
Information on the city budget is accessible	0.63	0.37	0.27	0.07	0.03
An ordinary citizen can influence the budgetary process in the city of Zagreb	0.72	0.28			
Some members of my household have tried to influence the budgetary process in the city of Zagreb in last 12 months	0.91	0.09			
The government of the city of Zagreb should allow the participation of citizens in drafting the city budget	0.12	0.88			
I would participate in a public hearing on the budget of the city of Zagreb	0.31	0.69			

Source: authors' calculation.

5 RESULTS

The analysis of survey results focuses on the identification of determinants of the barriers to the citizens' participation in local governance through getting information about the budget and local government actions, or through participating in local budget decision-making.

5.1 INTEREST IN AND KNOWLEDGE AND AWARENESS OF LOCAL BUDGET ISSUES

The first part of the analysis focuses on what determines the barriers to citizens' participation in the local budget process. The most obvious barrier is getting information about the budget and local government actions. We hypothesize that citizens' knowledge and interest in local budget process is determined by individual socio-economic and demographic characteristics, household characteristics, and by behavioural factors such as political attitudes and level of trust (H1). Thus, we would expect, for instance, that a lower level of trust would lead to less citizen interest and participation.

Second, we hypothesize that citizens' awareness of the possibility of participating in budget formulation is also determined by individual socio-economic and demographic characteristics, household characteristics, political attitudes and the level of trust (H2). For instance, we would expect that economically advantaged households are more interested and more willing to participate in local budgets in order to address communal and private issues.

Results show that personal characteristics, education and labour market status play a significant role in familiarity with and in an interest in local budget processes (table 3). The individuals who are informed and interested tend to be 2-7 years younger than those who responded “No”. Females tend to know less about local budget issues than males ($p < 0.05$). Level of education seems to be an important factor in the case of interest in city budget spending and in the case of awareness that the city government has to provide open and transparent financial information to the citizens. A larger proportion of the respondents who self-reported as being interested in budget spending have completed higher education (55% against 44%, $p < 0.05$). Also, highly educated individuals make up a full 60 percent of individuals who are familiar with the fact that the city authority is obliged to inform the citizens about the budget (against 47%, $p < 0.01$). It is also worth noticing that there is a difference in subjective risk-taking attitudes: the individuals who are knowledgeable and interested tend to be more risk-taking.

Labour market status seems to have a considerable impact on interest in how the local budget is spent. Students and pupils (aged 18 and more) are more likely to have an interest in local budget processes; while retired persons are more likely to be not interested. Proactive individual attitudes, including interest and participation in community issues, are observed among students and housekeepers. That can be explained by this sub-population being able to devote more time to such issues (Jennings and Niemi, 1974).

With the context of peripheral and non-peripheral city areas, there seems to be a larger proportion of individuals from peripheral city districts than from non-peripheral that self-reported as interested in the process of spending the city budget (92% against 83%).

According to the results political attitudes are associated with the interest in how the local budget is spent. The individuals who support the current state or local political system are likely to report themselves as not interested in how the local budget is spent. On the other hand, those who are going to vote in the next presidential or local elections are more likely to have an interest in local budgets.

Household characteristics indicate that interest in how the city budget is spent may be driven very much by household economic status. The proportion of the respondents coming from households with higher incomes is higher for those who self-reported as interested in budget spending (39%) than for not interested (28%) ($p < 0.1$). Respondents who live in households with lower incomes (between 3,501 and 5,000 kuna) make up 23% of those who are not interested in budget spending, as compared to 10% of the respondents who are interested in budget spending ($p < 0.1$).

On the basis on the above it can be concluded that citizens' knowledge and interest in local budget process is determined by individual socio-economic and demo-

graphic characteristics, economic household characteristics and political attitudes. The individuals who are knowledgeable and interested tend to be younger, more educated, and more risk-taking. We also confirmed the assumption that economically advantaged households are more interested in local budgets, but more related to communal and private issues.

Regarding political attitudes, the individuals who do not support the current state or local political arrangement and who intend to vote in the next elections are more likely to report themselves as being informed about the actions of local governance. In contrast to the first hypothesis, trust did not prove to be a significant determinant of citizens' participation at the level of being interested and informed about the local budget issues.

Secondly, we examine the factors determining the awareness of the average citizen that he or she can influence the budgetary process. According to the results, greater awareness is associated with age, length of residence in Zagreb, labour status, and trust. In general, younger individuals and students are more aware that they can effectively participate in budgetary process.

According to our expectations, the proactive individuals who agree with the statement that an ordinary citizen can influence the budgetary process on average expressed a higher level of trust. The results suggest that proactive individuals who support the statement that an ordinary citizen can influence the budgetary process on average expressed higher levels of trust in community, local and central government ($p < 0.01$) as well as in police ($p < 0.1$). Interestingly, those who are supportive of the current state and local political systems are more likely to have a proactive attitude. Results suggest that those individuals have more interest in how the city budget is spent and they are aware about the fact that a citizen can influence the budgetary process in Zagreb. In contrast to what was expected, awareness is not driven very much by either education level of individuals or economic and demographic household characteristics.

TABLE 3

Awareness about and interest in local budget processes

Indicator (in ratio, if not indicated otherwise)	Informed about the city budget		Interested in how the city budget is spent		Knows that the local government should inform citizens about the budget		A citizen can influence the budgetary process in Zagreb	
	No	Yes	No	Yes	No	Yes	No	Yes
Personal characteristics								
Age, years	49.4	47.0***	53.7	47.4*	47.9	48.9	49.5	45.7**
Female	0.57	0.50**	0.59	0.53	0.59	0.49*	0.53	0.58
Periphery	0.56	0.44	0.08	0.92**	0.62	0.38	0.73	0.27
Centre	0.59	0.41	0.17	0.83**	0.52	0.48	0.72	0.28
Risk attitude, 0-10 scale	4.7	5.0***	4.1	4.9*	4.7	4.9	4.8	4.8

Indicator (in ratio, if not indicated otherwise)	Informed about the city budget		Interested in how the city budget is spent		Knows that the local government should inform citizens about the budget		A citizen can influence the budgetary process in Zagreb	
	No	Yes	No	Yes	No	Yes	No	Yes
Number of years with residence in Zagreb	39.5	39.5	41.0	39.2	39.3	39.8	40.8	36.1*
Education level								
Without school	0.05	0.00	0.01	0.00	0.00	0.00	0.00	0.01
Primary school	0.02	0.03	0.04	0.02	0.02	0.02	0.02	0.04
Secondary school	0.45	0.43	0.51	0.43	0.51	0.37*	0.44	0.47
College, BA, MA, MS, PHD	0.53	0.54	0.44	0.55**	0.47	0.60*	0.55	0.49
Labour market status								
Employed	0.51	0.55	0.48	0.53	0.48	0.57	0.54	0.49
Unemployed	0.07	0.08	0.08	0.08	0.09	0.07	0.07	0.08
Retired	0.32	0.29	0.40	0.29***	0.33	0.28	0.32	0.28
Housekeeper	0.02	0.01	0.02	0.01	0.02	0.01	0.01	0.04*
Inactive (student)	0.08	0.07	0.03	0.09***	0.08	0.07	0.06	0.11*
Trust, in scale from 1-4								
Trust in people in community (Yes)	2.56	2.58	2.48	2.58	2.59	2.54	2.5	2.8*
Trust in local government (Yes)	1.82	1.84	1.97	1.81	1.83	1.82	1.7	2.1*
Trust in central government (Yes)	1.72	1.70	1.77	1.7	1.73	1.70	1.6	2.0*
Trust in police (Yes)	2.78	2.72	2.87	2.73	2.71	2.79	2.7	2.8***
Political attitudes (proportion of respondents answered "Yes")								
Supports current political system (state level)	0.26	0.24	0.31	0.24***	0.27	0.22	0.22	0.32**
Supports current local political system	0.26	0.24	0.33	0.24**	0.26	0.25	0.22	0.35*
Is going to vote in last parliamentary elections	0.85	0.91*	0.75	0.95*	0.84	0.91*	0.86	0.90
Is going to vote in local elections	0.82	0.90*	0.72	0.88*	0.81	0.89*	0.84	0.87
Household demographics								
Household size, people	2.96	3.03	2.9	3.0	2.9	3.1	2.98	3.02
Household income, '000 kuna/month, N=578								
2,000 kn and less	0.01	0.02	0.00	0.02***	0.02	0.01	0.01	0.03
2,001-3,500 kn	0.06	0.06	0.05	0.06***	0.07	0.05	0.06	0.06
3,501-5,000 kn	0.14	0.11	0.23	0.10***	0.15	0.10	0.13	0.11
5,001-6,500 kn	0.11	0.14	0.17	0.11***	0.13	0.11	0.11	0.14
6,501-8,000 kn	0.15	0.13	0.13	0.15***	0.14	0.15	0.15	0.13
8,001-10,000 kn	0.19	0.14	0.13	0.17***	0.17	0.16	0.17	0.16
More than 10,000 kn	0.34	0.40	0.28	0.39***	0.32	0.42	0.37	0.37

Note: the mean differences for female/male, city/periphery are tested using t-test (for quantitative variables) and using Chi-square test for qualitative variables. Significant differences are indicated by * $p < 0.01$, ** $p < 0.05$, *** $p < 0.1$.

Source: authors' calculation.

5.2 PARTICIPATION IN LOCAL BUDGET DECISION-MAKING

This part of the analysis focuses on the identification of determinants of the barriers to citizen participation in local budget decision-making. We tried to investigate how the level of citizens' past engagement and their readiness for participation in the local budgeting process were related to their personal socio-demographic characteristics, household characteristics, political attitudes and level of trust. We look at whether an individual attempted to influence local budget process in the last 12 months, whether an individual supported the statement that the government of the city of Zagreb should allow the participation of citizens in drafting the city budget and whether he or she is ready to participate in public hearings. Therefore, we assume that these three aspects of citizens' participation in budgetary process are determined by individual socio-economic and demographic characteristics, household characteristics, political attitudes and the level of trust of individuals.

As illustrated in table 3, the proportion of respondents who participated in drafting the city budget in the last 12 months is considerably lower than the proportion of respondents who are informed and interested in budget issues. Only 8.5 of respondents indicated that at least one member of their household tried to influence the budget process. According to the results the level of trust in community and police is recognized as main driver of citizens' participation. Individuals who participated in local budget processes on average expressed higher level of trust in community ($p < 0.1$) and police ($p < 0.1$). Contrary to our assumption, individual socio-economic and household characteristics did not play a significant role in active participation of citizens in the recent past.

Most of the respondents (87.9 percent) agree with the statement that the government of Zagreb should allow the participation of citizens in drafting the city budget. Results indicate that a positive attitude towards this issue may be driven very much by household economic status, political attitudes and level of trust. Household characteristics, political opinions and trust thereby play a more prominent role than the individual and socio-economic characteristics of citizens. Interestingly, a lower level of trust is recognized as the main driver of future participation. It is more likely that an individual who expressed lower level of trust who is not supportive of the current political system, and who is not going to vote in the next local elections will agree with the statement that the government of Zagreb should allow the participation of citizens in drafting the city budget. Respondents who live in households with lower incomes (between 3,501 and 5,000 kuna) make up 23% of those who indicated that the city of Zagreb should not allow the participation of citizens in drafting the city budget compared to 11% of the respondents who gave positive response to this question ($p < 0.05$). Also, the proportion of respondents coming from households with income between 5,001 and 6,500 kuna, between 6,501 and 8,000 and more than 10,000 kuna is higher for those who gave positive response to this question ($p < 0.05$).

Regarding the readiness of citizens to participate in public hearings, as many as 70 percent of respondents would participate in that process. Individuals who reported

themselves as interested in participating in public hearings on average tend to be more risk-taking ($p < 0.01$), have lower level of trust in government and the police ($p < 0.05$), and they are more likely not to support the current political system and not to vote in the next elections ($p < 0.01$). In general, less interested in participation in public hearing are females ($p < 0.01$) and retired persons, while unemployed persons are more likely to take part in public hearings.

TABLE 4

Interest in participation in local budget decision-making

Indicator (in ratio, if not indicated otherwise)	Have you or members of your household tried to influence the budgetary process in the city of Zagreb in last 12 months?		The Government of the city of Zagreb should allow the participation of citizens in drafting the city Budget?		Would you participate in public hearing on the Budget of the city of Zagreb?	
	No	Yes	No	Yes	No	Yes
Age, years	49.4	48.3	50.1	48.2	50.6	47.4**
Female	0.55	0.46	0.53	0.55	0.67	0.49*
Periphery	0.88	0.12	0.12	0.88	0.27	0.73
Centre	0.90	0.10	0.12	0.88	0.32	0.68
Risk attitude, 0-10 scale	5.0	4.8	4.7	4.8	4.4	4.9*
Number of years with residence in Zagreb	40.9	39.4	39.2	39.6	40.2	39.2
Without school	0.002	0.02	0.00	0.00	0.00	0.00
Primary school	0.02	0.02	0.02	0.02	0.03	0.02
Secondary school	0.45	0.37	0.37	0.46	0.48	0.43
College, BA, MA, MS, PHD	0.53	0.59	0.61	0.52	0.48	0.55
Employed	0.52	0.54	0.56	0.52	0.50	0.54
Unemployed	0.08	0.05	0.05	0.08	0.05	0.09***
Retired	0.31	0.31	0.33	0.30	0.37	0.28***
Housekeeper	0.01	0.02	0.00	0.02	0.01	0.02
Inactive (student)	0.07	0.08	0.06	0.08	0.07	0.08
Trust, in scale from 1-4						
Trust in people in community (Yes)	2.54	2.76***	2.76	2.54**	2.58	2.55
Trust in local government (Yes)	1.83	1.79	2.06	1.79*	1.92	1.78**
Trust in central government (Yes)	1.69	1.72	1.97	1.68*	1.82	1.67**
Trust in police (Yes)	2.78	2.41*	2.94	2.73**	2.90	2.69*
Supports current political system (state level)	0.25	0.25	0.47	0.22*	0.30	0.23**
Supports current local political system	0.25	0.26	0.43	0.23*	0.30	0.23**
Is going to vote in parliamentary elections	0.87	0.92	0.91	0.88	0.84	0.91*
Is going to vote in local elections	0.85	0.89	0.91	0.87*	0.81	0.87*
Household demographics						
Household size, people	3.0	3.1	3.0	3.3***	3.0	3.0
Household income, 000 kuna/month	5.26	5.34	5.3	5.3	5.06	5.4**
2,000 kn and less	0.02	0.02	0.00	0.02**	0.02	0.01
2,001-3,500 kn	0.06	0.10	0.04	0.06**	0.07	0.06
3,501-5,000 kn	0.13	0.08	0.23	0.11**	0.16	0.11
5,001-6,500 kn	0.12	0.16	0.05	0.13**	0.15	0.11
6,501-8,000 kn	0.15	0.12	0.08	0.15**	0.12	0.15
8,001-10,000 kn	0.17	0.16	0.14	0.17**	0.29	0.40
More than 10,000 kn	0.37	0.37	0.45	0.36**	0.02	0.01

6 CONCLUSIONS AND POLICY RECOMMENDATIONS

The analysis of participation in budgetary processes in the City of Zagreb showed that there was a general understanding among citizens that involvement could improve the democratic process and the quality of life. The results of this study indicate that demographics pose to some extent a barrier to the successful implementation of participatory budgeting in Zagreb. The level of awareness of and interest in local budgetary process is moderate, but the level of active participation in budgetary process is extremely low. As shown by prior research, greater citizen engagement is related to positive attitudes about making a contribution to public policy (Lopes et al., 2004). In line with that it can be argued that low participation of Zagreb citizens in the past results from the perception of citizens that their involvement in the current political setting would be a waste of time, because the authorities would ignore their opinion.

Regarding Zagreb citizens' knowledge about local budget process the research reveals that it is determined by demographic, socio-economic, and household characteristics, as well as political attitudes. Results clearly suggest that citizens of Zagreb with higher socio-economic status seem to have higher levels of political knowledge, as already established in other environments (Delli Carpini and Keeter, 1996; Niemi and Junn, 1998; Hart and Atkins, 2002). The results in this paper also reveal that individuals who are not supportive of the current state or the local political system, and who intend to turn out at the next election, are more likely to consider themselves informed about actions of the local government. Although trust did not prove to be a significant driver of citizens' level of knowledge about the local budget issues (Wang and Berman, 2001; McKenna, 2011; Rowe and Frewer, 2000), it seems to affect awareness of the average citizen that he or she can influence the budgetary process. In other words, higher trust and support for the state and local political system are positively correlated with citizens' awareness of the possibility of influencing the local budget process (Norris, 1999). Hence, H1 has to be partly confirmed.

Our second hypothesis was that citizens' positive attitudes towards active participation in local budget process are determined by individual socio-economic, demographic characteristics and household characteristics, as well as by political attitudes and the level of trust. Results show that the main driver of the past citizen participation is the level of trust in community and police. The small proportion of respondents who participated in local budget processes on average expressed higher level of trust in community and police. Conversely, regarding future participation, higher economic status, lower level of trust and lack of support for the political system are recognized as the main drivers of future participation. It is more likely that an individual who expressed a lower level of trust, who is not supportive of the current political system, and who is not going to vote in next local elections will agree with the statement that the government of the city of Zagreb should allow the participation of citizens in drafting the city budget. Similarly, individuals who reported themselves as interested in participating in public

hearings on average tend to be more risk-taking ($p < 0.01$), have a lower level of trust in government and the police ($p < 0.05$), and they are more likely not to support the current political system and not to vote in the next elections ($p < 0.01$). In general, less interested in participation in public hearing are females ($p < 0.01$) and retired persons, while unemployed persons are more likely to take part in public hearings. Hence, H2 is been partly confirmed. These findings are similar to the findings of the collective-action literature, according to which citizens' mistrust in government is a basic motivation for citizens' political participation (van Zomeren and Spears, 2009; De Cremer and Van Vugt, 1999; Tyler, DeGoey and Smith, 1996).

Citizen participation in the budget process is crucial for ensuring that decision-making in public finance is done in a democratic, transparent and politically accountable way. Against this backdrop, one implication of our findings would be that public policy needs to focus on raising awareness among citizens of the ways they could influence the budget process. One example would be measures aimed at encouraging spontaneous participation in that process, discussed for instance in Im et al. (2014). These authors suggested that more active participation could evolve in the form of specific partnerships between the citizenry and the city government, so as to allow an effective influence of citizens on the budget. Allowing and organizing participation at the local board level could be the first step in enhancing participative budgetary practices in the city of Zagreb, so as to foster familiarity of the municipal board members with the role they can play in shaping the city budget and ways they can interact with citizens in that process. At this level, which is the closest to the citizens they can best see how their own problems can be resolved through their influence on the budget allocations.

Disclosure statement

No potential conflict of interest was reported by the authors.

QUESTIONNAIRE USED FOR THE SURVEY ON CITIZEN'S WILLINGNESS TO PARTICIPATE IN BUDGETARY PROCESS IN ZAGREB

Questionnaire

A. Personal characteristics of the respondent

1. Age in full years: _____

2. Sex:

1	Male
2	Female

3. City district:

1	Brezovica
2	Čnomerec
3	Donja Dubrava
4	Donji Grad
5	Gornja Dubrava
6	Gornji grad – Medveščak
7	Maksimir
8	Novi Zagreb – istok
9	Novi Zagreb – zapad
10	Peščenica-Žitnjak
11	Podsljeme
12	Podsused-Vrapče
13	Sesvete
14	Stenjevec
15	Trešnjevka-Jug
16	Trešnjevka-Sjever
17	Trnje
18	None

4. Number of years with residence in Zagreb (full years): _____

5. Risk attitude:

Please assess your risk-taking attitude in a scale from 1 to 10, 1 being the lowest and 10 the highest level of risk-taking attitude!

1	2	3	4	5	6	7	8	9	10
The lowest level of risk-taking attitude									The highest level of risk-taking attitude

6. Trust in institutions:

Please, assess your trust in institutions on a scale from 1 to 4, where 1 means that you do not trust at all, and 4 that you completely trust them.

	Don't trust at all	Mostly, I don't believe them	Mostly, I believe them	I completely trust them	I don't know
1 Trust in people in community	1	2	3	4	99
2 Trust in local government	1	2	3	4	99
3 Trust in central government	1	2	3	4	99
4 Trust in police	1	2	3	4	99

7. Political attitudes:

Does one of the following statements apply to you?

	Yes	No
Supports current central government	1	2
Supports current local government	1	2
Is going to vote in next parliamentary elections	1	2
Is going to vote in next local elections	1	2

B. Involvement in the process of local budget decision-making

8. In your opinion, how well are you informed about the Budget of the city of Zagreb?

1	2	3	4	5
Absolutely not informed				Fully informed

9. Please estimate your interest in the way the city government spends money from taxes, surcharges and fees.

1	2	3	4	5
Not interested at all				Fully interested

10. Do you know that the city government has the obligation to inform you about the city budget?

1	Yes
2	No

11. Please estimate to what extent information on the city budget is accessible to you!

1	2	3	4	5
Inaccessible				Easily accessible

12. In your opinion, can an ordinary citizen influence the budgetary process in the city of Zagreb?

1	Yes
2	No

13. Have you or members of your household tried to influence the budgetary process in the city of Zagreb in last 12 months?

1	Yes
2	No

14. In your opinion, should the government of the city of Zagreb allow the participation of citizens in drafting the city budget?

1	Yes
2	No

15. If that would be possible, would you participate in a public hearing on the budget of the city of Zagreb?

1	Yes
2	No

16. If you would not participate in public hearing on the city budget, please indicate the reasons:

1	I do not believe that my opinion could have any influence on allocation of budget resources
2	City government can assess better how the city budget resources should be spent
3	I am not interested in participating in a public hearing
4	Something else, indicate what _____

C. Demographic questions

17. Completed degree of education

1	Without school
2	Primary school
3	Secondary school
4	College, Diploma, Master's degree, doctorate
99	Don't want to answer

18. What is your labour market status?

1	Employed
2	Unemployed
3	Retired
4	Housekeeper
5	Student, pupil
99	Don't want to answer

19. How many people live in your household currently?

1	1 – live alone
2	2
3	3
4	4
5	5
6	More than 5
99	Don't want to answer

20. What is your family's household monthly income?

1	2,000 kuna and less
2	2,001-3,500 kuna
3	3,501-5,000 kuna
4	5,001-6,500 kuna
5	6,501-8,000 kuna
6	8,001-10,000 kuna
7	More than 10,000 kuna
99	Don't want to answer

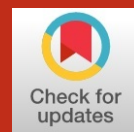
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Transparency of law making and fiscal democracy in the Middle East

LOBNA M. ABDELLATIF, Ph.D.*

MOHAMED ZAKY, Ph.D.*

MOHAMED RAMADAN, Ph.D.*

JAD MAZAHREH, MSc*

IBRAHIM ELGHANDOUR*

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Lobna M. ABDELLATIF

Senior Public-Sector Specialist, Governance Global Practice, World Bank, seconded from Cairo University
1818 H street NW, Washington DC – 20433, USA
e-mail: lahmed@worldbank.org
ORCID: 0000-0002-0677-7684

Mohamed ZAKY

Lecturer, Cairo University, 1 Gamaa Street, Giza, Egypt
e-mail: m.zaky@feps.edu.eg
ORCID: 0000-0002-9260-9600

Mohamed RAMADAN

Research and Development Adviser, Central Agency for Public Mobilization and Statistics of Egypt, 3 Salah Salem St., Nasr City, Cairo, Egypt
e-mail: moh_ramadan@icloud.com
ORCID: 0000-0001-6315-4996

Jad MAZAHREH

Senior Financial Management Specialist, Governance Global Practice, World Bank, 1818 H Street, NW Washington, DC 20433 USA
e-mail: jmazahreh@worldbank.org
ORCID: 0000-0001-5830-2325

Ibrahim ELGHANDOUR

Research Analyst, Governance Global Practice, World Bank, 1818 H Street, NW Washington, DC 20433 USA
e-mail: ielghandour@worldbank.org
ORCID: 0000-0001-5720-6868

Abstract

Fiscal democracy is the capacity of the legislature to make budgetary choices in response to the emerging needs of citizens. This study indicates that, in Middle Eastern countries, there are specific limitations to fiscal democracy in the process of law-making: most notably the lack of attention to financial impact assessments (FIAs). Without systematic FIAs, mandatory out-of-budget allocations are inadvertently included in public spending, as they do not require parliamentary approval within the regular budgeting process. The low level of effective citizens' engagement in the process of law-making worsens the situation. Budgetary decisions are not well informed by national priorities and preferences. This study utilizes the dataset of the Open Budget Index (OBI) to measure the quality of the law-making process of the budget law in a sample of Middle Eastern countries. The study concludes with recommendations on mapping the law-making process to increase budget transparency.

Keywords: fiscal democracy, mandatory spending, Financial Impact Assessments, citizens' engagement, law-making process, budget transparency

1 INTRODUCTION

Parliaments' capacity to respond to the emerging needs of citizens by utilizing budgetary resources and reallocating public expenses is a key pillar of the democratic practices in modern economies. In this regard, fiscal transparency, whereby budgetary information is available for public discussions and effective communications with citizens, is a critical factor that empowers parliaments to make informed budgetary decisions (Alesina and Perotti, 1996; Alt and Lassen, 2003; Shah, 2007; Harrison and Sayogo, 2014; Williams, 2015; Zuccolotto and Teixeira, 2014; Sarr and Friedman, 2016; Renzio and Wehner, 2017). Hence, a lot of interest has been directed to the determinants of enhanced fiscal transparency.

Budget classification, the timely availability of budget documents, the openness of the discussion process to the public and the strength of the roles of supervisory agencies are among the factors included in the Open Budget initiative through its survey to assure fiscal transparency (IBP, 2017). Countries in the Middle East and North Africa (MENA) region are part of this worldwide movement towards fiscal transparency, legislatures' empowerment, openness and citizens' engagement.

However, a critical factor that restricts fiscal transparency in the MENA region is the considerable mandatory out-of-budget expenditures. They are mirrored by expenses that are not voted on, as they do not require parliamentary approval within the annual budgeting process, e.g. wages and salaries, pensions, debt service, etc. Such expenditures reduce budget flexibility and responsiveness to the dynamics of development. This is mostly attributed to law-making legacies that accumulate over time, constraining the discretion of parliaments to respond to emerging needs (Streeck, 2010).

Conducting comprehensive Regulatory Impact Assessments (RIAs) includes reviewing whether proposed policies match national priorities as well as whether they are affordable and meet value for money criteria is essential in protecting budget flexibility. Given the importance of this topic, the World Bank produced the Global Indicators of Regulatory Impact Assessment Governance to highlight international efforts in this direction (World Bank, 2016). Most of the work on RIAs in the MENA region is still directed to business, trade and the private sector. The financial impact of law-making is touched upon but has never been the focus of discussion.

This study contributes to the existing literature by introducing a new measure of fiscal transparency that investigates the budget law through a RIA lens. It provides a measure of the extent to which governments interact with the public across the life cycle of the budget process, evaluating the mechanisms to do so, and efforts made to solicit the results of public consultation. Further, the study sheds light on the dependency relationships between the diverse dimensions of fiscal transparency by directing attention to the notion of effective transparency.

This study aims to raise awareness about a budget law as the financial framework that reflects the quality of the process of law-making. Specifically, it seeks answers to three questions: (i) what is the level of fiscal discretion the parliaments in MENA have over the allocation of budget resources, (ii) how effective is the financial regulatory impact assessment of law-making in controlling the financial impact of the new policies on the budget, and (iii) what are the features established in the Budget Law-making process to control the impact of policies introduced in the budget.

The study focuses on the MENA region with closer review of three country case studies; Egypt, Jordan and Tunisia, to provide an in-depth perspective on current practices. The analysis remains applicable to other countries and regions. Two of the case studies, Tunisia and Egypt, are “Arab Spring” countries where mass protests called for inclusiveness, openness and fairness. The call spread quickly to a few countries, among which was Jordan, before eventually impacting all countries in the region. The three selected countries have pioneered parliamentary practices within MENA, some of them stemming from the first half of the last century. With the advent of the Arab spring, they also witnessed changes in legislation and amendments to their constitutions to provide more authority to parliaments and a wider opening for the engagement of civil society towards an increased voice for citizens and transparency (OECD, 2013). For the case studies, the analysis makes use of first-hand data collected through in-depth and structured interviews with key stakeholders, including members of the parliaments, former ministers, senior executives in Ministries of Finance (MoF) in Egypt, Jordan and Tunisia in addition to secondary data, analysis and reviews and content analysis of country related documents.

The study is structured into four sections. Section one presents the increasing footprint of public finance and relates it to fiscal decision-making. Section two provides information on conducting financial impact assessments. In section three, we establish the relationship between RIA transparency with fiscal transparency. Section four concludes with recommendations.

2 SECTION I: FISCAL TRENDS AND FISCAL DEMOCRACY

2.1 FISCAL TRENDS

Public finance constitutes a large magnitude of GDP across all regions in the world. As figure A1 indicates, the percentage of the gross debt to GDP has been always high. Given its size and potential impact, the formulation and execution of the budget should be carefully examined. Public finance suffers, generally, from the common pool problem: it is not always possible to establish a one-to-one correspondence between who pays and who gets the benefit. Additionally, if revenues do not cover expenses, there are several options for financing the public debt. Along with the cost comes the impact on intergenerational welfare through debt servicing and inflationary impacts, which imply a lower capacity to finance future service provision. Therefore, the parliamentary process of enacting the budget, in addition to the openness of this process to the public, has received a lot of attention as it determines the distribution of the current impact among different societal groups as well as among them and the future generations.

MENA countries experience the same international trends of growing public finance imbalances. Expenditure is growing at a higher pace than revenues, leading to increases in the financing gap (figure A2). Table A1 confirms that the growing deficit is not limited to MENA non-oil countries. The oil economies in MENA share similar experiences with a narrowing of fiscal space following the collapse in oil prices since 2014. This has led to greater attention to financial impacts when new policies and legislation are being proposed.

2.2 FISCAL DEMOCRACY

The phenomena of chronic budget deficits and rising public debts are a common symptom of explosive mandatory entitlements. By definition, mandatory spending is composed of budget outlays that are controlled by law other than appropriation acts (Austin and Levit, 2012). Over time, entitlement programs become more expensive per beneficiary and may be coupled with increased number of beneficiaries, thereby increasing the burden on available fiscal resources. For the first time in the history of the U.S., program entitlements exceeded government revenues in 2009. That is, every dollar of revenue had been committed even before the new Congress first walked through the Capitol doors (Steuerle, 2016). In 2010, Eugene Steuerle and Tim Roper introduced the index of fiscal democracy to highlight the reduction in the flexibility of fiscal resources of the U.S. because of accumulated policy legacies that occupy a large share of the Federal tax revenue and leave limited room for discretionary expenditures. Streeck (2010) applied the fiscal democracy index to Germany with a few adjustments given the fact that

there's no formal distinction between mandatory and discretionary spending in Germany (i.e. legislators vote on the entire budget). Yet, Streeck recognized at least four categories in the German federal budget, beside interest payments, that are de facto mandatory.

The idea is not new that “policy legacies” may accumulate over time, constraining the choices of elected governments and parliaments and diminishing the capacity of states to respond to emerging social problems (Streeck, 2010). The policy legacy that they inherit is carried forward by institutional commitments grounded in laws, organizations, and budgets that are more important than the preferences of individuals (Rose, 1990). From the standpoint of legislators, accumulated policy legacies – in the form of mandatory programs – hinder their capacity to allocate the government revenues in a way that satisfies the current public needs. Steurele and Roeper's index measures the percentage of federal tax revenues that is not allocated to mandatory spending. A fiscal democracy index can be thought of as a measure of the extent to which yesterday's legislators dictate tomorrow's budgetary allocations.

It measures the decision space opened for legislatures to reflect public priorities through the reallocation of public spending among different sectors and policies, and willing to make hard political decisions which in many developing societies could be seen as far reaching. A fiscal democracy index is calculated as the remaining balance of the percentage of total government revenues that is devoted to paying the mandatory expenses in the form of wages and salaries and interest expenses. At the top of mandatory expenses come civil service wages and pensions and interest payments. They are out of budget decisions. Other expenses have a quasi-obligatory nature such as subsidies which have a high political profile and once enacted are extremely difficult to amend in our three country cases. They constitute part of the profile of the social contract. Therefore, we present two versions of the fiscal democracy index, without and with subsidies. Additionally, interest payments constitute part of the mandatory spending.

As shown in figure A3, the fiscal democracy index in Egypt turned to a negative number upon the addition of the subsidy component in the budget. So, in order to pay subsidies, the government must go further into debt. Accordingly, the major part of public expenditure decisions is taken out of the budget, and the fiscal democracy index in Egypt declined dramatically. Since the Egyptian revolution of January 2011 and the adverse economic and political conditions that followed, wage bills have witnessed a dramatic increase due to responses to workers' strikes and demonstrations, the appointment of temporary employees and application of the minimum wage policy. Additionally, government spending on subsidies and social benefits increased by about 1.7 times during the period 2010-2017 (figure A4). On the other hand, tax revenues declined because of political and economic instability and decreased economic activity. Egypt's fiscal imbalances have subsequently worsened as interest payments have increased more than fourfold during the same period: clearly an unsustainable situation.

This pattern also applies, albeit less acutely, to Jordan and Tunisia. Fiscal consolidation efforts in Jordan have started to yield positive results. However, subsidy expenditures constitute a persisting issue. The government wage bill in Tunisia is relatively high, taking up more than 60 percent of government revenues and 50 percent of expenditures. The wage bill to GDP ratio has grown by 4.0 percentage points between 2010 and 2017, and reached 14.7 percent of GDP in 2017, excluding 0.4% of GDP in tax credits given to public employees. The wage bill to GDP ratio is expected to reach 13.9 percent of GDP in 2018. In comparison, government spending on investment reached 5.5 percent of GDP in 2017. The expected decline in the ratio reflects an increase in the GDP growth rate and a deceleration in the growth of the wage bill resulting from a recent set of wage bill containment measures. Nonetheless, the trend of worsening composition of government expenditures may continue to lead to a cycle of wage bill increases which crowds out capital spending, with adverse consequences for spending efficiency and economic growth. Figure A4 shows the nominal growth of government spending between 2010 and 2016, with a modest growth of capital expenditures compared with spending on wages and salaries, which nearly doubled during that period. According to the Ministry of Finance, spending on civil service pay will reach around 53 percent of primary expenditures in 2018 (52.5 percent in 2017) and more than 60 percent of total revenues (excluding grants) over the same year.

To sum up, the growing fiscal deficit in MENA is attributed to the automatic increase in mandatory spending, resulting in a situation in which governments are financing their functions with debt accumulation (figure A5). In some cases, like that of Egypt, the budget experiences real challenges where almost half of the expenditure is absorbed by debt service, leaving little room for financing new calls. Having almost 90% of the revenues locked into paying for mandatory expenses, other social policies in Egypt would be financed with debt. That is to say, if in past days, some countries in the region were not concerned with the budgetary structure and fiscal trends, from now on the situation is serious enough to warrant deep assessment of any action that can be anticipated to have financial implications. Hence, parliaments are requested to scrutinize all proposed legislative acts for their budgetary implications.

3 SECTION II: REGULATORY IMPACT ASSESSMENT (RIA)

In this section, the study reviews practices of conducting RIAs in MENA, in a comparable context, with a special focus on conducting financial impact assessment of proposed legislations.

3.1 PRACTICES

Worldwide, there is a growing interest in regulatory reforms including assessing the impact of legislation on the economy at large, public finance, and the impact on different groups in society such as the business community, households and vulnerable groups. In the last three decades, regulatory impact assessment has started to be an integral part of analysis and decision-making in governments that

are committed to increased transparency and evidence-informed policy-making. The history of regulatory impact assessment as a formal regulatory quality tool extends over more than 25 years in the OECD (OECD, 2009). In EU countries, evaluation of the effectiveness, enforceability and cost of legislation is treated as an integral part of the law-making process (Kellermann, 2008). However, the practice is still only growing worldwide and not standardized yet in many developing countries.

The quality of legislation is affected by the process of law making starting from the planning stage through promulgation and release to implementation. An overly complex regulatory framework, lack of transparency in the preparation of new regulations, plus ineffective and inappropriate application of the rules are all factors that combine to favour corruption and dishonesty.

In addition, a transparent process of assessing the impact of legislation on the economy is a key advantage of a transparent RIA process as it breaks the circuit of asymmetric information that may impact negatively the decision-making power of the affected parties. It also allows all parties to voice their opinion and defend their interests in a structured manner. Via RIA practices in many countries, the assessment studies cover the impact on public health, business environment, likely vulnerable groups, and the public sector in financial and administrative aspects. The later item relates to the cost of legislation.

The cost of legislation and the efficiency of policies embedded in it, should be investigated before any law is passed; with some exceptions, if it is related to urgent basic needs like public health and safety. The cost of legislation is critical because the budget is neither totally flexible nor perfectly fixed. This means that adding or amending policies of and approaches to the conduct of a public service would not completely replace existing ones. New policies come with an additional cost. The flexibility of the budgeting system depends on the capacity of the government to reallocate resources through prioritization, which entails frequent review of policies and hence the legal framework operationalizing them, in addition to exploring new options to increase public resources. When the budget is fully fixed, any new policy will completely displace some existing ones and some options that were previously available will be foregone. Therefore, legislation that omits a financial impact assessment should be considered to be incompletely drafted legislation that may achieve its objectives at an unjustifiable cost instead of looking for better options.

Efforts for regulatory reform including RIA, have been of interest in MENA countries for many years. The business environment, growth and job creation are top priorities. More recently, issues of inclusion and citizenship have also emerged. However, MENA achievements in RIA practices are still below international levels. The latest Global Indicators for Regulatory Governance (GIRG) for 2016 (World Bank, 2016) reveal weaknesses in activities related to conducting

regulatory impact assessment in the Middle East and North Africa (MENA) region compared to the global average (figure A6). MENA on average has the lowest score for “no notification of promulgating laws”. The notification and ability of citizens and firms to engage with governments on proposed business regulations do differ around the world; however, MENA has the lowest regional level of transparency and engagement.

The three case studies vary in their performance related to RIA. Among the highest performers in MENA comes Tunisia (table A2). It stands out in three areas of RIA: transparency in law accessibility, openness for consultation to the public, and conducting impact assessment. Egypt and Jordan also provide access to the passed primary laws. In Egypt, this facility is protected by a paywall. Additionally, Jordan has higher score in openness with the public through prior consultation during the drafting stage.

In Jordan, any new legislation should be published and communicated with the public prior to approval. But there are no obligations to include any type of assessments. With the assistance of USAID, Jordan produced draft guidelines for RIA in 2010. Organic budget law no 58 of 2008, article 4-g, stipulates that part of the General Budget Department (GBD) responsibilities is to, “give an opinion on draft legislation that has financial impact during the stages of its adoption”. In practice, this is only if the PM asks for an opinion. Draft organic budget law of 2017 makes it mandatory to include a financial RIA in the medium term financial framework (MTFF).

Egypt has a long history of trying to apply RIA, starting with the establishment of the National Committee for Review of Economic Legislation by a Prime Ministerial Decree No. 1816/2004 (ERRADA, 2011). In August 2011, a specialized unit published “the Egyptian RIA Guidelines” which incorporate both the concept of the standard cost of implementing a legislation and also a simple methodology to conduct benefit-cost analysis (ERRADA, 2011). Additionally, it has the merit of recognizing the importance of consultation with the public during the process of preliminary planning for the legislation. However, the Guidelines were not adopted because of the prevailing political situation at the time and the unit was shut down in 2013. Recently, the Council of Ministers (CoM) decided to add to the organization structure of each government agency a new unit to assess the impact of its proposed legislation before passing them to the CoM. This is still work in progress, however.

In Tunisia, the Prime Minister issued a circular on 27 May 2011 concerning the quality of legislation that considers the effectiveness of legal texts and provides for impact assessment studies to be carried out as part of the drafting of laws on commercial, financial and social matters. Financial studies incorporate both the cost and the impact on financing options (OECD, 2013). In practice, the circular has not been implemented in a systematic and effective manner across

government. Many draft legislative acts have been submitted to the CoM and parliament without such documentation in the past few years. More recently, a government circular issued in November 2017 clarified guidelines and documents that should accompany draft legislation submitted to the council of ministers and parliament, with no specific mention of impact assessments.

In conclusion, openness in the planning process was not accompanied by a structured consultation process. Additionally, while the governments do from time to time conduct some form of consultation, the results are not dealt with systematically or in a transparent manner. Also, feedback is not shown to be taken systematically into consideration or to alter the original lines of the legislation to provide alternatives and different scenarios.

3.2 FINANCIAL COST OF LEGISLATION

The direct financial cost of implementing legislation is the impact on the budget. This has several aspects. First, there is the increased cost of administration, e.g. increases in the number of civil servants, with financial implications on the wage bill, allowances, and pensions. Another aspect appears in case the legislation provides for grants or exemptions for households or business. Also, it may have implications on the public investment program, like new buildings and construction. Additionally, it may entail more purchase of goods and services. Impact on deficit and financing options through borrowing is another dimension. Transfers and subsidies could be impacted as well from the new legislation.

All these impacts should be assessed during the process of law making. Therefore, if this process is not strong enough, this may create unforeseen impacts on the budget; especially in case of out of budget decisions such as labor compensation and interest payments, in addition to socially politized items such as transfers to the households. The international experience identifies a seven-step process for a normal piece of legislation. It starts with preliminary drafting in the relevant government agency, sharing internally among government agencies, consultations with external bodies, passing it to the Council of Ministers (CoM), the parliamentary process, and promulgation by the President and finally reviews the impact. Table A3 presents some remarks on this process in the country case studies. When the step is compound, we add the financial impact assessment (FIA) in brackets as additional information for clarification.

In Jordan, a Prime Ministerial directive instructed all line ministries to establish a legal unit to help in drafting new legislation in terms of providing compelling reasons for a legislation as well as annotations that explain that legislation. But no direct instruction was issued regarding the assessment of regulatory impact. Law no. 56 of 1997 article 3-j stipulates that the MoF give an opinion on draft laws, by-laws, agreements, and any other issues that have a financial impact on the treasury. But again, no guidelines spell out how this impact should be reviewed. In practice, the MoF asks line ministries to provide assessment of proposed

legislations. No legislation supports MoF in its demand of data from line ministries. On external consultation, a Royal Decree (207) and the Constitution (article 120) established the Economic & Social Council. It has to advise on all items of legislation before passing them. Its 45 members are appointed by the King to represent all groups of the society. It is independent of the executive branch of the government. However, no guidelines were produced to structure the process of RIM or to assess the financial dimension. MoF has permanent representative at LOB to review any draft law that entails a financial impact.

Similarly, in Egypt, the CoM issued instructions in June 2018 for all government agencies to establish as part of its organizational structure, units for legislative support including assessing the impact thereof. By law (Organic Budget Law No. 53 of 1973, #27) all government agencies should alert the MoF if they propose any legislation (even for new administrative instructions) that may have a financial impact. But there are no guidelines to structure the process, so far, it is up to the discretionary assessment of government agencies. Additionally, it is discretionary and left to the government agency proposing the legislation. Guidelines on how to structure this assessment were overlooked. Unless, the law has a major financial impact in the short run, the MoF prefers to investigate the impact through the process of the budget preparation. External consultation before Cabinet approval on the legislation is not allowed according to the guidelines of the Ministry of Justice for drafting laws (Ministry of Justice, 2018). Sometimes the Parliament conducts discretionary consultation sessions when the legislation affects the business community. Recently in 2016, Parliament established a staff training center, where RIA is one of the training subjects. The pertinent Plan and Budget Committee (PBC) rarely requests the government to provide budgetary impact assessments for legislation or request alternative policies rather than those embedded in the proposed laws.

Tunisia has, *de jure*, a different framework. The circular No.14 requires government units to conduct impact assessment on draft laws, including a financial assessment. In practice, a limited number of laws have applied the RIA system. Ministries sponsoring legislation are required to submit draft laws that entail a direct impact on the budget to the ministry of finance for consultation. However, there is no clear guideline on whether a financial impact assessment is required to be submitted for that consultation process.

In the three countries, the approval of the parliament is mandatory to enact the legislation. Then the head of the State issued it to be published in the Official Gazette. The sequence presented by table A3, shows the process RIA application is developing, yet, it is weak for FIA. Moreover, the role of the MoF is not strong enough in the process of drafting. As interviews for Egypt indicated, the soft or weak roles of finance central agencies (MoF and Planning ministries) delay the identification of most of the financial impact to the budget exercise. This may come too late for other options that could be considered in the stages of drafting

or discussion in the CM or the parliament to be reviewed and revisited. Besides, when the executives present some information on the financial cost of the legislation, it was observed that it takes the form of the standard costing. Benefit-cost analysis and efficiency analysis are missing or incomplete in most cases. This limits the ability of the public and the parliament, as well as the CoM, to review the effectiveness and efficiency of the legislation, and hence to consider other alternatives and options. Benefit/cost analysis is being increasingly widely adopted as the formal methodological requirement underpinning RIA within OECD countries (OECD, 2009). In those countries that consider the financial impact assessment, cost benefit assessment is widely conducted, however, in some of them they combine it with cost effectiveness especially when the law targets issues related to public health and safety.

In our case studies, while there is no mandatory rule to conduct the assessment except in Tunisia, in a few cases we tracked governments presenting the standard cost of implementing the proposed law. In Egypt, the MoF presents the financial impact of any fiscal law. This impact shows the annual flow of expenses or revenues as of the full implementation of the legislation. While the Macro Fiscal Unit in the MoF performs an assessment of this on the fiscal sustainability, it is not always presented in the law memorandum to the parliament. This means that the impact of the law making on the future budgeting exercise is not well discussed. For sectoral laws, the MoF and the Ministry of Planning and Administrative Development (MoPAD) are invited sometimes on a discretionary basis to contribute to the process of preparing sectoral strategies and laws to tap up ahead the financial cost and to inform the budget preparation process. Yet, the standard practice is that the MoF and MoPAD are informed about the new proposed laws (and the strategy) through the cabinet, as all sectoral strategies and proposed draft laws should be presented to the cabinet for consideration and approval for them to be passed to the parliament. There is no process by law or practice in Egypt according to which the line sectoral ministry shares its strategy with the parliament or the parliament has the role of endorsing the sectoral policies if they are not part of some piece of legislation.

Moreover, when the executive branch of the government supplements the proposed law with FIA, the Plan and Budget Committee (PBC) has to be the main committee entitled for discussing these assessments besides the sectoral committees. Many of the Egyptian laws were presented without FIA and hence the PBC was not present in the discussions with the sectoral specialized committee on the subject matter. Moreover, the role of the PBC during the period (2001-2018) was very limited, i.e. it was not included in the referral decisions most of the times, with limited participation in the others. Further, the FIA was not fully conducted, covering only the law's ratification year without any long-term prospects¹. However, the burden of weak financial RIA is critical. For example, the annual bill of

¹ Based on a content analysis conducted by the authors regarding the law enacted in Egypt's parliaments during the stated period.

a retroactive increase in pension allowances comes to 50 billion Egyptian pounds. Additionally, the state budget draft for FY 2018/2019 allocates 1.9 billion Egyptian Pounds to pay the cash allowance for regular leave that the employees do not take as an impact from the Law of Civil Service (MoF, Egypt).

In conclusion, this section indicated that MENA countries perform poorly in RIA practices, especially, when it comes to assessing the financial impact of legislations. Little attention is given to the due impact on budgeting work. This raises questions on how parliaments in the region can handle budgeting issues while their knowledge on the impact on fiscal sustainability is minimal. Also, the partial communication with citizens in the process of law-making raises skepticism concerning how the available knowledge on policy impacts and public priorities and preferences informs the law-making process.

4 SECTION III: THE BUDGET LAW THROUGH A RIA LENS

The two previous sections revealed that notwithstanding the diminishing fiscal discretion, the financial scrutiny on the impact of proposed laws remains weak. In this section, we delve into the process of making the budget law with the assumption that what is missed in the law-making process may be captured during the budget process.

4.1 BUDGET REGULATORY IMPACT ASSESSMENT (BRIA)

Budget law is an interesting example to which to apply the RIA framework. By nature, it is enacted annually by the parliament and promulgated by the head of state. However, it has additional features in that it mirrors all the laws, decrees, and administrative orders in terms of their financial impact. To investigate the budget law through a RIA lens, we need to know the budget law status for the RIA with respect to five dimensions related to transparency, consultation with the public, assessing the impact, accessibility to enacted budget laws, and capacity to review and amend figures in the budget law in future rounds of discussion.

The Open Budget Index (OBI)² provides answers for 145 questions related to the availability of budgetary data from different perspectives such as the availability and comprehensiveness of budget documents, the role and effectiveness of oversight institutions (legislature and state audit institutions) and budgetary openness. This makes the OBI a rich data set to construct a budgetary RIA (BRIA). We reviewed the questions and sorted them into five sub-indexes, where each of them profiles one of the five dimensions of RIA. Then, we went further into breaking down the sub-index into smaller sub-topics to enrich the analysis. Again, whenever, relevant, we did a third level breakdown to sub-factors. We utilized the

² The Open Budget Index is produced by the International Budget Partnership (IBP). The OBI assesses the three components of a budget accountability system: public availability of budget information; opportunities for the public to participate in the budget process; and the role and effectiveness of formal oversight institutions, including the legislature and the national audit office. The majority of the survey questions assess what occurs in practice, rather than what is required by law (IBP at: <https://www.internationalbudget.org/open-budget-survey/methodology/>).

answers of 135 questions to fill in the BRIA, following the methodology of Open Budget Index of aggregating by the unweighted average scoring. Figure A7 shows the BRIA composition and mapping to RIA dimensions.

As figures A8a and b show, the BRIA performance varies among regions with observable discrepancies among the same region as demonstrated by table A4. It is observable that MENA is below the worldwide average in the global score of BRIA and in the five sub-indexes, with high discrepancy among its countries.

Figure A8b highlights the dimensions in which regions achieved their best. While there are variations among regions, all of them are doing well in their effort to allow public access to the budget law and its supplements compared to their performance in other dimensions. The variations among regions are attributed to the number of budget documents that are available to the public in addition to the Budget Law itself. These documents include reviews on the budget implementation, the pre-budget statement, citizen budget, and oversight reports (IBP, 2017).

Least achieved in all regions is the effort to solicit results of the consultation with the public. It is interesting to observe that efforts conducted by the executives to provide information during the planning stage of the Budget Law and by legislatures during the discussion in the parliaments, in addition to providing channels for information flows, have higher scores than that of consultations. This raises skepticism about the effectiveness of the transparency and openness efforts if they do not find ways to contribute to the process of law-making.

Compared to other regions, the rank of MENA comes at the end for the dimensions of consultation with the public, conducting impact assessment, and challenging regulations, while the region came second to lowest in two dimensions: transparency and accessing rules and regulations (figure A8b).

Under the dimension of transparency, we can split the efforts conducted by the executives from those of the legislatures (table A5). The same applies for the dimension of soliciting results of public consultations. Worth mentioning that for soliciting the opinion of the public, the legislature's contribution compared to the executive's varies widely among regions, which can be attributed to differences in the political regime and practices. Yet, in MENA, both scores are the lowest worldwide. When it comes to the effort to solicit the results of consultation with the public to feed them into the law-making process, the international experience is skewed to the effort done by legislatures. Yet this role in MENA is completely absent from both the sides of the parliaments and the executives.

To analyze in depth the practice of impact of the budget law, we identified four attributes: availability of financial data, availability of the assumptions based on which the budget figures were produced, availability of data to assess the impact of the budget implementation on different target groups and policies; being new or

existing, and finally the availability of debt figures and medium-term fiscal outlook to have foresight on fiscal sustainability. Figure A9 reports on the results by region.

It is interesting to see that except in MENA and Sub-Saharan Africa, the level of data availed by the executives to the parliaments is moderate to high. Regarding the availability of financial data, we can differentiate between those related to line items and those for the outcomes of policies to different socio-economic groups (table A6). Legislatures generally are less accurate about the budgetary impact on socio-economic groups, such as the poor, women and private sector. They are more informed about line items and the holistic fiscal trends. The knowledge of the legislatures in MENA about the financial data by line items and policy outcomes is lower than that of all the other legislatures worldwide.

Regarding the openness in sharing the assumptions used to build the budget figures, all regions showed low performance. Again, this raises some doubts about the quality and meaningfulness of assessments performed by the parliaments or the public where the assumptions underpinning the law-making of the budget are not fully shared. It is also interesting to observe that except for high income OECD countries, the capacity of legislatures to track the impact of the Budget Law on existing and new policies is relatively low. Finally, the availability of debt figures to conduct risk assessments is relatively acceptable across regions, right after the availability of financial data.

Zooming in on our case studies, their BRIA scores are 43.9, 42.4, and 34.1 for Jordan, Egypt and Tunisia, respectively. This means that they are among the best performers in the region; compared to the low average score of MENA which stands at 18.1. As shown by figure A10, the three countries are in a proximately high status regarding providing the public with means to access the enacted budget law and its supplementary documents. Yet, they cluster around the status of moderate for conducting impact assessment for the budget law. They differ considerably in terms of data availed to the public in the planning and discussion stages, where Egypt scores the highest. None of them solicited the results of consultations with the public into feedback to the process of making the Budget Law.

The sub-index of challenging the trends and content of the Budget Law, reveals discrepancies in the capacities of the public and the legislatures to review and amend the budget law in next budget rounds, Jordan coming out top. Thanks to its massive reform in the subsidy component in the budget, its BRIA score in this dimension levelled high.

From our micro analysis, we can tell that the legislatures in the three cases do not initiate any review of the budgetary figures. However, those changes cannot be implemented without being enacted by the legislatures. Therefore, we expect that Egypt's score in the new round of OBI will go up with all the amendments introduced in the energy subsidy component in the budget during 2017/18.

4.2 EFFECTIVE TRANSPARENCY INDEXES

Based on this, one could argue that the three countries are doing well in terms of BRIA, which could be consistent with their RIA scores shown in table A2. Yet, this is not consistent with tracked weaknesses depicted by the micro analysis for the law-making process especially for its relationship with FIA and the incomplete implementation of the legal decrees issued by their governments. This could be attributed to the methodology of constructing BRIA that uses the unweighted average which made the index skewed towards the extreme factors. Further, our BRIA results do not capture the dependency relationship among different dimensions.

To construct effective transparency indexes, we used a more balanced measure of central tendency³: the geometric mean, with an exception of using the maximum value in some cases. The maximum values were used to deal with what could be named as “parallel alternatives”. In compositing some indices there are factors that could be alternatives to each other. In such cases, the maximum value technique was used, to have the highest score among these alternative factors to indicate that the desired objective beyond this index was achieved.

We can explore more the importance of applying geometric means by recalling the example we provided above on the meaningless of one-way communicating with the public: availing data on the budget by the executives or the parliament, without soliciting the public feedback into the law-making of the Budget Law. Also, what is the value of providing figures on the budget if the assumptions behind them in addition to other important complementary data are not shared. We think that when there is a value chain and dependency relationship, geometric mean is a much better option than the unweighted average. Accordingly, we used the sub-dimensions of BRIA and calculated two indexes to capture the effectiveness of transparency taking into account this dependency relationships: one the Effective Transparency of Fiscal Sustainability (ETFS) and another on the Effective Transparency on Policy Targeting (ETPT). The ETFS index covers all the dimensions required for effectively evaluating the transparency of fiscal sustainability data, including: availing related data through proper means of communications with the public and the parliaments as well as the measures to solicit the public opinions. The same applies for ETPT regarding the data, means and measures for both financial and non-financial issues for policy targeting by outcomes. In both indexes, availing meaningful data and openness to public are embedded. Table A7 presents the results by regions.

It is interesting to observe that worldwide, the policy impact of the budget is still given lower importance than the issue of fiscal sustainability. Worth mentioning is that Eastern Europe outperforms Latin America in the fiscal sustainability index,

³ Geometric means is being used when not much attention needs to be paid to the extreme values. In other words, the geometric mean, which was used in Human Development Index (HDI) for example, tries to reduce the influence of the extreme values. This means that geometric average will maintain the positioning of low-performance or high-performance countries in a case in which they have an extreme high-level factor or low-level factor in both cases respectively.

and they exchange positions when it comes to policy targeting. Further, high income countries kept excelling, yet, with relatively lower scores in policy targeting. While results vary significantly within each region, the level of heterogeneity is at its minimum in High Income Countries-OECD. While High Income Countries-OECD are far ahead in the three dimensions, more effort to establish effective two-way communication is still needed (figure A11). It can be said that shortcomings in effective communication are a worldwide issue. Yet, it is the culminating result of overlooking the importance of internalizing the feedback of citizens into the law-making process. It is a key vehicle to enlighten the legislatures to take informed decisions for their societies in a way that fulfils the objectives of the Budget Law.

MENA shows higher heterogeneity in performance for the two indexes of effective transparency than that of BRIA at large. The interesting result is that Jordan outshines Egypt and Tunisia, especially for ETPT, thanks to the recent application of program-based budgeting accompanied by the high level of data availing to the public. Tunisia, while doing much better than Egypt in availing data to the legislature on policies and outcomes, has a means of communicating with the public that is relatively low performing, which pulled down the level of effective transparency to the very low levels shown in table A8.

The use of the geometric means pulls the status of Tunisia's score downward, thereby providing an alert to the unfinished job related to availing the data to the public. For Egypt and Jordan, while they are doing moderately well in the dimension of communicating to the public, their final performance was impacted by the quality and comprehensiveness of data provided for the performance of an impact assessment.

5 SECTION IV: CONCLUSION AND RECOMMENDATIONS

The study focused on the budget law, as the overall framework that gathers together all the financial impacts of laws enacted by parliament. Legislatures must apply a comprehensive analytical approach including RIA and FIA when enacting new laws. Ratifying new laws with little scrutiny as to their impact on the budget structure and figures risks wasting scarce resources and jeopardizes the flexibility of the budget to respond to the emerging needs of the citizens. Greater attention should be given to the transparency of the process of law-making in terms of assessing the financial implications and of balancing them against expected benefits using efficiency and effectiveness measures.

The analysis profiled the MENA region in a comparative context that measures regional performances in implementing regulatory impact assessments. The study focused on three specific country cases to deepen the analysis. We found that legislatures in MENA countries are experiencing diminishing fiscal room to influence the allocation of budget resources. In other words, the fiscal democracy index is dramatically low and even negative in some countries. The historical practices of enacting legislation with significant fiscal implications without the

requisite level of oversight have impacted the budget structure and public debt burden. Most of the budget resources are devoted to meeting mandatory or obligatory expenses. Nevertheless, this challenging situation has not pushed governments into focusing greater scrutiny on the financial implications of new laws through applying the good practices of law-making. Most of the new laws continue to be enacted by parliaments without deep knowledge of standard cost, efficiency and effectiveness measures, let alone the future financial sustainability.

In many of our interviews, officials from the MoFs and members of the parliaments indicated that they postpone the conducting of FIA to a later stage when enacted laws are set into implementation. They perceive the process of budget making as the opportunity to assess in retrospect the FIA of the passed sectoral laws and their embedded policies. They may stretch the implementation of some laws over a longer time span to accommodate their financial impact. That is to say, legislators conduct RIA in retrospect. Additionally, they negotiate the budget requests, reflecting the enacted policies, to control for negative impacts on fiscal sustainability. The study has challenged this practice by scrutinizing the process of making the budget law through a RIA lens. We utilized the rich set of data of the OBI to construct the RIA index that allows screening the process of budget making through the whole steps of law-making, starting with planning and ending with publication in the Official Gazette. MENA did not perform well. Even the moderate scores of the three case studies went down when the analysis shifted to count for balanced performance.

We conclude this study by stressing the responsibility of legislatures to improve the fiscal democracy index. The parliamentary fiscal functions must be operated in an integrated manner. This means that executives should provide information about the financial impact of the proposed laws. The legislatures should also request such an assessment. They have to protect the budget from those financially unassessed laws and policies.

Also, as we built on OBI to establish the budgetary index of RIA, the survey could be utilized as an advocacy tool for conducting RIA. OBI has gained a lot of importance over the years and has acquired advocacy power (de Renzio and Masud, 2011). It could be a good tool to encourage the mentioned responsibilities. Adding a few questions to make sure that each of the executives and legislatures perform their responsibilities for RIA will voice this issue. Additionally, producing indexes for effective transparency would stress the balance that should be attained among different attributes for transparency. The only average measuring of transparency hides critical policy messages.

Disclosure statement

No potential conflict of interest was reported by the authors.

TABLE A1

Overall deficit/surplus in MENA Arab countries (2009-2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Surplus/deficit (US \$Billion)	-46.9	7.4	94.0	139.9	67.2	53.4	-213.8	-234.5
% GDP	-2.6	0.4	3.9	5.3	2.5	1.9	-8.8	-10.0
Oil countries ⁴ (US \$ Billion)	-22.0	36.6	127.1	182.2	118.9	100.7	-185.9	-191.3
% GDP	-1.6	2.3	6.6	8.5	5.4	4.6	-10.0	-10.4
Non-oil countries (US \$Billion)	-24.9	-29.2	-33.1	-42.3	-51.8	-47.3	-27.9	-43.1
% GDP	-5.7	-6.1	-7.3	-8.4	-9.8	-8.5	-4.9	-8.5

Source: Joint Arab Economic Report, Multiple issues (2014-2017), Arab Monetary Fund.

TABLE A2

Global indicators of regulatory governance for Arab countries⁵

	Publica- tion of proposed text	Conduct consulta- tion	Reporting the consul- tation results	Conduct impact assess- ment	Specialized body for impact assessment	Impact assessment made public	Consolidated regulatory governance score
Algeria	0	0.2	0	0	0	0	0.2
Bahrain	0	0	0	1	1	0.2	2.2
Comoros	0.6	0.6	0.8	0	0	0	2
Djibouti	0.2	0	0	0	0	0	0.2
Iraq	1	0	0	0	0	0	1
Jordan	1	0.6	0.2	0	0	0	1.8
Kuwait	0.2	0.2	0	0	0	0	0.4
Lebanon	0	0	0	0	0	0	0
Libya	0	0	0	0	0	0	0
Mauritania	0	0	0	0	0	0	0
Morocco	1	1	1	0	0	0	3
Oman	0	0	0	0	0	0	0
Qatar	0	0	0	0	0	0	0
Saudi Arabia	0	0	0	0	0	0	0
Sudan	0	0	0	0	0	0	0
Tunisia	1	1	0	1	0	0	3
United Arab Emirates	0.6	0.2	0.2	1	1	0.2	3.2
Palestine	0.2	0.6	0	0	0	0	0.8
Yemen	0	0	0	0	0	0	0

Source: Global Indicators of Regulatory Impact Assessment Governance, 2016.

⁴ Oil Arab countries are the Arab petroleum net exporting countries and are represented by members of the Organization of the Petroleum Exporting Countries (OPEC), in addition to Iraq, Algeria, Libya, and Yemen (Arab Monetary Fund, 2017).

⁵ The scores range from 0 (worst performance) to 5 (best performance).

TABLE A3

The law-making process and financial impact assessment (FIA)

	FIA in Preliminary drafting	Internal consultation among governmental agencies on FIA	External consultation (FIA)	Discussion and approval by the Council of Ministers (FIA)	Parliamentary approval (FIA)	Promulgation by the head of state and publication	Follow-up to the implementation of the law
Jordan	Absent	Consultation is not mandatory by law	Mandatory (Soft)	Mandatory (Soft)	Mandatory (Soft)	Mandatory	Discretionary
Egypt	Absent	Consultation is not mandatory by law	Absent	Mandatory (Soft)	Mandatory (Soft)	Mandatory	Discretionary
Tunisia	Soft	Consultation is not mandatory by law	Absent	Mandatory (Soft)	Mandatory (Soft)	Mandatory	Discretionary

Source: authors' analysis.

TABLE A4

Discrepancy in Budgetary Regulatory Impact Assessment (BRIA)^{1,2,3} performance by region

	BRIA	Coefficient of Variation (CV), %
East Asia & Pacific	39.4	54.0
Eastern Europe & Central Asia	39.0	31.7
Latin America & Caribbean	37.7	43.3
Middle East & North Africa	18.1	105.5
South Asia	33.7	12.5
Sub-Saharan Africa	21.4	77.9
High Income: OECD Countries	54.8	14.2
Grand total	32.8	57.8

1-The unweighted average was used to aggregate the index-value at the regional level.

2-Reference year 2017.

3-The coefficient of variation used was calculated across countries within the mentioned regions.

Source: authors' analysis.

TABLE A5

Legislatures and executives contribution to effectively open to the public^{1,2}

Regions	Transparency dimension			Consultation dimension		
	Availing information to the public			Soliciting results-executives	Soliciting results-legislatures	Total dimension
	Executives	Legislature	Sub-dimension			
East Asia & Pacific	33.8	19.8	27.6	5.2	14.1	9.6
Eastern Europe & Central Asia	19.8	27.7	26.4	0.8	11.9	6.3
Latin America & Caribbean	19.3	26.4	25.3	1.0	7.3	4.2
Middle East & North Africa	16.4	4.9	10.5	0.0	0.0	0.0
South Asia	34.2	11.1	22.3	2.7	0.0	1.4
Sub-Saharan Africa	20.0	18.5	20.6	0.0	2.8	1.4
High Income: OECD Countries	23.5	58.3	47.4	11.6	32.4	22.0
Grand total	22.5	23.4	24.9	2.2	8.9	5.5

1-The unweighted average was used to aggregate the index-value at the regional level.

2-Reference year 2017.

Source: authors.

TABLE A6

Availability of financial data^{1,2}

	Availability of financial data		
	Line item data	Program data	Total sub-factor
East Asia & Pacific	59.5	58.9	59.5
Eastern Europe & Central Asia	71.6	55.1	63.2
Latin America & Caribbean	67.4	67.2	67.7
Middle East & North Africa	27.8	21.4	24.5
South Asia	68.3	69.8	69.5
Sub-Saharan Africa	33.4	26.5	29.9
High Income: OECD Countries	85.8	82.9	84.7
Sub-factor total	54.9	49.0	52.0

1-Unweighted average was used to aggregate the index-value at the regional level.

2-Reference year 2017.

Sources: authors.

TABLE A7

Effective transparency indexes by region^{1,2,3}

	Effective Transparency of Fiscal Sustainability (ETFS)	Coefficient of Variation (CV), %	Effective Transparency of Policy Targeting (ETPT)	Coefficient of Variation (CV), %
East Asia & Pacific	11.8	163.8	10.6	139.2
Eastern Europe & Central Asia	10.7	123.3	9.1	123.9
Latin America & Caribbean	10.0	156.1	10.4	155.1
Middle East & North Africa	3.0	202.2	3.2	229.2
South Asia	3.2	184.5	4.2	107.7
Sub-Saharan Africa	5.2	196.6	5.4	223.6
High Income: OECD Countries	28.2	50.2	25.0	66.5
Grand total	9.5	151.4	9.0	153.0

1-Unweighted average was used to aggregate the index-value at the regional level.

2-Reference year 2017.

3-The used coefficient of variation was calculated across countries within the mentioned regions.

Sources: authors' analysis.

TABLE A8

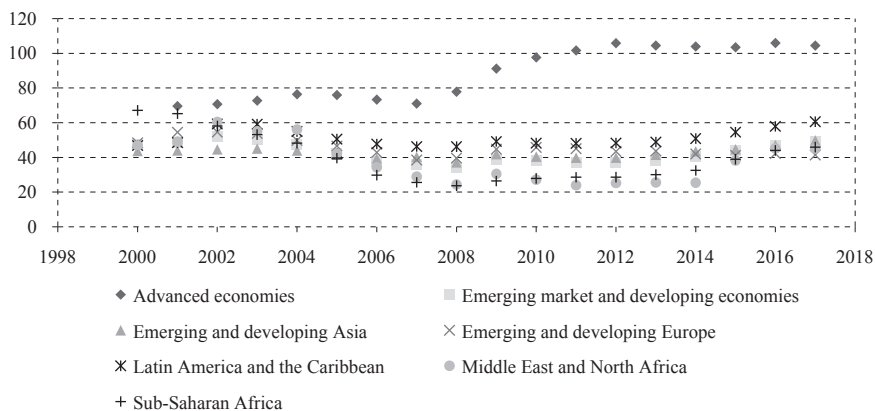
Effective Transparency of Fiscal Sustainability (ETFS) and Effective Transparency of Policy Targeting (ETPT) in Egypt, Jordan and Tunisia

	Trans- parency of rule- making	Public consulta- tion in rulemak- ing	Impact assess- ment	ETFS	Trans- parency of rule- making	Public consulta- tion in rulemak- ing	Impact assess- ment	ETPT
Egypt	20.8	0.0	8.6	9.8	20.8	0.0	0.1	7.0
Jordan	52.0	0.0	1.3	17.8	52.0	0.0	17.8	23.3
Tunisia	2.7	0.0	0.4	1.0	2.7	0.0	0.4	1.0

Source: authors' analysis.

FIGURE A1

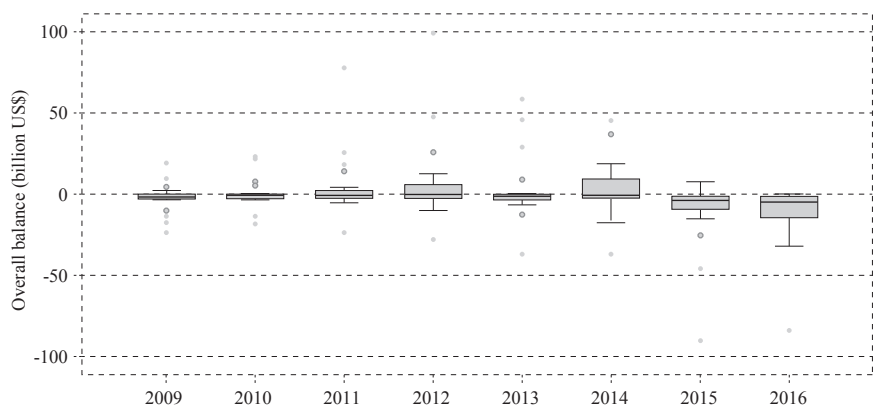
General government gross debt⁶ expressed as percentage of GDP by region (2000-2017)



Source: drawn based on World Economic Outlook (WEO) database, April 2018, International Monetary Fund.

FIGURE A2

Dispersion of overall deficit in MENA Arab countries⁷ (2009-2016)



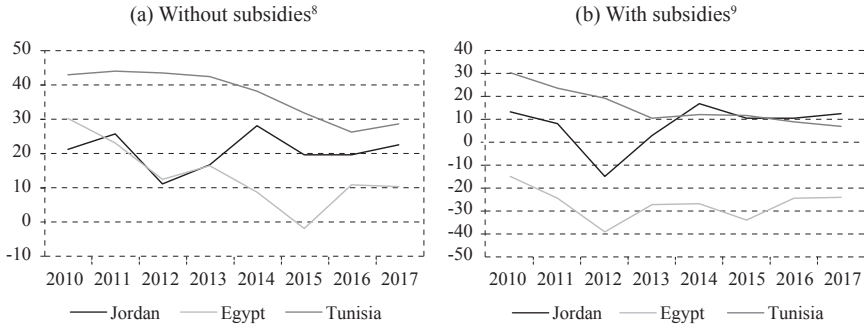
Source: drawn based on Joint Arab Economic Report, Multiple issues (2014-2017), Arab Monetary Fund.

⁶ General government gross debt consists of all liabilities that payment(s) of interest and/or principal by the central government to the creditor at a date or dates in the future. This includes debt liabilities in the form of SDRs, currency and deposits, debt securities, loans, insurance, pensions and standardized guarantee schemes, and other accounts payable (WEO, April 2018).

⁷ A Box and Whisker plot that provides a measure of dispersion of the overall deficit in all Arab countries over the stated period. This chart is not concerned with the individual performance of each Arab country. The upper and lower limits of the boxes represent the upper and lower quartiles, so the box spans the interquartile range whereas the horizontal line crossing the box represents the median, and finally the two lines outside the boxes represent the highest and lowest values of the overall deficit in Arab countries.

FIGURE A3

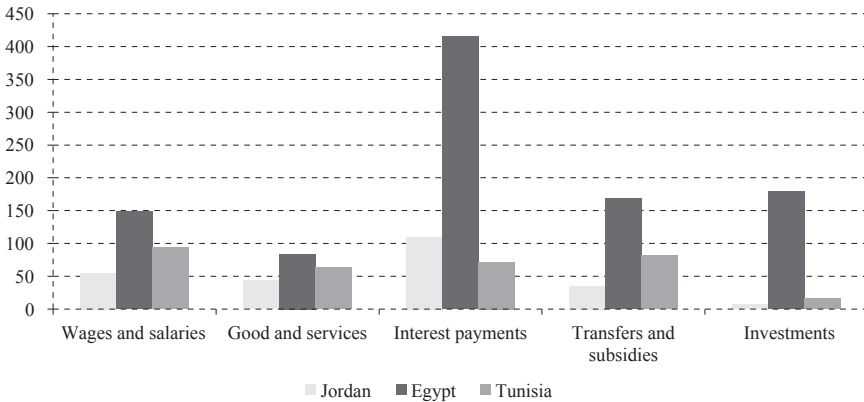
Jordan, Egypt, and Tunisia performance in fiscal democracy index (2010-2017)



Source: authors' calculations.

FIGURE A4

Nominal growth¹⁰ of the components of government spending in Jordan, Egypt, and Tunisia (2010-2017), %



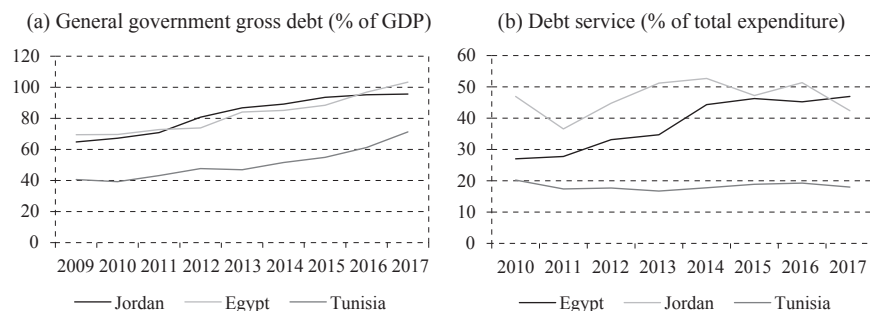
Source: Ministry of Finance, Egypt; Government Budget Department, Jordan; Ministry of Finance Portal, Tunisia.

⁸ The formula for the index is, $[1 - (\text{Mandatory Spending} / \text{revenues})] [100]$; where Mandatory Spending equals spending on wages and salaries, pensions, and interest payments.

⁹ In *Fiscal Democracy Index with subsidies*, subsidies are added as one of the government mandatory spending.

¹⁰ Nominal growth refers to the percentage change in the components of public spending in the ending period (year 2016) compared to the beginning period (year 2010).

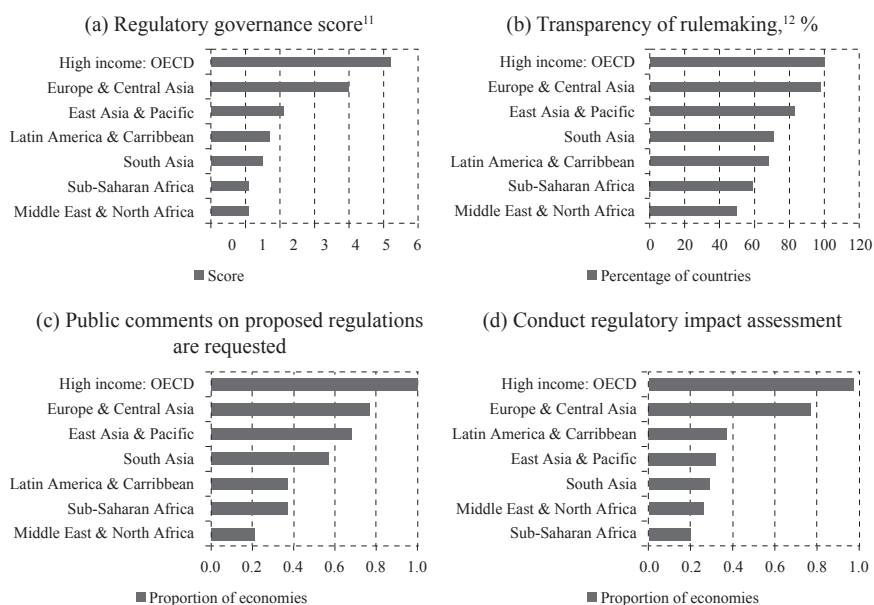
FIGURE A5
Debt trends in Egypt, Jordan and Tunisia (2010-2017)



Source: (a) IMF (2018).

(b) MoF.gov.eg. (2018); Ministry of Finance Portal, Tunisia.

FIGURE A6
RIA indicators by regions

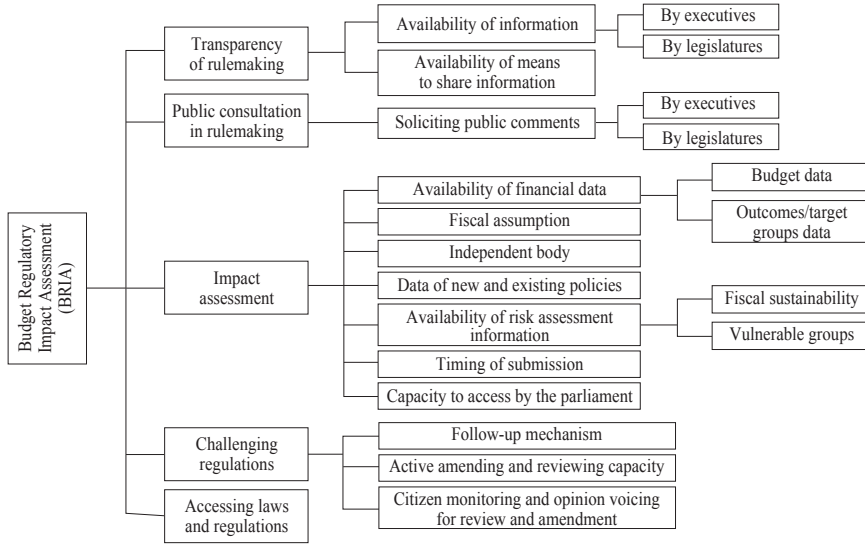


Source: calculated based on Global Indicators of Regulatory Governance, 2016, World Bank.

¹¹ Regulatory Governance Score captures how policymakers interact with stakeholders when shaping regulations affecting business communities. Concerned stakeholders could be professional associations, civic groups or foreign investors. The score ranges from 0 (worst performance) to 5 (best performance) (World Bank, 2018).

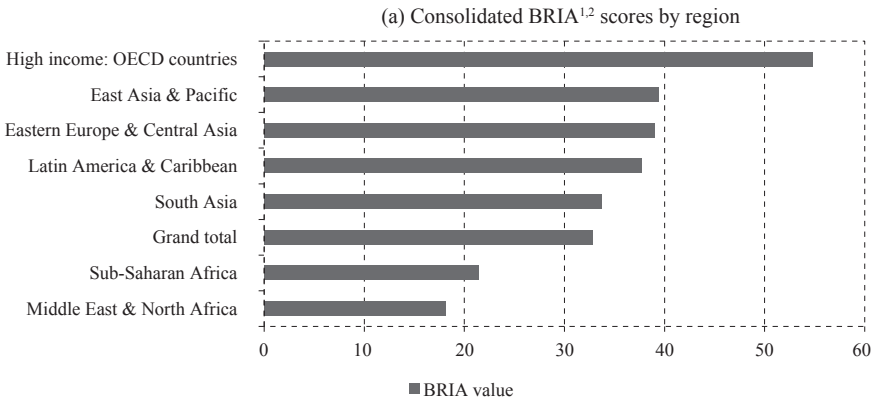
¹² Transparency of rulemaking is one of the sub-indices of the Global Regulatory Governance Index. This sub-index is concerned with whether regulators commonly communicate with the public about proposed regulations, and if so, how. Communication could be through unified websites where all (or substantially all) new regulations are posted before adoption, websites specific to particular ministries, public gazettes, federal journals or targeted outreach to specific stakeholders (World Bank, 2018).

FIGURE A7
Construction of BRIA



Source: authors' analysis.

FIGURE A8
BRIA by region

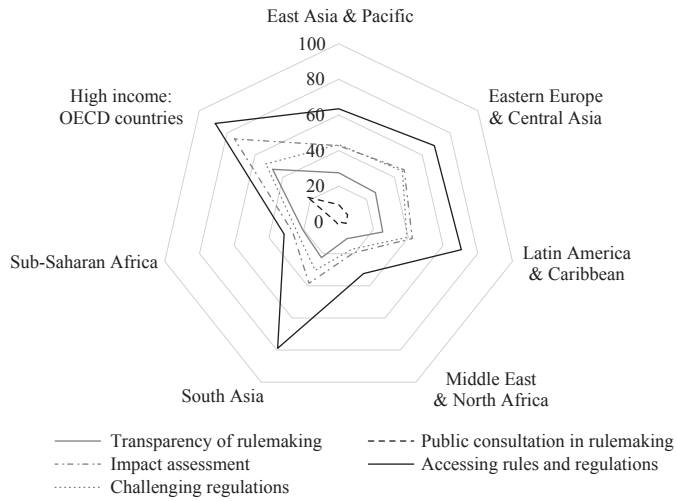


1-Unweighted average was used to aggregate the index-value at the regional level.

2-Reference year 2017.

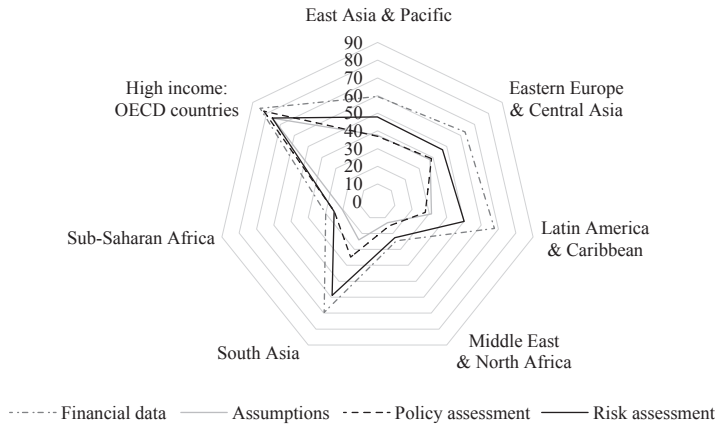
Source: authors' analysis.

(b) Achievements on BRIA dimensions by region



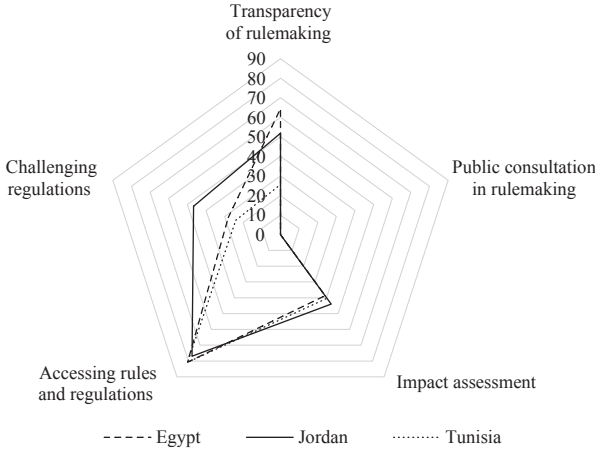
Source: authors' analysis.

FIGURE A9
BRIA: impact assessment attributes by region



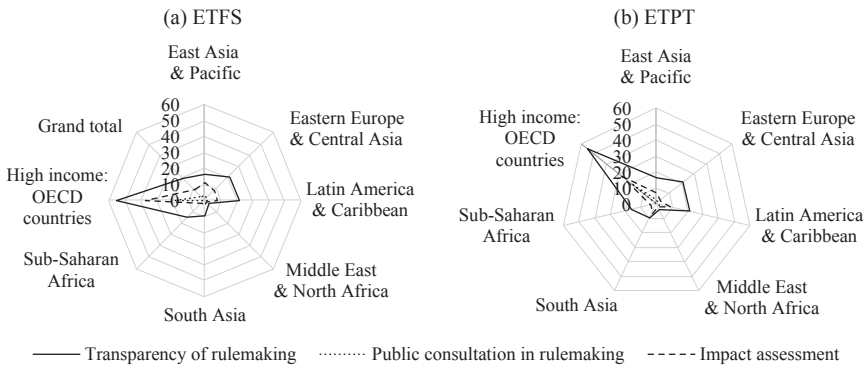
Source: authors' analysis.

FIGURE A10
BRIA score for the case studies



Source: authors' analysis.

FIGURE A11
Effective Transparency of Fiscal Sustainability (ETFS) and Effective Transparency of Policy Targeting (ETPT) sub-dimensions by region

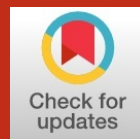


Source: authors' analysis.

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How to prolong labour market participation in the Republic of Croatia?

ANA OSTROVIDOV JAKŠIĆ, mag. oec.*
IVAN JAKŠIĆ, MD*

Review article**

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Ana OSTROVIDOV JAKŠIĆ

Ministry of Labour and Pension System, Ulica grada Vukovara 78, 10000 Zagreb, Croatia

e-mail: anaostrovidov@gmail.com

ORCID: 0000-0002-4794-4936

Ivan JAKŠIĆ

Nuclear medicine specialist, Clinical Hospital Centre "Sestre milosrdnice", Vinogradska cesta 29,

10000 Zagreb, Croatia

e-mail: iv.jaksa@yahoo.com

ORCID: 0000-0001-8776-0560

Abstract

The paper analyses the labour market for older workers from the point of view of prolonging their participation in the labour market in the Republic of Croatia. Due to unfavourable demographic situations, longer life spans and the threats to pension insurance systems, there have been many initiatives, in a number of countries, in the last couple of decades that have the goal of facilitating longer working lives. The current analysis has shown that older workers in the Republic of Croatia, despite their economic activity being lower than that of other countries, do have the additional working capacity that can permit longer labour market participation, without compromising the employment of younger cohorts. It has also shown that the labour market of the Republic of Croatia is not well suited to older age groups and that those with higher education and financial security, those who generally have the most opportunities, have the best chances for longer labour market participation; while the odds are against longer labour market participation for those with lower education, socioeconomic status and health, even if they might sometimes be willing to participate in the labour market,

Keywords: older workers, working life, labour market, Croatia

1 INTRODUCTION

In most of the developed countries, life expectancy is rising, while the demographic picture is increasingly poor, which has a negative effect on economic development, the fiscal sustainability of the social security system, the poverty risk among the old and on the development of the labour market. The numbers of pensioners are ever greater, and the share of the working age population is on the decline, leading to a situation that is sustainable only with difficulty, and hence attention is being directed towards encouraging longer labour market participation for the elderly.

The fall in the share of economically active elderly people started back in the seventies and eighties, when numerous countries endeavoured to resolve problems of unemployment with pensions reforms, which in effect came down to large-scale early retirement (Gruber, Milligan and Wise, 2009), reflecting and implementing the theory that the retirement of older persons would free up jobs for the young.¹ This theory was shown to be fallacious several times over the years,² and quite the opposite was actually proved. In countries that had a higher labour force participation rate of the elderly, youth unemployment was lower (Gruber, Milligan and Wise, 2009; Kalwij, Kaptejn and de Vos, 2009; Eichhorts et al., 2013). Alternately it was found that large scale early retirement could create jobs for a short time, but in the long term it led on the whole to a shortage of labour supply.

¹ The “lump of labour” theory claims that the quantity of jobs is fixed and that older workers can take the place of younger. The theory was first raised in Mayhew’s *London Labour and the London Poor*; 1851; Mayhew claimed that a reduction in the hours of work could reduce unemployment (Munnell and Yanyuan Wu, 2013).

² First of all by David Frederick Schloss in 1891 (for more, see Munnell and Wu, 2013), and in more recent times the most important rebuttal is considered a series of findings for 12 countries in the framework of the National Bureau for Economic Research (NBER), USA (Gruber and Wise, 2010).

Notwithstanding the evidence, even today in many countries the assumption can be found that the longer the old remain in the labour market, the fewer will be the opportunities for the young to be employed, for after all, at the micro-level, the departure of an older worker to retirement will free up a job for which someone new can be taken on (Eurofound, 2012b). The consequences of this approach include the situation in which people today spend a comparatively short time in the labour market, while the lifespan, as a result of better living conditions and medical advances, is ever longer.

The trend towards advocating longer labour market participation began at the beginning of this century. The OECD published its *Live longer, work longer* report in 2006, the EU named 2012 the European year for active ageing and solidarity between generations (Decision no. 940/2011/EU). The main emphasis here was on the specifics of the labour market for the elderly, that is, the huge influence of the pension systems of the countries, which made possible numerous exit routes from the labour market and in this way skewed decisions to remain in the labour force (Blöndal and Scarpetta, 1999).

There has been in most developed countries in the last few decades a marked improvement, with a rise in the labour force participation rate of the elderly (European Commission, 2015), particularly in those above the age of 60 (graph 2). However, in the Republic of Croatia, the share of the economically active elderly is far from keeping up with this rise.

This paper will attempt to provide answers to the question why people in the Republic of Croatia leave the labour market earlier than people in other countries, and what opportunities there are for encouraging longer participation in the labour market.

We envisage the contribution of the paper to be in its estimation of the possibilities of prolonging the working age and in raising awareness of the crucial necessity for changing the trend of early labour market exit in the Republic of Croatia.

This is a broad area of concern that touches on retirement policies, the labour market, social policy, health care, demography, education and labour law. Accordingly, the paper is founded on the structure of elementary, relevant and comparable data accessible in the following databases: Eurostat, the OECD, the Croatian Pension Insurance Institute (HZMO), the Croatian Employment Service (HZZ), the database of Mortality.org, the Croatian Bureau of Statistics (DZS), the Eurobarometer dedicated to active ageing of 2012 (below: Eurobarometer), reports of social security programmes worldwide (ISSA) and data from the *Survey of Health, Ageing and Retirement in Europe* (below, SHARE).

For the purpose of arriving at as good an estimate as possible, these data for the Republic of Croatia will be compared with data from other countries, selected on

the criteria of accessibility of information in the databases and in SHARE research and according to the differences in the level of labour force participation rate of elder groups, the retirement policy, the degree of development of the labour market, the conditions in the labour market, and the educational structure of older workers.

The paper has three parts. Part 1 gives an overview of the labour market for older workers in Croatia and evaluates the possible additional working capacity for a longer labour market participation. Part 2 discusses the specifics of the labour market for older people, the factors that affect the decisions of individuals to stay in the labour market, the rationale of their intervention and effectiveness. It also analyses the capacities of the Republic of Croatia to prolong the working life within the framework of the retirement policy, adjustment of the labour market and the individual characteristics of older workers. The third part identifies groups that are most likely to stay longer in the labour market, with the help of which an estimation is made of the levels of choice that older workers have to stay in the labour market in the Republic of Croatia.

2 THE LABOUR MARKET FOR OLDER WORKING PEOPLE

For some number of years, Croatia has been faced with the increasing problem of a declining population. This is a problem that in combination with emigration (Stubbs and Zrinscak, 2018) and the low level of labour force participation rate has additionally exacerbated the problem of the reduction of the labour supply.

The proportion of the 50 to 64 age group in Croatia was 21.6 per cent in 2017; that of the 65 to 79 age group 14.6, both levels being higher than the EU-28 average. It is estimated that by 2080 in Croatia the old-age dependency ratio will be 58.6 per cent.³ In conjunction with this, Croatia has one of the lowest birth rates, 1.4 per cent in 2016. The life expectancy for women in 2018 was 81.4 years, and for men 75.4, and it is growing, as it is in most countries, as a result of better living conditions and medical advances.⁴

Notwithstanding the improvements of the last few years, the Croatian labour market is characterised by a low labour force participation rate. In 2016, the rate was 65.6 per cent, only that in Italy being lower (64.9 per cent), while the EU-28 average was 73.2 per cent. The employment rate was also at low levels and for the same year came to 56.9 per cent, only that in Greece being lower, at 52 per cent, the EU-28 average being 66.8 per cent.⁵

³ These indicators are the ratio between the projected number of persons above the age of 65 (the age at which on the whole people tend to be economically inactive) and the projected number of persons in the 15 to 64 age group (Eurostat metadata).

⁴ Source: fragment, Eurostat, accessed May 12, 2018.

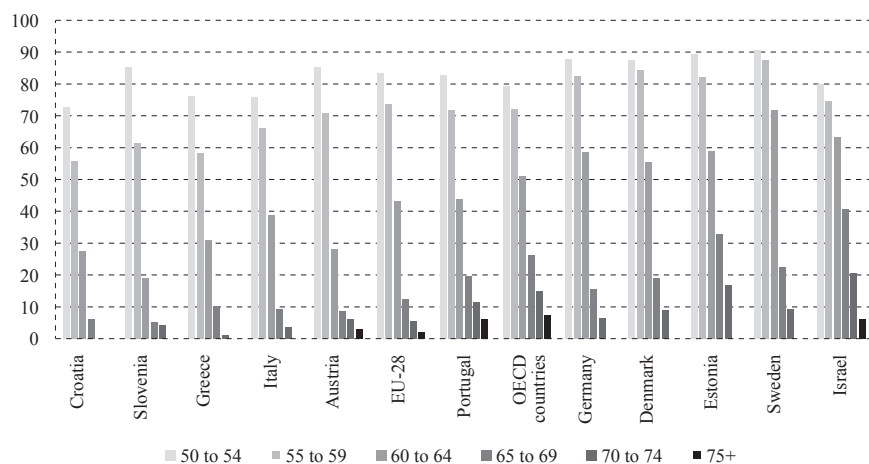
⁵ OECD.Stat accessed May 13, 2018 (Employment rate and Labour force participation rate refers to the 15 to 64 age group).

According to Eurostat estimates, the duration of working life of people in the Republic of Croatia was 32.2 years in 2016, while the EU-28 average was 35.6 years.⁶

If they once become unemployed, on the whole older workers tend to stay unemployed, while some are discouraged. According to OECD, the share of discouraged workers in the 55 to 64 age group in Croatia rose from 2.9 per cent in 2007 to 5.9 per cent in 2013.⁷ Apart from that the ratio of insured persons and beneficiaries is highly unfavourable. This was partially caused by the financial crisis of 2009, as a result of which the number of insureds was reduced, and in 2014 it reached the lowest figure of 1.14:1. After that there was a slight rise, and in 2016 the ratio was 1.17 insureds to 1 dependant.⁸

GRAPH 1

Labour force participation rate by the age groups, 2016



Source: OECD.Stat, accessed May 4, 2018.

In consequence, there is good reason for concern about the sustainability of the system and such a state conduces to the fact that the labour market, i.e. the economy, of Croatia will to a greater extent depend on older working people. Thus, in the report of the European Commission for 2017 (European Commission, 2015:311) Croatia is recognised as a country in which the negative consequences of the ageing of the population are particularly marked, together with the low levels of employed older people.

OECD data of 2016 put Croatia among countries where a short working life is accompanied with low labour force participation rate (graph 1).⁹

⁶ The duration of working life indicator (DWL) measures the number of years a person aged 15 is expected to be active in the labour market throughout his/her life (Eurostat metadata). Eurostat, accessed May 12, 2018.

⁷ Source: OECD.Stat, accessed May 14, 2018.

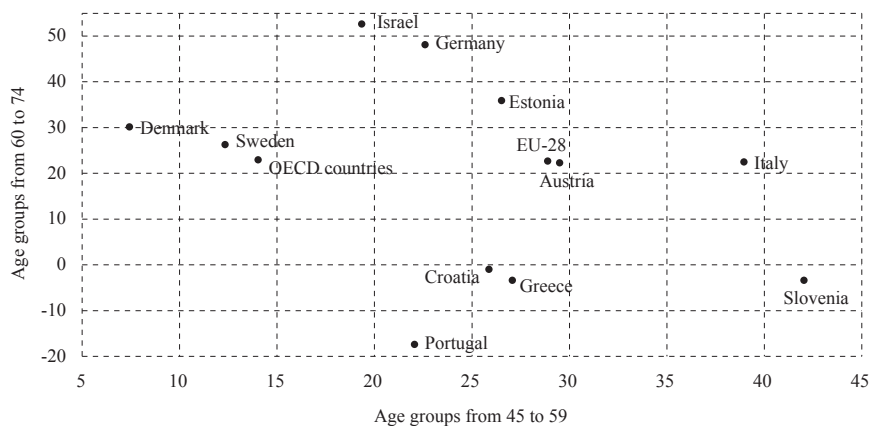
⁸ Source: HMZO.

⁹ Worth mentioning is that the Labour Force Survey, on which the OECD data and Eurostat data are based, do not differentiate those working in the official and in the unofficial economy, all of them are just employed. The same holds true for SHARE research.

In younger age groups (50 to 59) the labour force participation rate is lower in Croatia than in other countries, however, this divergence is less than it is in the above-60 age groups. Of the countries from the comparison, activity level of the younger age groups (up to 59) is similar to that of Greece and Italy, while in the older groups (60+) it is closer to Austria and Slovenia.

GRAPH 2

Changes (increase/reduction) in the number of percentage points in the labour force participation rates from 2002 to 2016 for age groups 45 to 59 and 60 to 74



Source: OECD.Stat, accessed May 13, 2018.

If we look at the trends in the labour force participation rates of the older population in the last fifteen years in the countries of the European Union, we can see that the rates of those who are active has increased considerably. Croatia is to some extent keeping up with this growth in the up to 59 years of age group, but the older age groups have recorded a decline,¹⁰ positioning the country with a small number of others (graph 2). The employment rate in the same period in Croatia trended in a similar way to that of the degree of labour force participation rate.

2.1 IS THERE ANY WORK CAPACITY FOR LONGER LABOUR MARKET PARTICIPATION IN CROATIA?

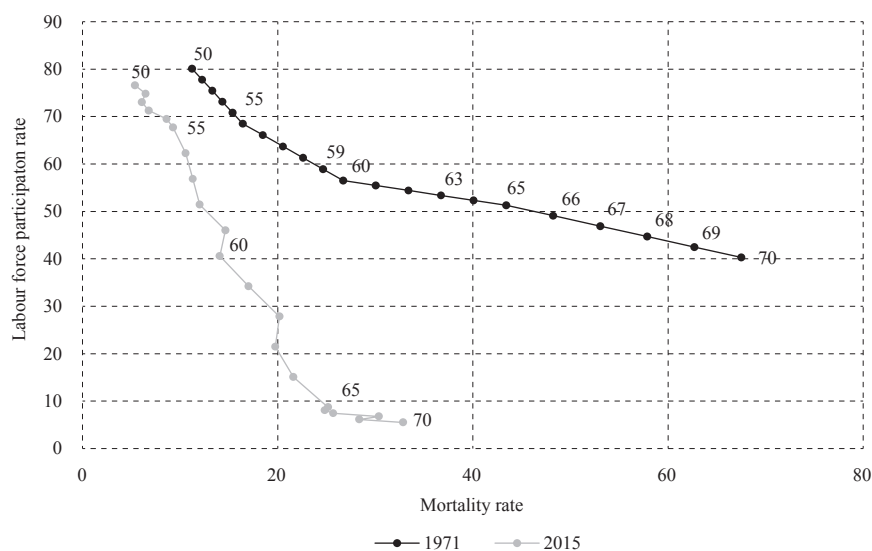
As in most countries, the population of the Republic of Croatia lived on average in the last century much shorter, but participated in labour market longer than is the case today, as can be seen from the graph 3. We shall use the difference in economically active population in 2015 to that of the past, 1971 to be precise, for an estimation of the possible additional work capacity of the population. The calculation will be done only for the male labour force because the display is more realistic, since the activation of the female labour force started in the seventies.

¹⁰ For the 70 to 74 age group there is no recorded labour force participation rate in the Republic of Croatia in 2016, while in 2002 the rate was 6.7%.

This method is implemented according to the paper of Milligan and Wise (2012a),¹¹ done within the NBER project and it is adjusted to the comparable and accessible data for the Republic of Croatia. The method is based on a reduced mortality rate over the years, which is also used as measure of health, that is, a depiction of the better health situation of the population and an increased lifespan.¹² In terms of years of age, we see that in 1971 at the age of 59, 59 per cent of the male population was economically active, and that the level of mortality at the age of 59 in the year 1971 is the same as the level of mortality of the age 65 in the year 2015, the main difference being in the level of economic activity – between 59 per cent and 8.7 per cent. The cumulative sum of that difference in terms of years of age (table 1), gives us additional working capacity of 6 years.

GRAPH 3

Labour force participation rates and mortality rates, men, 1971, 2015



Note: individual rates for most of the data were obtained by a linear interpolation from five-year groups.

Source: Akrap, 2006:136 (after 1971 Census); Statistical Yearbook of Croatia 1971-1989; OECD Stat, Mortality.org, accessed May 20, 2018.

¹¹ The seventh phase of the NBER project *Social Security Programs and Retirement Around the World*, the objective of which is a comparison of the experiences of 12 developed countries concerned with the impact of social contributions on retirement and related issues.

¹² Clearly, mortality is not the same as morbidity, and other measures of health status, which are based on a large number of health indicators (Milligan and Wise, 2012b) and that all the increase in lifespan is not necessarily spent in additional work years (Coile, Milligan and Wise, 2016). However, an integral analysis according to health indicators would assume a much greater and more detailed study focused only on health, which is not the case in the present paper.

TABLE 1

Possible extra work capacity, men in 2015 as against 1971

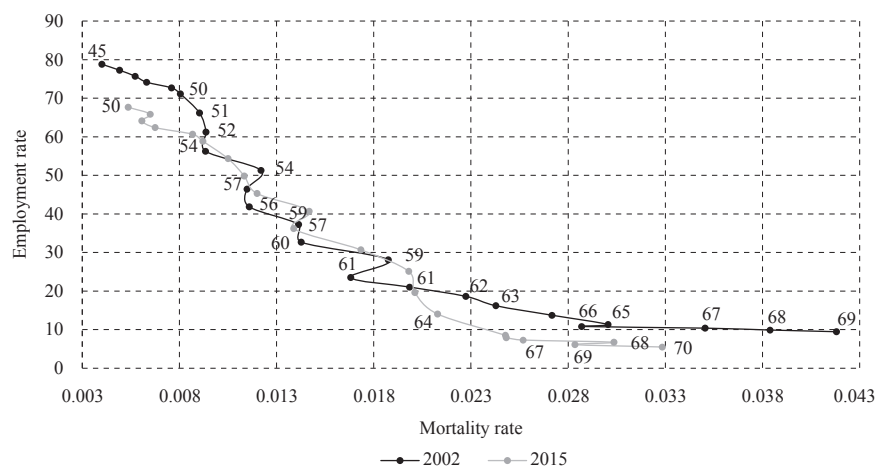
Age	Labour force participation rate 2015	Mortality rate 2015	Difference in labour force participation rates	Cumulative calculation of extra work capacity
55	0.677	0.009	0.145	0.145
56	0.623	0.010	0.196	0.342
57	0.569	0.011	0.228	0.570
58	0.514	0.012	0.268	0.838
59	0.460	0.015	0.262	1.099
60	0.406	0.014	0.335	1.434
61	0.342	0.017	0.333	1.767
62	0.278	0.020	0.368	2.136
63	0.215	0.020	0.417	2.553
64	0.151	0.021	0.477	3.029
65	0.087	0.025	0.502	3.531
66	0.081	0.025	0.504	4.035
67	0.074	0.026	0.500	4.535
68	0.068	0.030	0.485	5.020
69	0.061	0.028	0.497	5.517
70	0.055	0.033	0.491	6.009

Source: as in graph 3, authors' calculation.

A computation of the possible additional working capacity for the more recent period from 2002 to 2015 (graph 4) according to the same principle and according to the original method of calculation, with the employment rate instead of economic activity, gives the result of 10 months of extra working capacity, mainly relating to groups after the age of 62, the degree of employment of which is now lower than it was at the beginning of this century.

GRAPH 4

Employment and mortality rates, men, 2002 and 2015



Note: as for graph 3.

Source: OECD.Stat, Mortality.org, accessed May 20, 2018.

As a result of this it can be concluded that there is in Croatia additional working capacity for longer participation in the labour market. The levels of economic activity and employment have moved with the same intensity, and in both rates, it is clear that the number of people who participate in the labour market in their sixties is in continuous decline.

3 FACTORS THAT AFFECT THE LABOUR MARKET FOR OLDER WORKING PEOPLE

The labour market for older workers is marked by a number of specific features. First of all, there is no age above which someone can be unambiguously defined as old. The features and capacities of people of the same years of age can often vary considerably both physically and mentally depending on their previous experience of life and work, their physical predispositions and many other factors.¹³

In addition, the labour market for older people is much impacted by the pension system, as a result of which there are eight possibilities of work – retirement status (Scherger et al., 2012). People who are younger than the retirement age can be employed and unemployed, recipients of early retirement, with and without paid work. After the retirement age, people can be recipients of pensions, with or without paid work, they may have deferred their retirement and are still at work, while there are also those without the right to a pension, who are either employed or unemployed.

In endeavours to prolong working life, most often used are changes in the pension system. These efforts can be divided into two parts, pre- and post-retirement; before retirement, they would relate to raising the retirement age and flexibilising the age of retirement, i.e. early and deferred retirement. After retirement, they include flexible pensions, in other words, partial retirement, or paid work during retirement. But these institutions, according to the most recent analyses (OECD, 2017) have not sufficiently met expectations, referring here particularly to less-educated groups.

Not only are changes in the retirement insurance system instrumental, but prolonged participation also depends on the level of the adjustment of the labour market to older workers. It is proved that people who stay longer in the labour market are more often self-employed (Hochguertel, 2010; Wahrendorf et al., 2017) and work part-time with a flexible working hours (Johnson and Kawachi, 2007 for the US; Eurofound, 2012 for EU countries; Burtless, 2013). The possibilities of work in flex-time/part time that can be adjusted to the needs of older workers are very important, logically, because the older labour force is a highly heterogeneous group. As a result of this, a more liberal and flexible labour market

¹³ The definition of older workers according to most statistical databases refers to the age of from 55 to 64 (Eurostat, OECD). The WHO makes 45 the dividing point between older and younger (Reischl, 2007). The UN defines people of 60 as older (e.g., United Nations, 2015), and the ILO (ILO, 2013b) defines older people as those of advanced years. An active labour market policy in most countries, including Croatia, defines older persons as those above the age of 50, and according to Eurobarometer, the age of 63.9 years is the average age at which a person is considered old.

offers more opportunities to older workers (Dalen et al., 2006), while a more conservative market will promote early retirement as a way of exiting the labour market in order to resolve the problem of unemployment (Bredgaard and Tros, 2006; Scherger, 2015).

However, prolonged participation, or the decision to take a pension, continue working or working while retired, along with the retirement policy and adaptation of the labour market most depend on individual characteristics, that is, the level of control possessed by the individual. In fact, then, there are two extremes – some that can choose and have complete control, and others, who have no choice (Phillipson and Smith, 2005). Those that can choose and have control in most countries are those who have greater chances to stay longer in the labour market. According to most research, these are better educated people who have not been employed in hard manual labour, and in general people with a better socio-economic status and better health (Komp, Tilburg and Broese van Groenou, 2010; Burtless, 2013; European Commission, 2015; Principi et al., 2015; Wahrendorf et al., 2017). They wish to continue to work to keep up their standard of living, better opportunities in the labour market, social contacts, job satisfaction (Scherger et al., 2012; Scherger 2015), keeping up daily routines and the possibility of working in flex-time/part time (Sewdas et al., 2017). Some (Burtless, 2013; European Commission, 2015; Qi, 2016) locate the cause of increasingly prolonged participation in the labour market in the share of better educated people being in most developed countries higher than before.

On the other hand, it is quite common for people to remain in the labour market because they are forced to out of sheer necessity (Scherger et al., 2012; Principi et al., 2015; Scherger 2015).

3.1 CHANGES IN THE PENSION SYSTEM

3.1.1 BEFORE RETIREMENT

The retirement age is the most standard characteristic of retirement systems (Gal, 2005), and lifting the age of early retirement has proved to be the most effective method for prolonging the working lifetime (Eichhorst et al., 2013; Konle-Seidl, 2017). However, although people today live longer and spend more time retired than before, there is still a great resistance among a large number of people to the idea of raising the retirement age (OECD, 2017).

In Croatia, along with some other countries, most respondents, a full 81 per cent, stated that they do not agree with a raising of the retirement age in the future (Eurobarometer, p. 67); it is worth mentioning that according to the so-called Bismarck-model of retirement insurance, that is in use in Croatia, the initial retirement age was 70 years, with 30 years of contributions, an age that at that time no more than 5 per cent of insureds had a chance of reaching (Puljiz, 2007).

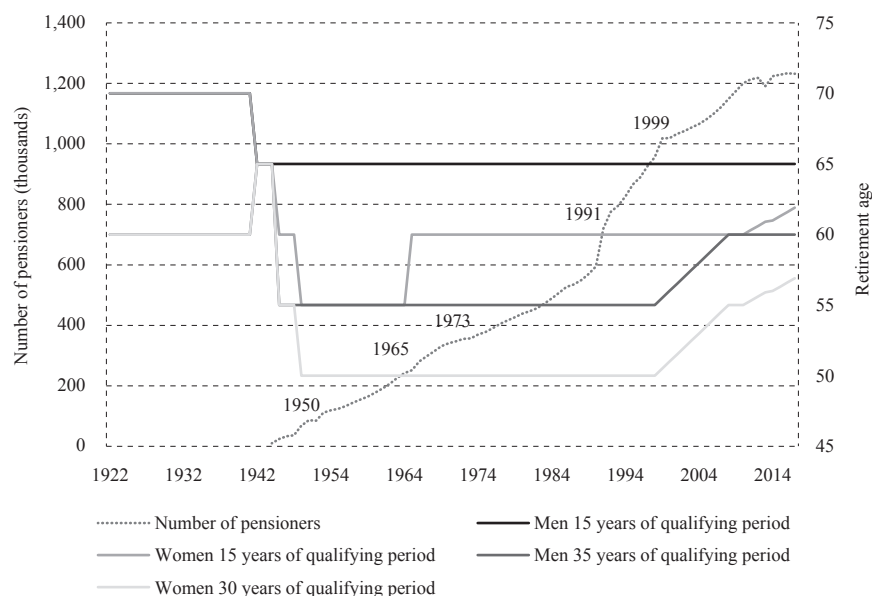
Staying in the labour market can also be encouraged by tightening the conditions for early retirement (such as permanent diminution in the amount of a pension if it is taken earlier), and also for being able to claim a disability pension (Gal, 2005;

Bredgaard and Tros, 2006; Konle-Seidl, 2017). What is more there is increasing stress on the importance of being informed in good time before early retirement, for people often hurry to take their pension and underrate the financial needs of retirement and live in poverty.

In the Republic of Croatia, for more than thirty years, up to 1999, early retirement was used very advantageously, enabling people to retire at the age of 50 (Balokovic, 2011). This was particularly marked in the nineties (graph 5) when the number of retirees grew substantially, as a result of which the ratio of insurance payers to pensioners fell sharply (1980, 3.46:1; 1990, 2.83:1; 1999, 1.38:1, after Puljiz (2007:170) and HZMO statistics). This was the consequence of both war and transition, while at the same time in some countries the activation of older age groups had already started.¹⁴

GRAPH 5

Changes in the retirement age and the number of pensioners in Croatia (including old-age, disability and survivors' pensions)



Note: because of the difference of conditions in retirement, it is hard to draw an exact parallel between the regulations in different periods. The graph approximately shows the years of qualifying periods needed for retirement, but they differ. For example, in the 1947 to 1950 period, for a retirement age of 65 for men and 60 for women, the requirement was 25 years of qualifying periods, and the retirement age of 55 related to qualifying period for full pension, while there were different requirements for hard and very hard jobs. Another example is the 1965 to 1998 period, when with 20 years of qualifying period it was possible to retire at 60 (men) and 55 (women) and so on.

Source: HZMO, 2002; Statistics of HZMO.

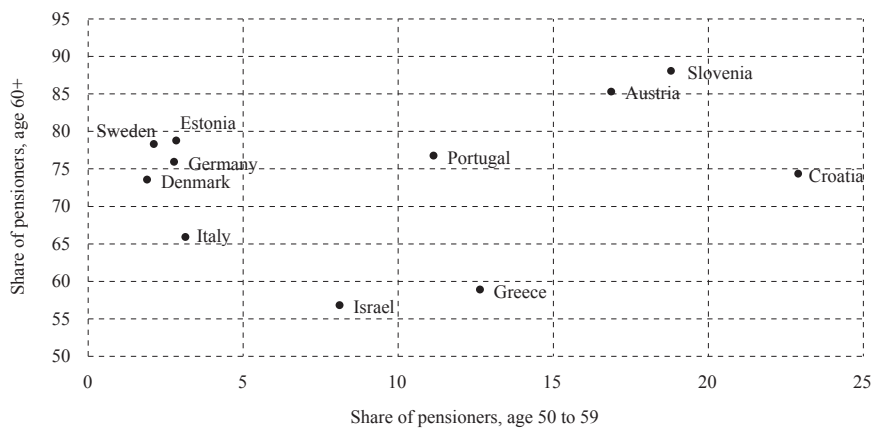
¹⁴ As well as early retirement, it is worth mentioning a large number of other forms of retirement: disability retirement, work injury retirement with the right of placement, in other words, employment (from 1996 to 1998) and other (HZMO, 2002). However, considering the scope of the material, this work will not in detail analyse their influence on the economic activity of the labour force.

The pensions reform of 1999 made the system more rational and tightened up the criteria for retiring and acquiring disability pensions, introduced a tripartite pension insurance system and raised the retirement age over the following 10 years (graph 5).¹⁵

According to Eurostat (the ad-hoc module) in Croatia in 2012 the average age at which a person first received an old-age pension was 57.7, while the EU-28 average was 59.1.

GRAPH 6

Share of pensioners in total number of respondents, in age groups



Note: in 2016 the retirement age in Croatia, for an old age pension was 65 for men and 61.5 for women, and for early retirement 60 (35 years of qualifying periods) for men and 56.6 (31.5 years of qualifying periods) for women. For a comparison, the retirement age in 2016 was in some countries the same as in the Republic of Croatia (65), more specifically, in Austria (60 for women), Denmark and Slovenia; in Estonia, somewhat lower (63) and in others higher: Germany (65, 42), Italy (66, 58 and 65, 58 for women), Portugal (66, 17), Greece (67 and 62 for women), Israel (70 and 68 for women). The age of early retirement was in most countries higher than in the Republic of Croatia: Austria (64 and 59 for women), Germany (63), Italy (63), in Estonia (60) and in Slovenia 59, 33 and 59 for women. Other countries have no early retirement age, or only for specific groups, information is not available, or the pension is awarded at any age if certain qualifying conditions are met; in Sweden, retirement age is flexible (ISSA, 2017a, 2017b).

Source: SHARE research.

In the same year, the share of pensioners in Croatia in the 50 to 69 age group was 47.1 per cent, 55.9 per cent of whom had retired early, while the contemporary equivalent for the EU-28 was 41.5 per cent and 39.1 per cent, respectively.¹⁶ Thus although the raising of the retirement age (graph 5) had increased activity in the up-to-59 age group from the time before the pension reform (graph 2), Croatia still has a high share of rather young pensioners (graph 6). People in Croatia much more, on average, retire early (Rutkowski, 2007) and it is the most frequent

¹⁵ Between 2011 and 2029 the ages for women will become the same as those for men. The third period of enlargement is from 2031 to 2038 for early retirement from 60 to 62 and from 65 to 67 for old age retirement (Pension Insurance Act).

¹⁶ Source: Eurostat, accessed May 14, 2018.

manner in which people get out of the labour market. It has to be said here that many countries have tightened the conditions for early retirement, with Austria particularly standing out in the selected countries; in Israel, early retirement is not possible (OECD, 2017).

Another way in which the retirement age is made more flexible is deferral, which many countries encourage, the main stimulus for deferral being an ultimately higher pension amount (Blöndal and Scarpetta, 1997). In Croatia, this is possible, on certain conditions.¹⁷ However, although for some long time there has been discussion of integrating more powerful incentives for later retirement (Nestić and Rašić Bakarić, 2008), the take-up of this institution in Croatia is very low, as can be seen from the very low proportion of the economically active population above the age of 65. In addition, only 35 per cent of people in Croatia think that people should be enabled to continue working after reaching the age of retirement (the EU-27 average is 61 per cent, Eurobarometer).

Examples of the successful implementation of this institute in the countries in the comparison are Estonia and in particular Portugal, where the annual bonus for deferral is up to 12 per cent and Austria, where the bonus for the first year of deferral is 8 per cent. Just the reverse can be seen in Greece in which up to the age of 67 there is no incentive for deferral (OECD, 2017).

An additional factor before retirement that disincentivizes staying in the labour market in Croatia is the linking of exit from the labour market with the 65th birthday. According to the Labour Act (Article 112, Paragraph 4) and the Civil Servants Act (Article 137, Paragraph 3) an employment contract (a civil service position) will cease when the employee (a civil servant) reaches the age of 65 and has a contributions record of 15 years, unless the employer and the worker (head of the body, the civil servant) come to a different agreement. It has to be said here that as many as 77 per cent of respondents in Croatia think there should be an age at which people must retire (Eurobarometer), while in the EU-27, 53 per cent have the opposite opinion.

In connection with this, in the Act on Employment Mediation and Unemployment Rights, in Article 17, it says, among other things, that a person will no longer be kept in the records after he or she turns 65 years of age. The same Act also prescribes the right to a longer compensation for unemployed older persons, that is, people who have five years to go to meet the conditions to be able to claim an old age pension, if they have spent more than 32 years working. This form of prolonged benefit for older unemployed persons has a negative impact on the participation of older people in the labour market (Blöndal and Scarpetta, 1999; Eichhorst et al., 2013).

¹⁷ According to the Pension Insurance Act, Article 85, in the case of an insured who is granted pension for the first time after the age of 65, and has 35 years of qualifying periods, shall be determined by increasing the initial factor by 0.15% a month for each month once the insured has reached the age required for obtaining the right to old-age pension, and for no longer than five years.

3.1.2 AFTER RETIREMENT

In the last few years there has been increasing advocacy of partial retirement (Eurofound, 2012b)¹⁸ as a flexible compromise between work and retirement that will keep older workers in the labour market (OECD, 2017). Partial retirement implies the possibility of paid work after retirement in conjunction with receipt of a pension or part of a pension. The hours of work are reduced, and the retiree is gradually accustomed to the new life in retirement, and can also transfer knowledge and experience to the young.¹⁹

Although today the systems of most countries permit the use of this institution and two thirds of respondents to polls like the possibility of working and receiving a pension (Eurobarometer), in Europe only about 10 per cent of people in the 60 to 69 age group do in fact combine work and retirement (OECD, 2017). There are several reasons for this weak implementation. In the first place, the institutional organisation of the ever more present work after retirement in many countries has not been completely elaborated and harmonised. For this reason, it may happen that pensioners who work do not have the same rights as other workers (minimum wage, unemployment insurance, sickness benefit) and that the contributions for this kind of work are the same as they are for workers who are not retired (Eurofound, 2012b). In addition, many countries prescribe the possibility of work after retirement, but not with the same employer (Heywood and Siebert, 2009) while in some countries one of the biggest obstacles is the general level of acceptance of part-time work (OECD, 2017).

According to HZMO (2002) work after being pensioned was possible in Croatia back in 1964, for claimants of old age pensions who had qualified by a qualifying period of 40 years (for men) and 35 years (for women).

In 2014, the possibility of being partially retired was introduced in Croatia, working up to half a working week with the retention of the right to the payment of a pension and the possibility of claiming the re-calculation of a pension (after at least an additional year of insurance contributions).

In more detail, partial retirement is permitted for claimants of old age pensions who continue to work up to the limit of half a working week with a changed

¹⁸ Phased retirement, if work is done with the same employer, or partial retirement, if the employer is changed (Kantarci and Soest, 2008).

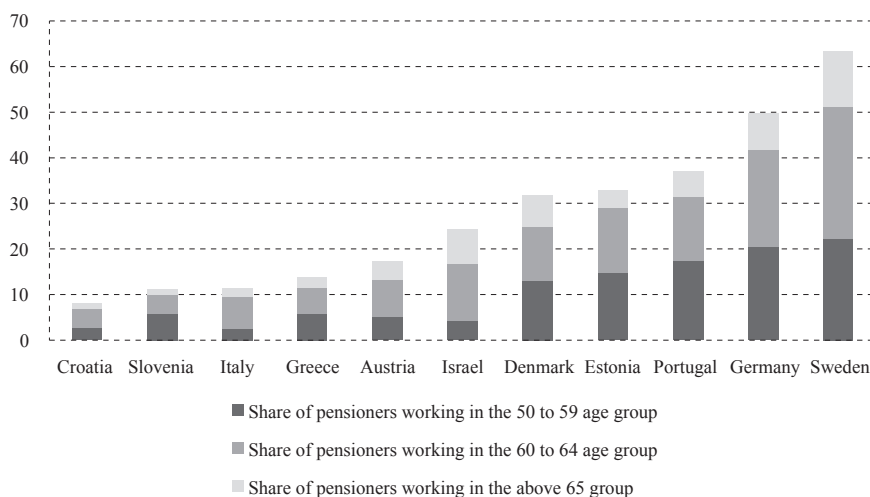
¹⁹ Work after retirement was once common. The retirement insurance system of the 19th century in Germany was not meant to replace earned income entirely, but only to supplement it, since it was assumed that earnings with age and infirmity would be lower, and pensions recipients often went on working. This was changed after WWII with a greater amount of retirement benefit (Scherger, 2015). E.g. countries with centralised economies had very low retirement ages, and pensioners were permitted to work if they wanted, without any curtailment of their pensions. In the USSR more than a half of all pensioners worked and also received their pensions up to a certain amount. The situation changed with the move to a market economy and with the increase of the numbers unemployed, when the policy of early retirement began to be used to free-up jobs (Samorodov, 1999). In Georgia, for example, 88 per cent of workers/retirees work as self-employed persons. Work during retirement is permitted, with no curtailment of the pension, with the exception of state and public employees, but including retirees working in the public sector in science and education (ILO, 2013a:76).

employment contract, people on disability pensions because of occupationally derived incapacity to work or because of partial loss of work capacity, beneficiaries who carry out seasonal jobs in agriculture according to regulations concerning employment incentives and beneficiaries who have second incomes, or carry out some second activity.

Excluded are pensioners who take on jobs or start to carry out some activity pursuant to which the status of insured person can be acquired.²⁰ For employed pensioners, all contributions are paid, as for other employees.²¹ It has to be said that pensioners who have some second income were from 2009 exempted from the calculation and payment of contributions on receipts from which the second income was determined, but this was rescinded in early 2017.²²

GRAPH 7

Shares of people stating that they are pensioners and yet still worked in the private or public sector or were self-employed, by age groups



Source: SHARE research.

In consequence, although as many as 54 per cent of respondents in Croatia find the idea of working part time in conjunction with a pension acceptable (Eurobarometer), and although at the risk of poverty rate for pensioners is one of the highest

²⁰ The activity of a tradesperson, sole trader, freelancers (such as lawyers) and that, to be able to carry out this activity or profession have to be enrolled in the appropriate register (trades register, court register, professional register and so on).

²¹ However, in the event of any temporary incapacity for work, they have no right to salary compensation charged to health insurance, rather it is charged to the employer (Article 50 of the Mandatory Health Insurance Act) and they are not exempt from the payment of the employment contribution at a rate of 1.7 per cent (Article 16 of the Contributions Act), while at the same time they are not considered unemployed persons (Article 10 of the Act on Employment Mediation and Unemployment Rights).

²² When the Contributions Act was changed (OG 115/16) the total rate of contributions for retirement insurance was made 10 per cent (for insureds in the first pillar), or 7.5 and 2.5 per cent for insureds of the 1st and 2nd pillars, and the contribution for mandatory health insurance is 7.5 per cent.

in Europe, coming to 21.8 per cent,²³ this institution has never been widely applied, only for a few people, as we can see in graph 7, and in the decline in the labour force participation rate of older people since 2002 (graph 2).

In the countries in the sample, this institution has been employed to a great extent only in Sweden, which has a very flexible work-and-pension system and has no restrictions on earnings, just like Estonia and Portugal, while for example Denmark, Israel and Greece all restrict earnings during retirement. In the last two years the greatest growth in 65-plus workers has been in Slovenia and Austria (OECD, 2017).

3.2 AN OLDER-WORKER-FRIENDLY LABOUR MARKET

Part time work and self-employment are characteristics of a flexible labour market. Labour market flexibility can be divided into four kinds (Atkinson, 1984) but in this context we shall mention just two that are the most important for older workers, that characterise these two important forms of work and employment. These are the internal-numerical, which enables the adjustment of working conditions to the amount of jobs through flexible working time and the external-numerical, which is reflected in the framework of labour law that makes the hiring and firing of workers easier.²⁴

Internal numerical flexibility is characterised primarily by part-time work, which is very important for older workers, for it is adjusted to their needs and capacities. Because of this, this form of work is widespread among older workers, which is for many a more acceptable approach than full retirement (Ghoseh, Lee and McCann, 2006), for people are not thus forced to choose between full time work and full retirement. In this way many countries have increased the share of employed older workers (ILO, 2013a; Eurofound, 2016) and according to some (Social Protection Committee, 2007) the growth of employment among the elderly happened as a result of the growing trend of part-time work.

Part time work has never been widely applied in the Republic of Croatia, so that the share of people who work in this way is very low (for the 15 to 64 age group, 4.8 per cent, in 2017, while the EU-28 average is 19.4 per cent), which distinguishes Croatia from most countries in the EU (Eurofound, 2016).²⁵ All of this also refers to the labour market for older workers (graph 8), the difference being that for older workers the level of this kind of flexibility is extremely essential.

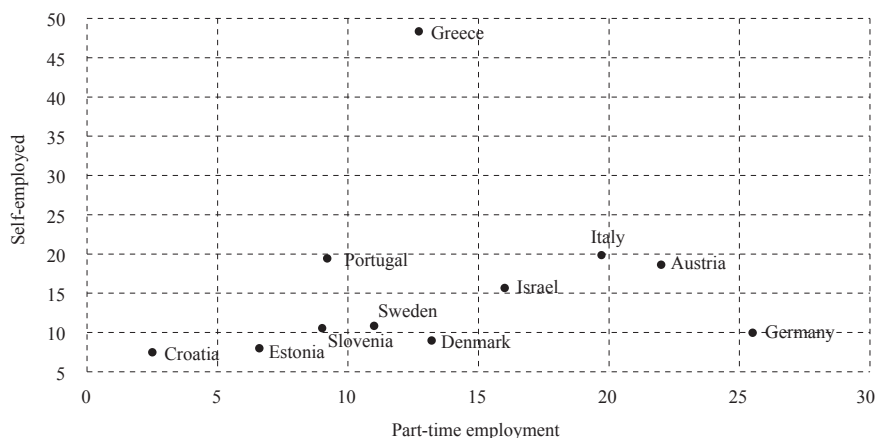
²³ The share of pensioners with an equalised disposable income below the at-risk-of-poverty threshold. Eurostat metadata, accessed April 20, 2018.

²⁴ Two other are: functional and financial flexibility.

²⁵ Other indicators of this flexibility, like the share of people who work nights or weekends and so on (European Commission, 2013:72) are also low for Croatia. Source: Eurostat, accessed May 14, 2018.

GRAPH 8

The share of self-employed and part-time employed in the 55 to 64 age group in 2015



Source: SHARE research and OECD.Stat, accessed April 22, 2018.

External numerical flexibility in this context²⁶ is characterised by a share of the self-employed (European Commission, 2013:72). This form of employment offers more flexibility in both directions, internal and external, that is, such people have greater freedom of choice about taking part in the labour market and the possibility of working with flexible timetables.

The share of older self-employed people in Croatia is very low, to which one has to add that the percentage of self-employed women from the mentioned data for Croatia is the lowest among all countries in the comparison.²⁷

Therefore, the two main forms of work and employment for older persons in Croatia are used very little, from which it derives that the labour market is not older-worker-friendly.

²⁶ Very important indicators of this kind of flexibility are the indices of employment protection legislation (employment protection for regular contracts, including collective lay-offs and employment protection for temporary contracts). Indices that are exaggeratedly high, that is, with exaggerated statutory protection for the employment of older workers, which many countries use as tools in their anti-discrimination policies, can reduce their chances of being employed (Heywood and Siebert, 2009) and is linked with a low level of self-employment (Christelis and Fonseca, 2015).

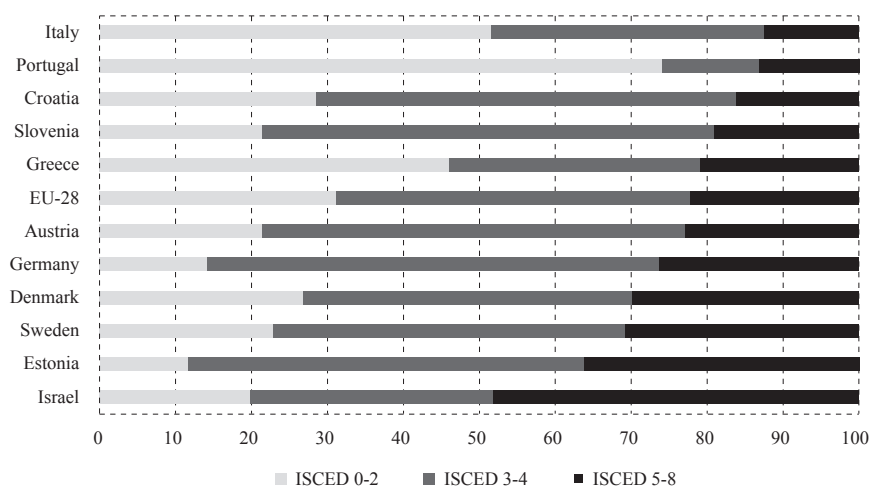
²⁷ In actual fact, the percentage of self-employed in Croatia for those older than 15 years is even a little higher than the EU-28 average (16.1 per cent as against 15.6 per cent for 2014, European Commission, 2015:385). There are several explanations for the lower percentage of older self-employed persons. According to the report of the European Commission (2015:49), in the new member states, which are marked by a background of the former centrally planned economies with the emphasis on dependence and conformism, the older generations show some resistance to the key characteristics of self-employment and enterprise, such as self-confidence and individualism. According to Botrić and Tomić (2016), in Croatia the older turn to self-employment out of necessity, not as an opportunity, and during the time of the Crisis, the percentage of older self-employed fell, which confirms the fact that the older workers often used early retirement as a way out of the labour market. Apart from that, according to Botrić (2012), in parts of Croatia where more people are employed in the public sector, there is a lower percentage of self-employment. In other words, work in the public sector is a safer way of being employed, and in Croatia (according to SHARE data) people from the up-to-64 group are much more employed in the public sector than they are in other countries, which is particularly brought out by the shares of men in the up-to-59 group and women older than 60. However, for any establishment of a wider spectrum of influences, or causes of the low percentage of self-employed older people in Croatia, a more extensive and detailed analysis would be required.

3.3 INDIVIDUAL CHARACTERISTICS – THE EMPLOYABILITY OF OLDER WORKERS

One of the main explanations for the increasing participation of older people in the labour market, along with the widespread availability of part-time work, is the fact that there is an even greater proportion of better educated older workers, that is, of those who have greater chance of staying in the labour market longer. We can use this fact to explain, for example, the prolonged participation in the labour market in Estonia, and the shorter in Italy and Slovenia (graph 9, graph 1), as well as the fact that those who are highly educated are more often employed in these countries (OECD, 2017). Croatia has a small percentage of people with tertiary qualifications, a somewhat higher percentage of people with elementary education, and the biggest group consists of those with secondary education, which will also partially go to explain the low labour market participation of older workers. However, although the better educated have the greatest chances of staying on in the labour market, in some countries even those who are more poorly educated have bigger chances of continued employment. In Denmark, for instance, in the period from 2002 to 2016 employment rate for lower educated older people, of whom Denmark has quite a lot (graph 9), rose the most (European Commission, 2015). Apart from that, a large percentage of this group is also employed in Sweden (over 60 per cent of the 55 to 64 age group), which is also evidence of a well-functioning labour market for older people, which provides greater chances of work for everyone (European Commission, 2015). Here one should also mention Portugal, which, in spite of the old labour force having a very unpropitious educational structure, nevertheless has a higher labour force participation rate of older people than the EU-28 average (graph 1).

GRAPH 9

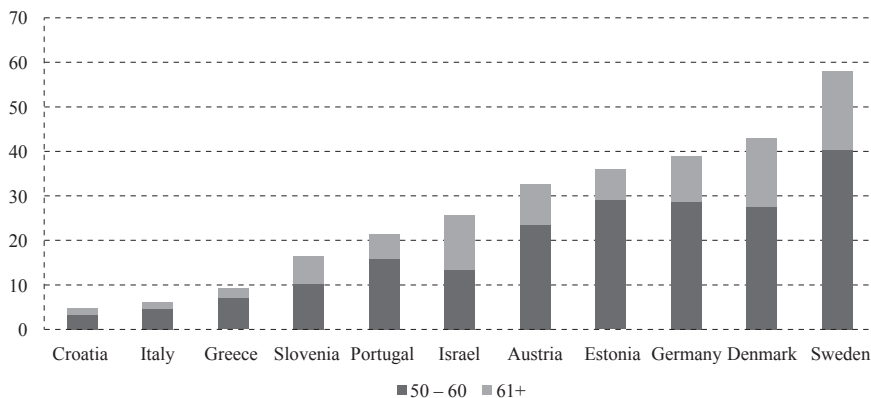
Population structures in % of 55 to 64 age group according to educational levels, 2016



Source: Eurostat and OECD.Stat, accessed April 12, 2018.

GRAPH 10

Participation in LLL of the age groups from 50 to 60 and from 61 on



Note: figures relate to the share of respondents who stated that 12 months before the poll they attended an educational course or training event (the share of people who did not reply to this question is not covered by the percentage).

Source: SHARE research.

An important role in the prolongation of working life is participation in lifelong learning (Mayhew and Rijkers, 2004; Dalen et al., 2006), and it has been ascertained that people in countries where longer participation in the labour market is more common also have a greater share of participation in lifelong learning (European Commission, 2015:309). Continued education increases employability and provides better chances, and assumes the interest of individual or employer in investing in human potentials and, accordingly, a longer stay or retention of workers in the labour market. For the unemployed it is mainly in the scope of active labour market policies (ALMP). The lifelong-learning participation rate is on the whole a good fit with the educational structure (graph 10). Israel, Denmark, Sweden and Estonia have the highest percentages of highly educated and the highest percentage of participation in lifelong learning. An exception from this is Israel, with a somewhat lower participation in lifelong learning.

The lifelong learning involvement rate in Croatia is extremely low for the 25 to 64 age group as well (in 2017, only 2.3 per cent claimed that in the last four weeks before the poll they had taken part in education or training, which was one of the lowest results in Europe²⁸). The SHARE rate for the above-50s is even lower (graph 10). In other words, the culture of investment in human capital and work on careers, particularly for those in the group of older people, is at a very low level.

Furthermore, a well-adapted ALMP can increase the employability of older people and provide opportunities for them to work. In this context, relief from taxes and other incentives has shown to be most effective (European Commission,

²⁸ Source: Eurostat, accessed May 15, 2018.

2015), because the only criterion is the age of the person, while a record in employment bureaus is not a condition, which is otherwise the usual precondition for participation in ALMP measures.²⁹ However, in the Republic of Croatia, the ALMP for those over 50 is aimed only at those who are registered in the employment service. In principle, they can take part in almost all kinds of measure, except in programmes designed only for the young. The percentage of newly involved active labour market measure users in the age of from 50 to 54 in Croatia ranged around 10 in 2012 to 13.1 in 2016; at the same time the unemployment rate of people above the age of 50 ranged from 16 per cent in 2012 to 18.4 per cent in 2016.³⁰ Of the countries in the comparison, Denmark, Sweden and Austria in general invest more in ALMP measures, Greece less. The Republic of Croatia is positioned in the middle (0.4 per cent)³¹, but this investment is mostly directed to the young, who have in the last few years been in the focus of the ALMP.

4 WHAT LEVEL OF CHOICE IS THERE ABOUT LONGER PARTICIPATION IN THE LABOUR MARKET IN THE REPUBLIC OF CROATIA?

A decision to continue participation in the labour market depends most of all on the control that an individual has, the greatest chances belonging to those who can choose, those who are better educated, healthier and generally have a higher socio-economic status. Conversely, the lowest chances of staying in the labour market is enjoyed by those who work because their financial situation is poor, with the level of choice, or the possibility of remaining in the market, also depend on all the factors that impact the older workers labour market. In the Republic of Croatia, for 59 per cent of people in the 50 to 69 age group, the main reason for remaining in the labour market was insufficient earnings (Eurostat, 2012, ad-hoc module). Hence, of the few people who do remain in the labour market, most of them do so out of financial necessity.

In order to identify what the possibilities for staying in the labour market in the Republic of Croatia are, a logistic regression model was constructed with employment set as the dependent variable. According to the previously stated basic characteristics the model tells us who in Croatia has the great chance of remaining in employment, and to what extent.

The model was constructed according to data from SHARE, a multi-disciplinary and international panel research that collected microdata in biennial waves of

²⁹ For example, in Austria up to 2012 firms paid 12.45 percentage points lower contributions for workers older than 60 (Eichhorst et al., 2013). In Spain social contributions were paid only in the amount of 50 per cent for the employment of workers over 60, and fell by 10 per cent until the worker had turned 65 (Eurofound, 2012a), while on Cyprus, as a result of the shortages of labour in some deficit occupations it was made possible for workers over 65 not to pay any contribution (Fortuny, Nesporova and Popova, 2003). Some authors have even proposed the founding of an agency for the employment of older workers, with lower contributions, part time, something like a student employment service (Ograjanšek et al., 2008).

³⁰ Data in greater details are not available. Source: Annual Reports of HZZ, OECD, accessed May 15, 2018.

³¹ Public expenditure on ALMP as a percentage of GDP (category of interventions 1-7) for 2015. Source: OECD.Stat, Eurostat.

research, interviewing those aged 50 and over in 27 European countries and in Israel.³²

This paper makes use of data from the 6th wave of the research: the 6.0.0. version (Börsch-Supan, 2018), the specific data from this wave being accessible in Malter and Börsch-Supan (2017). Data were collected through field research with the CAPI method on a random sample; in total, 2,494 interviews were assembled from respondents aged 50 and above and their partners throughout Croatia. The methodological details of the actual research are available in Börsch-Supan et al. (2013), the specific schema of metadata of the 6th wave in Börsch-Supan (2018) and the response rate in Bergmann et al. (2017).

TABLE 2
Summary of statistics

	Age group	50-60	61+
		N=882	N=1,560
		%	
Employed	Yes	43.8	5.3
	No	56.2	94.7
Gender	Male	41.3	46.5
	Female	58.7	53.5
Educational level ISCED2011	0 – 2	49.4	64.2
	3 – 4	35.6	19.4
	5 – 8	15.0	16.4
Self-assessed health	Worse than very good	64.0	81.5
	Very good or excellent	36.1	18.5
Self-assessed household financial situation	With financial difficulties	75.5	72.1
	Without financial difficulties	24.5	27.9

Source: SHARE data base, 6.0.0 version, authors' calculation.

The choice of control variables (gender, educational level, self-assessed health and self-assessed financial situation) came on the back of the findings earlier mentioned, that is, conclusions that those who have the choice according to these characteristics will stay longer in the labour market. The model was estimated for two age groups: the 50 to 60 and the 61 and above, because of the already established different levels of labour force participation rates (graph 1, graph 2). This division additionally cut the sizes of the samples as a result of which the number of categories of most of the variables was reduced. Thus, the categories of the dependent variable, employment, was reduced from the original six to just two: 1 – employed, self-employed, including work in the family business or trade, and 0 – retired, unemployed, permanently sick or disabled, homemaker and other. In the variable “self-assessed household financial situation”, or the variable that answers the question “Taking into

³² The SHARE database is primarily financed by the European Commission through FP5 (QLK6-CT-2001-00360), FP6 (SHARE-I3:RII-CT-2006-062193, COMPARE:CIT5-CT-2005-028857, SHARELIFE:CIT4-CT-2006-028812) and FP7 (SHARE-PREP:N°211909, SHARE-LEAP:N°227822, SHARE M4: N°261982). For details, see www.share-project.org.

consideration its total monthly, would you say that your household makes ends meet?”, it was possible to answer: “With great difficulty”, “With a certain amount of difficulty”, “Fairly easily” and “Easily”, which for the purposes of the model were subsumed into two categories: with financial difficulties, which covered the first two categories, and without financial difficulties, which covered the second two. Then, the education variable was reduced from the 9 according to the levels of the International Standard Classification of Education (ISCED, 2011) to the following three, which by degrees encompass the original nine: lower level of education (0-2), secondary education (3-4), higher level education (5-8).

The results of the model show us the odds ratio (OR) that a person is employed in as against the reference categories shown in parentheses. Thus, for example, in the age of 50 to 60 for persons of educational levels ISCED 5-8 there is a greater probability of being employed (OR 4.26) than persons of educational level ISCED 0-2, while this ratio in the 61+ group is even greater (OR 5.21).

In short, according to the results, in the Republic of Croatia in both of the age groups observed, but more pronouncedly in the older (61+) group, the following have greater chances for remaining in employment:

- men,
- those with better self-assessed health,
- those with higher education, and
- those who live in households that they consider to have no major financial difficulties.

TABLE 3

Results of model of logistic regression on employment (1=yes, 0=no)

	50-60		61+	
	N=559		N=1,007	
	Odds ratio	Standard error	Odds ratio	Standard error
Gender				
(Men)	0.61**	0.12	0.41**	0.14
Women				
Self-assessed health				
(Worse than very good)	2.28***	0.46	2.42**	0.81
Very good, excellent				
Education				
(ISCED 0-2)	2.58***	0.53	(2.2)	0.93
ISCED 3-4	4.26***	1.26	5.21***	2.07
ISCED 5-8				
Self-assessed household financial situation				
(With financial difficulties)	1.87**	0.42	1.92*	0.63
Without financial difficulties				
R2	0.13		0.16	

Notes: 95% confidence intervals (CI); *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

Source: SHARE data, version 6.0.0, authors' calculation in Stata 14.2.

Therefore, of the two basic groups of elderly people who remain in the labour market longer, that is of those who have the choice and those that do not, in Croatia a much greater probability of staying in employment is enjoyed by those that have the choice and the possibility, and there are very few of them, which explains the very low labour force participation rate of older people.

We can also establish that for people who are not in the groups described (i.e. those who are poorly educated, have low socio-economic status and are of poor health) opportunities to remain in the labour market are very low and they are in a very unfavourable position. Even though they may not wish to leave the labour market because additional earnings are necessary, they do not have the possibilities required to remain, in essence, they have no choice.

5 CONCLUSION

Initiatives for prolonging active working life often attract negative reactions. In Croatia there are many people who are against this prolongation, for they want to enjoy the pension to which they have become entitled as soon as possible, and there are only few who want to participate in the labour market any longer. Apart from that, there are many people who have spent their working lives in physically demanding occupations and those who, because of physical predispositions or care for their loved ones are not able to work any longer, while it can be assumed that for many, staying longer in the labour market is necessary for purely financial reasons. On the other hand, there are some who want and can work longer, a group whose health statuses were not negatively affected by the job they did, and perhaps have more chances for staying in the labour market, which is also not a rule. There can be no precise rule, for the older labour force is a particularly heterogeneous group and it is very unrewarding to draw unambiguous and universally applicable conclusions. In the Republic of Croatia those who have poorer education, health and finances have very few possibilities, that is, chances, of staying longer in the labour market.

The possibility of choosing to stay longer in the labour market is very essential, that is, the minimalization of the undesirable situation in which people who perhaps would like to prolong their working life are bound to abandon it and possibly to live in poverty.

In the Republic of Croatia, the chances of staying longer in the labour market are much greater for those who are highly educated and have a better material status, those that have the most opportunities, and there are very few of them, with the rider of course that in this group there are also some who do not wish to continue working.

Those who remain longer in the labour market in Croatia do so mainly out of financial needs, and the level of poverty of pensioners tells us that the number of those who need their incomes topping up is large, and we know that there will be more of them in the future. The role of all aforementioned factors that affect the labour market for older people, is to increase the possibilities such people have for work, as we have seen in the examples of Denmark and Portugal.

In Croatia people leave the labour market quite early, but certain endeavours for prolonging the working life have been taken. Although a greater proportion of people opt to leave the labour market earlier (taking early retirement), raising the retirement age increased the labour force participation rate of the below-60s.

The legal framework disincentivizes longer stay in the labour market, linking it with 65 years, while institutions of phased or deferred retirement have not been widely applied. An active labour market policy has not been sufficiently adjusted to the needs of the labour market for older persons, the level of participation of the elderly in lifelong learning is very low, and the small share of highly educated older people partially explains to us the low labour force participation rate of the elderly.

Because of the heterogeneity of the group, the most important factor in adjusting the labour market to older people has been identified as working time flexibility. The adaptation of hours of work to individual needs is the main reason why in the world older workers are very often self-employed and work part-time. The labour market for older people in the Republic of Croatia diverges most from other countries in the very small share of people working part time, and the very low share of older self-employed persons, from which we can conclude that the labour market is not older-worker friendly.

All the countries from the comparison, to a larger or smaller extent, have a higher labour force participation rate than Croatia, although the educational structure, the conditions of the labour market for older people and the institutional conditions markedly differ, which proves that there is no universal model for prolongation of staying in the labour market.

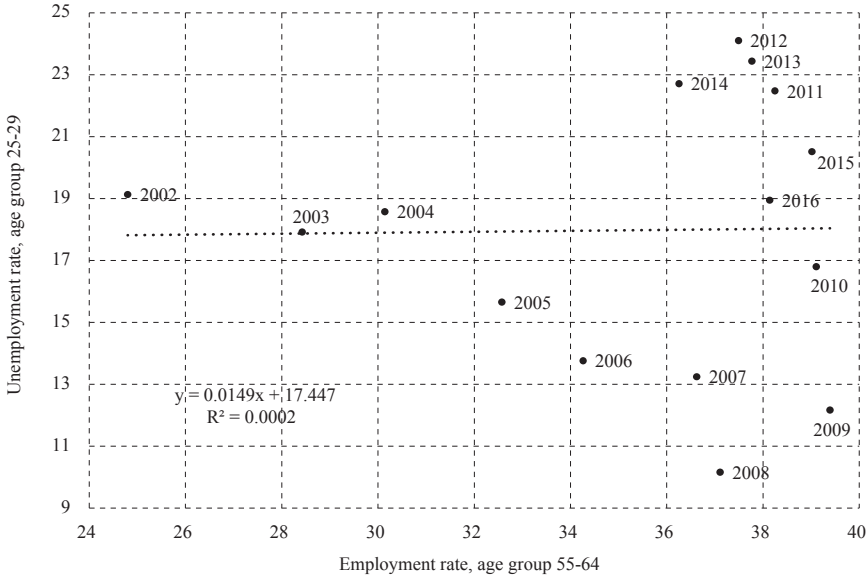
A greater labour force participation rate contributes to greater economic growth and tax revenues, which is particularly important for countries with an adverse demographic picture and a large number of relatively young retirees. In the Republic of Croatia, the demographic picture gives cause for deep concern. The size of the labour force is diminishing, people are living longer, and leaving the labour market ever earlier. In the calculation we have ascertained that additional working capacity does exist, and the perception of older workers taking jobs away from younger can be refuted by a simple linear regression (appendix, graph A1). Hence, with respect to the undoubted need for prolongation of the working life and the fact that the economic situation is improving, there is an ideal opportunity for additional attempts to prolong working life. Primarily, the labour market should be adjusted to the needs of older workers according to those criteria that have been shown to work. If high quality possibilities of choice are provided, there will certainly be those who will soon accept and make use of them, and their example can then contribute to raising the awareness and changing the trends of a deeply rooted culture of early departure from the labour market.

Disclosure statement

No potential conflict of interest was reported by the authors.

GRAPH A1

Simple linear regression of trends in the rate of unemployed young in the 25 to 29 age group and of employed older workers from 55 to 64, from 2002 to 2016



Note: there is no relationship between the two, even if for the same period we consider unemployment rate of other younger age groups, for example, from 20 to 24 ($R^2=0.00118$) or from 25 to 34 ($R^2=0.000533$).

Source: authors' calculation based on the data from OECD.Stat, accessed April 27, 2018.

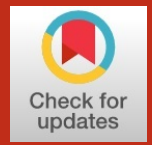
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Metagovernance for Sustainability: A Framework for Implementing the Sustainable Development Goals

LOUIS MEULEMAN
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Predrag BEJAKOVIĆ, Ph.D.
Institute of Public Finance, Smičiklasova 21, 10000 Zagreb, Croatia
e-mail: predrag.bejakovic@ijf.hr
ORCID: 0000-0002-4164-8220

Metagovernance or the *governing of governing* is a means by which a society attempts to establish some degree of coordinated governance. The goal is to achieve the best possible outcome from the viewpoint of those responsible for the performance of public sector organizations. The intention is to establish values in such a way that they become accepted *norms*. The fact that norms can be established at any level and can then be used to form the governance process as a whole means that metagovernance is part of both the input and the output of the governing system. General knowledge of the importance of the term metagovernance is relatively limited. Therefore, the recent publication by Louis Meuleman *Metagovernance for Sustainability* can be a significant contribution to a better general understanding of this concept.

Louis Meuleman is a governance policy advisor, manager and trainer on public administration reform, sustainability governance and metagovernance. He is a member and vice-chair of the UN Committee of Experts on Public Administration (CEPA). He works at the European Commission, DG Environment as the coordinator for the European Semester and Environmental Implementation Review. He is visiting professor at the Public Governance Institute of the University of Leuven (Belgium), senior fellow at the Center for Governance and Sustainability of the University of Massachusetts Boston (USA) and research associate at the Public Administration and Policy Group of Wageningen University & Research (Netherlands).

The book consists of three parts. The first part provides explanations of governance and its purpose. In the *Introduction*, the author discusses why sustainable governance often does not reach the desired goals. In achieving the anticipated outcomes, particularly for sustainable development, metagovernance can be of valuable help, indeed, of decisive importance. Three governance styles and their hybrids are explained in the chapter 2. These are the hierarchical, network and market styles of governance. The hierarchical style of governance is based on enforcement by means of legitimate authority. It can be achieved by vertical integration, as employment relations or detailed contractual models, providing decision-making authority in particular areas. On the other hand, the network style of governance consists of the interrelationship of many different stakeholders from the government at various levels, from political and interest groups, NGOs, societal institutions, private and business organizations. Finally, market-style governance is motivated by market and business ideas and prefers to use market-based instruments. It focuses on the principles of efficiency, competition, development and empowerment. It treats government organizations as business units. North-Western European countries are more prone to use network and market styles of governance, while traditionally centralist (France) or legalistic (Germany, Austria) are more inclined to the hierarchical style. Various styles are optimal in different circumstances, for example, in the response to natural catastrophes, hierarchical styles of governance serve better. However, to ensure long-term sustainable economic development, there is an obvious need for metagovernance, as a way to

enhance the effectiveness of governance, by combining ideas from hierarchical, network and market styles of governance, adjusted to a specific situation. Succinctly, metagovernance is a means to achieve sustainable development.

Chapter 3 deals with the problem of governance failures resulting from inefficient management of the governance framework. This concept partially overlaps with political failures, but should also be analysed separately. These two types of failures influence each other and can be impacted by the other factors of a government framework. In resolving failures there is a need to take into account *meta-causes* such as the capacity of policy stakeholders and better designed policy processes and institutions. The blueprint approach (copying successful practice from one to another situation without adequate revision and adjustment) is a good predictor of failure, as it does not take into account the local circumstances and environment with its values, traditions and history.

Chapter 4 presents the concept of metagovernance as the *art* of combining different available approaches into a feasible way to achieve desired results. In this process, the application of metagovernance enables much faster progress, primarily because it takes into consideration national, subnational and local specificities. However, in such a process there is also a need for the timely prevention and mitigation of adverse effects of government failures.

In the second part of the book, detailed characteristics of governance are described. It begins with chapter 5, which investigates fifty ways in which the three governance styles differ from each other. Hierarchical, network and market styles of governance have diverse operational characteristics in different ways of dealing with policy and law making and their implementation. Within each governance style, a set of operational characteristics has a significant level of internal consistency. In that way there is well-filled governance toolbox that is available for metagovernance. It enables “metagovernance to use, reject, combine and replace or switch parts of specific governance frameworks, taking into account conflicts and indicators of governance failure” (p. 154).

Meuleman in chapter 6 explains the broader context with various characteristics in culture, values, geographic position and tradition that influence the feasibility and achievement of desired outcomes. Various cultural, geographical and traditional factors lead to a preference for a certain government style with their related tools, which can block the implementation of other solutions. The use of circumstantial evidence and a complete respect for cultural diversity are crucial conditions in prevention of government failure. Cultural diversity should not be deemed as a burden but should be respected as an opportunity in which to find appropriate conditions for long-term sustainable economic development. Chapter 7 deals with the particular case of governance failure in which insufficient or inadequate attention does not allow exit from unfavourable *mental silos*, thus hindering the appropriate resolution of the governance problem. The author introduces a set of soft

rules that co-determined which style of government is optimal in particular circumstances. Most of such ideas have their origin in the New Public Management related to the belief (or even a mantra) that less is more. That means that the government should withdraw from many previous activities and concentrate on *steering the economy and society* instead of *rowing*. Although existence of mental silos can have positive features, like clear lines of commands, responsibility, focus on a given target, excessive capturing in mental silos without a doubt is bad and culturally insensitive. If silos have to be broken, it should be mental not institutional silos. Instead of tearing down institutional silos, it is much better to make them flexible or *to teach them how to dance*.

The third part of the book, *Metagovernance for sustainability* contains four chapters. Chapter 8 focuses on the possibility and limitations of the application of metagovernance to the United Nations' Sustainable Development Goals (SDGs). Each of the seventeen SDGs requires differentiated governance contexts at all levels. Furthermore, it is not enough to use just one governance style, only hierarchical, network or market governance; there is a need to apply adequate combination of styles. The seventeen SDGs are interlinked, by design "indivisible" and while some of the connected governance challenges are common, they have their own typical challenges. Their complexity and the difference in governance contexts in the countries in which the SDGs are to be implemented cannot be addressed without a broad governance concept and the use of the full metagovernance toolbox. Although there are often criticisms that SDGs are ineffective and too general, their adoption has already motivated many countries to create new institutions for stakeholder engagement and to invite various actors to participate in the decision making process related to SDG implementation.

Chapter 9 presents a seven-step method by which to apply metagovernance with concrete examples for implementation. This method is only in a few, but crucial, aspects different from traditional policy making, institution building and reform processes. The steps start with the need to map the governance environment, primarily to assess who are the relevant actors and which roles and interest they have. The second step is evaluation of the current situation with the analysis of the strengths, weaknesses, opportunities and threats of the current policy and governmental framework. The third step addresses the specific context and the possible agreements on the problem definition under the motto *define, reframe and refine the problem*. In the fourth step there is a need to formulate context-specific goals and options, assessing their benefits and costs, and finally to propose targets, indicators and time frames. The fifth step contains the design of governance framework based on a selection of elements from various governance styles. The metagovernance for governance framework based on the principles of reflexivity, resilience and flexibility while simultaneously allowing redundancy is incorporated in the sixth step. The final, seventh, step is dedicated to evaluation of the accepted governance framework.

Chapter 10 deliberates the reason why in public sector reforms and modernisation focused on the SDGs an implementation of metagovernance principles should respect policy coherence and the capacity of actors. In other words, public sector reforms should be tested before their full implementation. Promoting policy and institutional coherence for implementation of the SDGs should be among other things inclusive, well-coordinated with other national programmes and based on a range of various approaches. Developing metagovernance capacity requires focusing on skills and capabilities linked to multi-perspective thinking and on developing willingness and capacity for successful application of metagovernance.

The final chapter briefly reiterates the most important messages in the implementation of metagovernance approaches to the SDGs. The author discusses the feasibility of metagovernance, how this is important for resolving systemic challenges and achieving effective partnership. In order to be able to apply metagovernance, state and public sector organisations should have some degree of open-mindedness, awareness of the current problems, reflexive thinking, adequate flexibility and willingness to innovate.

Succinctly, this book in a very impressive and reasoned way presents the importance and complexity of metagovernance. The author is fully aware that crucial in this process is the successful and comprehensive mapping of the needs, while supporting solutions should take care of context-specific sustainability. Metagovernance presumes a seemingly contradictory method of combining bottom-up and top-down approaches in design, as well as implementation and evaluation of various policy decisions. The idea is to enable the simultaneous application of network, market and hierarchical governance methods in a particular way for a specific situation. Such an approach should allow the use of different governance systems at different levels, which may contribute to a reduction of the vagueness of political decisions, particularly those related to the concept of SDGs. The emergence of successful governance depends on managing plurality with the aim of inducing more coherence, while remaining sensitive to different social values, administrative cultures, traditions and norms in a society. In today's world there seems to be some convergence towards the use of a comprehensive approach with the desire to achieve appropriate governance frameworks that enables long-term sustainable economic development.



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